OLD POINT FINANCIAL CORP
Form 10-K
March 11, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
or

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

Commission file number 000-12896

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

Virginia	54-1265373
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2015 was $52,177,061 based on the closing sales price on the NASDAQ Capital Market of $15.63.

There were 4,959,009 shares of common stock outstanding as of March 8, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 24, 2016, are incorporated by reference in Part III of this report.

OLD POINT FINANCIAL CORPORATION

FORM 10-K

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Part I
Item 1. Business

GENERAL

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

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

The Bank is a national banking association that was founded in 1922. As of the end of 2015, the Bank had 18 branch offices serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and commercial customers.

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

As of December 31, 2015, the Company had assets of $896.8 million, loans of $568.5 million, deposits of $746.5 million, and stockholders' equity of $93.2 million. At year-end, the Company and its subsidiaries had a total of 296 employees, 21 of whom were part-time.

MARKET AREA AND COMPETITION

The Company's market area is located in Hampton Roads, situated in the southeastern corner of Virginia and boasting the world's largest natural deep-water harbor. The Hampton Roads Metropolitan Statistical Area (MSA) is the 37th most populous MSA in the United States according to the U.S. Census Bureau's 2010 census and the third largest deposit market in Virginia, after Richmond and the Washington Metropolitan area, according to the Federal Deposit Insurance Corporation (FDIC). Hampton Roads includes the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, and the counties of Isle of Wight, Gloucester, James City, Mathews, York and Surry. The market area is serviced by 67 banks, savings institutions and credit unions and, in addition, branches of virtually every major brokerage house serve the Company's market area.

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

and building customer loyalty, and providing products and services to address the specific needs of the Company's customers. The Company targets individual and small-to-medium size business customers.

Concurrently, the Company continues to build a stronger presence in the business banking market, where greater opportunities for fee-based revenues and cross-selling exist. In 2009, the Company expanded its treasury services offerings by adding a Corporate Banking group and expanding its product offerings to match those offered by larger institutions. This expansion has continued throughout 2015 with an aim towards growth and relationship development. Through these business banking capabilities, the Company is able to service a highly lucrative market that offers the opportunities to identify new revenue streams and cross-sell additional products.

Personal assets held by non-banks are difficult to track at a local level, so research relies on deposits reported by governmental agencies to measure market share. In 2015, the Company held tenth place with 2.49% market share of all Hampton Roads deposits, as compared to 2.60% market share in 2014. On the Peninsula, the Company retains first place in Hampton with 31.69% market share and deposit growth from 2014 of over $17.0 million. While deposits dropped in James City County from 2014 by $732 thousand, deposits grew from 2014 in Newport News by over $2.0 million and in York County by $736 thousand.

In Southside Hampton Roads, the Company increased deposit share in Virginia Beach by $249 thousand over 2014 and moved up in rank from thirteenth to eleventh. However, in the Chesapeake, Isle of Wight County and Norfolk markets deposits decreased from 2014 by $435 thousand, $247 thousand and $4 million, respectively. Combined with heightened marketing efforts, the staff in the Company's newer locations continues to work diligently to increase the Company's name recognition in their respective regions of the Hampton Roads MSA.

The Company also faces competitive pressure from credit unions. The three largest credit unions headquartered in the Hampton Roads MSA are Chartway Federal Credit Union, Langley Federal Credit Union, and Newport News Shipbuilding Employees' Credit Union with deposits totaling approximately $1.8 billion, $1.6 billion and $1.1 billion, respectively. Both Chartway Federal Credit Union and Langley Federal Credit Union posted a positive growth rate for 2015.

AVAILABLE INFORMATION

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

REGULATION AND SUPERVISION

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

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

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

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

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

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

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

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

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

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

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

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

- changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000;

- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), which is discussed in more detail below;
- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;
- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;
- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
- required loan originators to retain 5 percent of any loan sold or securitized, unless it is a "qualified residential mortgage", subject to certain restrictions;
- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and
- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

Dodd-Frank Act provisions that require revisions to the capital requirements of the Company, the Bank and Trust could impact their ability to raise capital in the future. Although the Company has not issued trust preferred securities, Dodd-Frank Act provisions that revoke the Tier 1 capital treatment of trust preferred securities could cause the Company, the Bank and Trust to seek other sources of capital in the future. Some of the rules that have been adopted or proposed to comply with Dodd-Frank Act mandates are discussed in more detail below.

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

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

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

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

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

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

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

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

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

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

An institution's assessment rate depends upon the institution's assigned risk category, which is based on supervisory evaluations, regulatory capital levels and certain other factors. Initial base assessment rates range from 2.5 to 45 basis points. The FDIC may make the following further adjustments to an institution's initial base assessment rates: decreases for long-term unsecured debt including most senior unsecured debt and subordinated debt; increases for holding long-term unsecured debt or subordinated debt issued by other insured depository institutions; and increases for brokered deposits in excess of 10 percent of domestic deposits for institutions not well rated and well capitalized.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." Among other changes, the Dodd-Frank Act (i) raised the

minimum designated reserve ratio to 1.35 percent and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35 percent by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion of raising the designated reserve ratio from 1.15 percent to 1.35 percent – which requirement will be met through rules proposed by the FDIC during 2015. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. The FDIC has adopted a DIF restoration plan to ensure that the fund reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act (SOX) enacted major reforms of the federal securities laws intended to protect investors by improving the accuracy and reliability of corporate disclosures. It impacts all companies with securities registered under the Exchange Act, including the Company. SOX creates increased responsibility for chief executive officers and chief financial officers with respect to the content of filings with the SEC. Section 404 of SOX and related SEC rules focused increased scrutiny by internal and external auditors on the Company's systems of internal controls over financial reporting, to insure that those internal controls are effective in both design and operation. SOX sets out enhanced requirements for audit committees, including independence and expertise, and it includes stronger requirements for auditor independence and limits the types of non-audit services that auditors can provide. Finally, SOX contains additional and increased civil and criminal penalties for violations of securities laws.

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

As required by the Dodd-Frank Act, in March 2011 the SEC and the federal bank regulatory agencies proposed regulations that would require financial institutions with assets of at least $1 billion to disclose the structure of their incentive compensation practices and prohibit such institutions from maintaining executive compensation arrangements that encourage inappropriate risk taking by providing excessive compensation or that could lead to material financial loss. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which a company whose total consolidated assets reach or exceed $1 billion may structure compensation for its executives and will require such company to submit annual reports to the Federal Reserve regarding the company's incentive compensation. These proposed regulations incorporate the principles discussed in the Incentive Compensation Guidance. A final rule has not yet been published. Although the final rule is not expected to apply to institutions with less than $1 billion in total consolidated assets, the federal banking agencies, including the Comptroller, emphasize that all banking organizations, regardless of size, must carefully design and oversee incentive compensation policies to ensure such policies do not undermine the safety and soundness of such organizations.

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

Confidentiality and Required Disclosures of Consumer Information. The Company is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure.

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

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

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

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

The Bank's mortgage origination activities are also subject to Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability

to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3% of the total loan amount. Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Bank does not originate first mortgage loans at this time, and the first mortgages it purchases comply with Regulation Z's "qualified mortgage" rules. The Bank does originate second mortgages, or equity loans, and these loans do not conform to the qualified mortgage criteria but comply with applicable ability-to-repay rules.

Volcker Rule. The Dodd-Frank Act prohibits bank holding companies and their subsidiary banks from engaging in proprietary trading except in limited circumstances, and places limits on ownership of equity investments in private equity and hedge funds (the Volcker Rule). On December 10, 2013, the U.S. financial regulatory agencies (including the FRB, the FDIC, the Comptroller and the SEC) adopted final rules to implement the Volcker Rule. In relevant part, these final rules would have prohibited banking entities from owning collateralized debt obligations (CDOs) backed by trust preferred securities (TruPS), effective July 21, 2015. However, subsequent to these final rules the U.S. financial regulatory agencies issued an interim rule effective April 1, 2014 to exempt CDOs backed by TruPS from the final rule implementing the Volcker Rule, provided that (a) the CDO was established prior to May 19, 2010, (b) the banking entity reasonably believes that the CDO's offering proceeds were used to invest primarily in TruPS issued by banks with less than $15 billion in assets, and (c) the banking entity acquired the CDO investment on or before December 10, 2013. The Company currently does not have any CDO investments, and the Company believes that its financial condition will not be significantly impacted by the Volcker Rule, the final rules or the interim rule. Smaller banks, with total consolidated assets of $10 billion or less, engaged in modest proprietary trading activities for their own accounts are subject to a simplified compliance program under the final rules. Several portions of the Volcker Rule remain subject to regulatory rulemaking and legislative activity, including to further delay effectiveness of some provisions of the Volcker Rule. The Company does not expect that any delays in the effectiveness of a portion of the Volcker Rule will significantly impact its financial condition.

Item 1A. Risk Factors

U.S. and international economic conditions and credit markets pose challenges for the Company and could adversely affect the results of operations, liquidity and financial condition. The Company is currently operating in a challenging and uncertain economic environment, both in the local markets it serves and in the broader national and international economies. In addition, uncertainty regarding oil prices, ongoing federal budget negotiations, the implementation of the employer mandate under the Patient Protection and Affordable Care Act, and the level of U.S. debt may present challenges to businesses and have a destabilizing effect on financial markets. If the economic recovery continues to be relatively weak or there is further deterioration of national or international economic conditions, the financial condition and operating performance of financial institutions, including the Company, could be adversely affected. Such adverse effects could include a decline in the value of the Company's securities portfolio, and could increase the regulatory scrutiny of financial institutions. Another deterioration of local economic conditions could again lead to declines in real estate values and home sales and increases in the financial stress on borrowers and unemployment rates, all of which could lead to increases in loan delinquencies, problem assets and foreclosures and reductions in loan collateral value. Such a deterioration of local economic conditions could cause the level of loan losses to exceed the level the Company has provided in its allowance for loan losses which, in turn, would reduce the Company's earnings.

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

The Company is subject to interest rate risk and variations in interest rates may negatively affect its financial performance. The Company's profitability depends in substantial part on its net interest margin, which is the difference between the rates received on loans and investments and the rates paid for deposits and other sources of funds. The net interest margin depends on many factors that are partly or completely outside of the Company's control, including competition; federal economic, monetary and fiscal policies; and economic conditions. Changes in interest rates affect operating performance and financial condition. Because of the differences in the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's net interest margin and, in turn, its profitability. In December 2015, the FRB's Federal Open Market Committee raised the target range for the

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

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

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

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

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

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

If the models that management uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures and may be unable to maintain sufficient liquidity. If the models that management uses to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such

failure in management's analytical or forecasting models could have a material adverse effect on the Company's business, financial condition and results of operations.

Weaknesses in the commercial real estate markets could negatively affect the Company's financial performance due to the Company's concentration in commercial real estate loans. At December 31, 2015, the Company had $297.4 million, or 52.32%, of total loans concentrated in commercial real estate, which includes, for purposes of this concentration, all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties. Commercial real estate loans expose the Company to a greater risk of loss than residential real estate and consumer loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Consequently, an adverse development with respect to one commercial real estate loan or credit relationship exposes the Company to a significantly greater risk of loss compared to an adverse development with respect to one residential real estate loan. Commercial real estate loans carry risks associated with the successful operation of a business if the properties are owner occupied. If the properties are non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts. Repayment of commercial real estate loans may, to a greater extent than residential real estate loans, be subject to adverse conditions in the real estate market or economy. Weak economic or market conditions may impair a borrower's business operations, slow the execution of new leases and lead to turnover in existing leases. The combination of these factors could result in deterioration in value of some of the Company's loans. The deterioration of one or more of the Company's significant commercial real estate loans could cause a significant increase in nonaccrual loans. An increase in nonaccrual loans could result in a loss of interest income from those loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial performance.

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

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

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

bears the risk of loss associated with the misrepresentation. In addition, a loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentation are often difficult to locate, and it may be difficult to recover any monetary loss the Company may suffer.

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

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

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

A decline in real estate values has caused the Company to experience losses in selling foreclosed properties, and the continuation of this decline could cause a significant portion of the Company's loan portfolio to be under-collateralized and lead to additional future losses. The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. The Company's business activities and credit exposures are primarily concentrated in the Hampton Roads MSA. If the value of the real estate serving as collateral for the Company's loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, the Company may not be able to realize the dollar value from the collateral that it anticipated at the time of originating the loan. If real estate values decline, it is also more likely that the Company would be required to increase the allowance for loan losses, which could also adversely affect the Company's business, financial condition and results of operations.

In recent years, the market value of real estate declined considerably. While values have begun to recover, certain of the Company's loans remain under-collateralized. Some of these loans have become troubled and have been foreclosed upon, and the Company was unable to realize the expected value of the collateral. Due to these events, the

Company has established a valuation reserve for other real estate owned (OREO), including foreclosed assets, which negatively affects the Company's earnings in periods in which a provision is added to the valuation reserve.

In addition, the decline in real estate values has caused and could continue to cause the Company to experience losses when selling OREOs. These factors have had an adverse effect on operating results.

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

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

The Dodd-Frank Act has increased the Company's regulatory compliance burden and associated costs, placed restrictions on certain products and services and limited its future capital raising strategies. A wide range of regulatory initiatives directed at the financial services industry has been proposed and/or implemented in recent years. Since its enactment in 2010, the Dodd-Frank Act has increased the Company's regulatory compliance burden and its continuing implementation will likely continue to increase the Company's regulatory compliance burden and may have a material adverse effect on the Company, by increasing the costs associated with regulatory examinations and compliance measures.

One of the Dodd-Frank Act's significant regulatory changes is the creation of the CFPB, a financial consumer protection agency that has the authority to impose new regulations and include its examiners in routine regulatory examinations conducted by the Comptroller. The CFPB is reshaping the consumer financial laws through rulemaking and enforcement of the Dodd-Frank Act's prohibitions against unfair, deceptive and abusive business practices, directly impacting the business operations of financial institutions offering consumer financial products or services, including the Company and the Bank. This agency's broad rulemaking authority includes identifying practices or acts that are unfair, deceptive or abusive in connection with any consumer financial transaction or consumer financial product or service. Although the CFPB generally has jurisdiction over banks with $10 billion or more in assets, rules, regulations and policies issued by the CFPB may also apply to the Company, the Bank and/or Trust through the adoption of such policies and best practices by the FRB, Comptroller and FDIC.

The full costs and limitations related to this additional regulatory agency and the limitations and restrictions that may be placed upon the Company with respect to its consumer product and service offerings have yet to be determined in their entirety. However, the Company has already experienced a reduction in overdraft fee income due to regulatory changes promulgated under Dodd-Frank, with income from overdraft fees declining $860 thousand, or 22.93%, when

comparing 2010 to 2015. Additional costs, limitations and restrictions may have a material impact on the Company's business, financial condition and results of operations.

The Dodd-Frank Act also increases regulatory supervision and examination of bank holding companies and their banking and non-banking subsidiaries. These and other regulations included in the Dodd-Frank Act could increase the Company's regulatory compliance burden and costs, restrict the financial products and services the Bank can offer to its customers and restrict the Company's ability to generate revenues from non-banking operations. The Dodd-Frank Act imposes more stringent capital requirements on bank holding companies, which could limit the Company's future capital strategies.

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

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

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

The Basel III Final Rules require higher levels of capital and liquidity, which could adversely affect the Company's net income and return on equity. The capital adequacy and liquidity guidelines applicable to the Company and the Bank under the Basel III Final Rules began to be phased in beginning in 2015. The Basel III Final Rules, when fully phased in, will require the Company and the Bank to maintain substantially more capital as a result of higher minimum capital levels and more demanding regulatory capital risk-weightings and calculations. The changes to the standardized calculations of risk-weighted assets are complex and may create enormous compliance burdens for the Company and the Bank. The Basel III Final Rules will require the Company and the Bank to substantially change the manner in which they collect and report information to calculate risk-weighted assets, and may increase dramatically risk-weighted assets as a result of applying higher risk weightings to many types of loans and securities. As a result, the Company and the Bank may be forced to limit originations of certain types of commercial and mortgage loans, thereby reducing the amount of credit available to borrowers and limiting opportunities to earn interest income from the loan portfolio, which may have a detrimental impact on the Company's net income.

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

The Company is dependent on key personnel and the loss of one or more of those key personnel could harm its business. The banking business in Virginia, and in the Company's primary service area in the Hampton Roads MSA, is highly competitive and dominated by a relatively small number of large banks. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of and experience in the Virginia community banking industry. The Company's success depends to a significant degree upon its ability to attract and retain qualified management, loan origination, administrative, marketing and technical personnel and upon the continued contributions of and customer relationships developed by management and personnel. In particular, the Company's success is highly dependent upon the capabilities of its senior executive

management. The Company believes that its management team, comprised of individuals who have worked in the banking industry for many years, is integral to implementing the Company's business plan. The Company has not entered into employment agreements with any of its executive management employees, and the loss of the services of one or more of them could harm the Company's business.

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

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

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

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

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

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

The Company's future success depends on its ability to compete effectively in the highly competitive financial services industry. The Company faces substantial competition in all phases of its operations from a variety of different competitors. Growth and success depends on the Company's ability to compete effectively in this highly competitive financial services environment. Many competitors offer products and services that are not offered by the Company,

and many have substantially greater resources, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively and may have larger lending limits that would allow them to serve the credit needs of larger customers. Some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured national banks. As a result, these non-bank competitors have certain advantages over the Company in accessing funding and in providing various services. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Failure to compete effectively to attract new and retain current customers in the Company's markets could cause it to lose market share, slow its growth rate and may have an adverse effect on its financial condition and results of operations.

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

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

The Company may need to raise additional capital in the future and such capital may not be available when needed or at all. The Company may need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments and business needs, particularly if its asset quality or earnings were to deteriorate significantly. Economic conditions and the loss of confidence in financial institutions may increase the Company's cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank's discount window. The Company's ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of the Company's control, and the Company's financial performance.

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

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

The Company's directors and executive officers own a significant portion of the Company's common stock and can exert significant influence over its business and corporate affairs. The Company's directors and executive officers, as a group, beneficially owned 32.68% of the Company's common stock as of June 30, 2015. Consequently, if they vote their shares in concert, they can significantly influence the outcome of matters submitted to the Company's stockholders for approval, including the election of directors. The interests of the Company's directors and executive officers may conflict with the interests of other holders of the Company's common stock, and the Company's directors and executive officers may take actions affecting the Company with which other holders of the Company's common stock disagree.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2015, the Company owned the main office, which includes a branch, located in Hampton, Virginia; the corporate headquarters, which includes a branch; six office buildings; and 12 branches. All of these are owned directly and free of any encumbrances. The land at the Fort Monroe branch is leased by the Company under an agreement that expires in June 2017. Two of the remaining three branches are leased from unrelated parties. The Crown Center branch is leased from Crown Center Associates, LLC, which is indirectly owned by Michael Glasser, a member of the Company's Board of Directors. These three branch leases have renewal options that expire anywhere within two to nine years from December 31, 2015.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name (Age) And Present Position	Served in Current Position Since	Principal Occupation During Past Five Years
Robert F. Shuford, Sr. (78) Chairman, President & Chief Executive Officer Old Point Financial Corporation	1965	Banker
Robert F. Shuford, Jr. (51) Executive Vice President/Bank Old Point Financial Corporation	2015	Banker
Laurie D. Grabow (58) Chief Financial Officer & Senior Vice President/Finance Old Point Financial Corporation	1999	Banker
Eugene M. Jordan, II (61) Secretary & Executive Vice President/Trust Old Point Financial Corporation	2003	Banker
Joseph R. Witt (55) Chief Business Development Officer & Senior Vice President Old Point Financial Corporation	2008	Banker

Part II

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

The common stock of the Company is quoted on the NASDAQ Capital Market under the symbol "OPOF". The approximate number of stockholders of record as of March 8, 2016 was 1,119. On that date, the closing price of the Company's common stock on the NASDAQ Capital Market was $19.14. The range of high and low sale prices and dividends paid per share of the Company's common stock for each quarter during 2015 and 2014 is presented in Item 7 of this report on Form 10-K under "Capital Resources" and is incorporated herein by reference. Additional information related to restrictions on funds available for dividend declaration can be found in Note 17 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

On January 12, 2010, the Company authorized a program to repurchase during any given calendar year up to an aggregate of 5 percent of the shares of the Company's common stock outstanding as of January 1 of that calendar year. The Company did not repurchase any shares of the Company's common stock under this plan during 2015. There is currently no stated expiration date for this program.

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. No such repurchases occurred during 2015.

Item 6. Selected Financial Data

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

SELECTED FINANCIAL HIGHLIGHTS

Years ended December 31, (dollars in thousands except per share data)	2015	2014	2013	2012	2011
RESULTS OF OPERATIONS					
Interest income	$30,295	$30,289	$29,823	$32,580	$36,251
Interest expense	3,632	3,849	4,680	5,774	6,715
Net interest income	26,663	26,440	25,143	26,806	29,536
Provision for loan losses	1,025	600	1,300	2,400	3,700
Net interest income after provision for loan losses	25,638	25,840	23,843	24,406	25,836
Net gains (losses) on available-for-sale securities	76	2	(26)	2,313	787
Noninterest income	13,060	12,642	12,799	12,646	11,409
Noninterest expenses	35,086	34,172	33,105	34,183	33,679
Income before income taxes	3,688	4,312	3,511	5,182	4,353
Income tax expense	54	196	348	995	1,063
Net income	$3,634	$4,116	$3,163	$4,187	$3,290
FINANCIAL CONDITION					
Total assets	$896,787	$876,280	$864,288	$907,499	$849,504
Total deposits	$746,471	$716,654	$725,405	$753,816	$690,879
Total loans	$568,475	$535,994	$500,699	$471,133	$520,327
Stockholders' equity	$93,176	$88,497	$80,761	$89,300	$85,865
Average assets	$884,386	$869,965	$881,378	$869,436	$853,849
Average equity	$90,433	$85,550	$84,695	$87,912	$83,322
PERTINENT RATIOS					
Return on average assets	0.41 %	0.47 %	0.36 %	0.48 %	0.39 %
Return on average equity	4.02 %	4.81 %	3.73 %	4.76 %	3.95 %
Dividends paid as a percent of net income	46.40 %	31.32 %	34.49 %	23.67 %	30.12 %
Average equity as a percent of average assets	10.23 %	9.83 %	9.61 %	10.11 %	9.76 %
PER SHARE DATA					
Basic earnings per share	$0.73	$0.83	$0.64	$0.84	$0.66
Diluted earnings per share	$0.73	$0.83	$0.64	$0.84	$0.66
Cash dividends declared	$0.34	$0.26	$0.22	$0.20	$0.20
Book value	$18.79	$17.85	$16.29	$18.01	$17.31
GROWTH RATES					
Year-end assets	2.34 %	1.39 %	-4.76 %	6.83 %	-4.21 %
Year-end deposits	4.16 %	-1.21 %	-3.77 %	9.11 %	1.72 %
Year-end loans	6.06 %	7.05 %	6.28 %	-9.45 %	-11.30 %

Year-end equity	5.29	%	9.58	%	-9.56	%	4.00	%	6.07	%
Average assets	1.66	%	-1.29	%	1.37	%	1.83	%	-7.66	%
Average equity	5.71	%	1.01	%	-3.66	%	5.51	%	0.98	%
Net income	-11.71	%	30.13	%	-24.46	%	27.26	%	112.67	%
Cash dividends declared	30.77	%	18.18	%	10.00	%	0.00	%	-20.00	%
Book value	5.27	%	9.58	%	-9.55	%	4.04	%	5.55	%

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

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

Caution About Forward-Looking Statements
In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, including the focus on reducing time deposits; the net interest margin; strategies for managing the net interest margin and the expected impact of such efforts; liquidity; the loan portfolio and expected trends in the quality of the loan portfolio; the allowance and provision for loan losses; the effect of a sustained increase in nonperforming assets; the securities portfolio; interest rate sensitivity; asset quality; levels of net loan charge-offs and nonperforming assets; levels of interest expense; levels and components of noninterest income and noninterest expense; lease expense; income taxes; expected impact of efforts to restructure the balance sheet; expected yields on the loan and securities portfolios; expected rates on interest-bearing liabilities; market risk; business and growth strategies; investment strategy; and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends" or other words of similar meaning. These statements can also be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

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

The Company has experienced losses due to the current economic climate. Dramatic declines in the residential and commercial real estate market during the recent economic crisis resulted in significant write-downs of asset values by

the Company as well as by other financial institutions in the U.S.

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 Treasury and other bank regulatory agencies will have on the financial markets and the financial services industry.

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

Executive Overview

Description of Operations

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

Management Initiatives in 2015

Similarly to 2014, management's 2015 initiatives were to improve asset quality, grow the loan portfolio, expand the Company's noninterest income, and concentrate on improving the Company's efficiency. Management believes substantial progress was made with respect to all four initiatives.

Management was able to improve asset quality as is evident by the $1.1 million reduction in nonperforming assets and the $1.4 million reduction in impaired loans when comparing December 31, 2014 and 2015. Details of the improvement of asset quality can be found in the Nonperforming Assets section of the Management's Discussion and Analysis of this report on Form 10-K. In addition, noninterest income was $492 thousand higher for the year ended December 31, 2015 as compared to 2014. The loan portfolio grew by $31.8 million when comparing net loans on December 31, 2015 to December 31, 2014. Finally, the Company continued to focus on efficiency, with a net decrease of four employees during 2015, to 296 employees.

In the third quarter of 2015, the Bank experienced a change in leadership with the appointment of a new president following the retirement of its former president. This change in leadership provided the Company with the opportunity to re-evaluate its credit culture, sales management process, and investment strategy. In combination with the progress made on the 2015 initiatives, management believes these changes leave the Company well positioned for improved income in future years, which will provide value to stockholders and the community.

Primary Financial Data for 2015

The Company earned $3.6 million in 2015, as compared to net income of $4.1 million in 2014, a decrease of $482 thousand or 11.71%. The decrease in net income was due to a higher provision for loan losses and higher noninterest expense. The provision for loan losses increased $425 thousand mainly due to growth in the loan portfolio, while noninterest expense increased due to increases in salaries and employee benefits and occupancy and equipment expenses.

Assets as of December 31, 2015 were $896.8 million, an increase of $20.5 million or 2.34% compared to assets as of December 31, 2014. During 2015, the Company continued the loan growth seen in 2013 and 2014, funding this growth mainly from increases in low-cost deposits and cash flows from the securities portfolio. Net loans grew $31.8 million, or 6.02%, over the year, while low-cost deposits increased $43.1 million, or 8.74%, and securities declined $15.2 million, or 6.64%. In years prior to 2013, the Company experienced a lack of quality loan demand in its market area and invested excess funds in securities that could be readily liquidated as the Company waited for loan demand to recover. This recovery began in the second half of 2013 and continued through 2015.

Critical Accounting Estimates

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

that required management's most difficult, subjective or complex judgments is the Company's allowance for loan losses, which is described below.

Allowance for Loan Losses

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

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

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

The loan portfolio is segmented into pools, based on the loan classifications as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report) and collectively evaluated for impairment. Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1-29 days past due), or are 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2015 and December 31, 2014, the Company had no loans in these categories.

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

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

Income Taxes

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

Earnings Summary

Net income was $3.6 million, or $0.73 per diluted share, in 2015 compared to $4.1 million, or $0.83 per diluted share, in 2014. This decrease was due to a higher provision for loan losses and higher noninterest expense, partially offset by increases in net interest income and noninterest income. Growth in the loan portfolio required the Company to set aside additional funds through the provision for loan losses. Noninterest expense increased due to additional expenses for salaries and employee benefits and occupancy and equipment. The increase in net interest income before the provision was mainly due to decreases in interest expense as a result of lower time account balances, while noninterest

income increased primarily due to additional income from Old Point Mortgage LLC, a joint venture between the Bank and Tidewater Mortgage Services (Old Point Mortgage).

Net Interest Income
The principal source of earnings for the Company is net interest income. Net interest income is the difference between interest and fees generated by earning assets and interest expense paid to fund them. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. The net interest margin is calculated by dividing tax-equivalent net interest income by average earning assets. Net interest income, on a fully tax-equivalent basis, was $27.7 million in 2015, an increase of $259 thousand from 2014 and an increase of $1.8 million from 2013. The net interest margin was 3.56% in 2015 as compared to 3.57% in 2014 and 3.23% in 2013.

When comparing 2015 to 2014, the following changes were noted. Tax equivalent interest income increased $42 thousand, or 0.13%. Average earning assets increased $8.1 million, or 1.06%. Total average loans increased $46.4 million, or 8.96%, and average investment securities decreased $36.5 million, or 15.28%, as continued loan demand allowed the Company to shift its assets from securities to loans.

The Company's portfolio of mortgage-backed securities generates cash flows on a monthly basis, which are typically re-invested into loans. In the fourth quarter of 2015, management began a re-examination of its strategy for the securities portfolio given the current and anticipated future interest rate environments. While this analysis was in progress, excess cash flows generated by the Company's portfolio of mortgage-backed securities were allowed to remain in cash and due from banks. On a combined basis, average cash and due from banks and interest-bearing due from banks increased $6.7 million, or 21.41%, during 2015. Although this reduced interest income in 2015, management believes that its new investment strategy will provide the Company with additional liquidity and flexibility in future years.

Interest income was also impacted by continued declines in average loan yields, from 4.83% in 2014 to 4.63% in 2015. Management expects that the Company's loan yields will continue to decline, due to intense competition for quality loans and rate reductions on loans currently held in the portfolio. The reduction in loan yields will likely continue in 2016 at approximately the same pace seen in 2015, depending on monetary policy actions taken by the Federal Open Market Committee (FOMC). Although the FOMC did raise the target range for the federal funds rate in December of 2015, predictions for future rate increases are varied. Barring additional rate increases by the FOMC in 2016, management expects continued declines in loan yields. To partially offset this anticipated decline, management has placed an increased focus on managing the mix of the liabilities in order to increase low cost funds and reduce high cost funds when possible. If the FOMC does increase the target rate in 2016, management expects that the decline in loan yields will slow or stop. Based on current predictions of the FOMC's likely actions with regards to the target range, management does not expect loan yields to increase in 2016.

Interest expense decreased $217 thousand, or 5.64% in 2015 as compared to 2014, while average interest-bearing liabilities decreased $3.8 million, or 0.63%. The cost of interest-bearing liabilities decreased 3 basis points due to the low interest rate environment. As discussed above, management has focused on adjusting the composition of its interest-bearing liabilities, specifically by allowing high-cost time deposits to reduce. Management expects that the reduction of the Company's interest expense will continue to slow in the future, because the majority of the higher cost time deposits have repriced to current, lower market rates. However, management will continue to focus on the mix of deposits as stated above, by actively targeting new noninterest bearing deposits.

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

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

Years ended December 31,	2015			2014			2013		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Loans	$563,534	$26,106	4.63 %	$517,183	$24,959	4.83 %	$471,203	$23,769	5.04 %
Investment securities:									
Taxable	130,541	2,510	1.92 %	164,755	3,562	2.16 %	229,914	4,547	1.98 %
Tax-exempt	71,831	2,520	3.51 %	74,112	2,580	3.48 %	55,745	2,042	3.66 %
Total investment securities	202,372	5,030	2.49 %	238,867	6,142	2.57 %	285,659	6,589	2.31 %
Interest-bearing due from banks	5,848	15	0.26 %	5,356	13	0.24 %	37,581	96	0.26 %
Federal funds sold	1,860	2	0.11 %	3,515	5	0.14 %	1,906	1	0.05 %
Other investments	2,373	133	5.60 %	2,944	125	4.25 %	3,374	96	2.85 %
Total earning assets	775,987	31,286	4.03 %	767,865	31,244	4.07 %	799,723	30,551	3.82 %
Allowance for loan losses	(7,404)			(7,062)			(7,239)		
	768,583			760,803			792,484		
Cash and due from banks	31,858			25,700			13,446		
Bank premises and equipment, net	41,988			42,277			36,188		
Other assets	41,957			41,185			39,260		
Total assets	$884,386			$869,965			$881,378		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Time and savings deposits:									
Interest-bearing transaction accounts	$11,219	$4	0.04 %	$11,537	$5	0.04 %	$11,129	$6	0.05 %
Money market deposit accounts	228,627	186	0.08 %	213,918	179	0.08 %	199,848	234	0.12 %
Savings accounts	74,436	37	0.05 %	73,576	46	0.06 %	62,562	62	0.10 %
Time deposits, $100,000 or more	113,945	1,111	0.98 %	108,630	1,038	0.96 %	126,127	1,436	1.14 %
Other time deposits	107,142	1,033	0.96 %	128,383	1,316	1.03 %	157,154	1,683	1.07 %

Total time and savings deposits	535,369	2,371	0.44 %	536,044	2,584	0.48 %	556,820	3,421	0.61 %
Federal funds purchased, repurchase agreements and other borrowings	30,777	30	0.10 %	32,848	32	0.10 %	31,182	35	0.11 %
Federal Home Loan Bank advances	27,466	1,231	4.48 %	28,507	1,233	4.33 %	25,000	1,224	4.90 %
Total interest-bearing liabilities	593,612	3,632	0.61 %	597,399	3,849	0.64 %	613,002	4,680	0.76 %
Demand deposits	194,677			184,555			180,538		
Other liabilities	5,664			2,461			3,143		
Total liabilities	793,953			784,415			796,683		
Stockholders' equity	90,433			85,550			84,695		
Total liabilities and stockholders' equity	$884,386			$869,965			$881,378		
Net interest margin		$27,654	3.56 %		$27,395	3.57 %		$25,871	3.23 %

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

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

Table II
VOLUME AND RATE ANALYSIS*
(in thousands)

	2015 vs. 2014 Increase (Decrease) Due to Changes in:			2014 vs. 2013 Increase (Decrease) Due to Changes in:			2013 vs. 2012 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
EARNING ASSETS									
Loans	$2,237	$(1,090)	$1,147	$2,319	$(1,129)	$1,190	$(390)	$(2,406)	$(2,796)
Investment securities									
Taxable	(740)	(312)	(1,052)	(1,289)	304	(985)	(668)	(23)	(691)
Tax-exempt	(79)	19	(60)	673	(135)	538	1,264	(254)	1,010
Total investment securities	(819)	(293)	(1,112)	(616)	169	(447)	596	(277)	319
Federal funds sold	(2)	(1)	(3)	1	3	4	0	(1)	(1)
Other investments **	(1)	11	10	(153)	99	(54)	41	(5)	36
Total earning assets	1,415	(1,373)	42	1,551	(858)	693	247	(2,689)	(2,442)
INTEREST-BEARING LIABILITIES									
Interest-bearing transaction accounts	0	(1)	(1)	0	(1)	(1)	0	(1)	(1)
Money market deposit accounts	12	(5)	7	16	(71)	(55)	35	(123)	(88)
Savings accounts	1	(10)	(9)	11	(27)	(16)	9	0	9
Time deposits, $100,000 or more	51	22	73	(199)	(199)	(398)	(60)	(117)	(177)
Other time deposits	(218)	(65)	(283)	(308)	(59)	(367)	(195)	(350)	(545)
Total time and savings deposits	(154)	(59)	(213)	(480)	(357)	(837)	(211)	(591)	(802)
Federal funds purchased, repurchase agreements and other borrowings	(2)	0	(2)	2	(5)	(3)	2	(22)	(20)
Federal Home Loan Bank advances	(45)	43	(2)	172	(163)	9	(273)	1	(272)
Total interest-bearing liabilities	(201)	(16)	(217)	(306)	(525)	(831)	(482)	(612)	(1,094)
Change in net interest income	$1,616	$(1,357)	$259	$1,857	$(333)	$1,524	$729	$(2,077)	$(1,348)

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

Interest Sensitivity

An important element of earnings performance and the maintenance of sufficient liquidity is proper management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest sensitive assets and interest

sensitive liabilities in a specific time interval. This gap can be managed by repricing assets or liabilities, which are variable rate instruments, by replacing an asset or liability at maturity or by adjusting the interest rate during the life of the asset or liability. Matching the amounts of assets and liabilities maturing in the same time interval helps to hedge interest rate risk and to minimize the impact of rising or falling interest rates on net interest income.

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

Based on scheduled maturities only, the Company was liability sensitive at the one-year timeframe as of December 31, 2015. It should be noted, however, that non-maturing, interest-bearing deposit liabilities, which consist of interest checking, money market and savings accounts, are less interest sensitive than other market driven deposits. On December 31, 2015 non-maturing, interest-bearing deposit liabilities totaled $321.4 million, or 60.48%, of total interest-bearing deposits. In a rising rate environment these deposit rates have historically lagged behind the changes in earning asset rates, thus mitigating the impact from the liability-sensitive 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 at the one-year timeframe as of December 31, 2015.

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

The Company's interest rate sensitivity position is illustrated in the following table. The carrying amounts of assets and liabilities are presented in the periods they are expected to reprice or mature.

TABLE III
INTEREST SENSITIVITY ANALYSIS

As of December 31, 2015 (in thousands)	Within 3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
Uses of Funds					
Interest-bearing due from banks	$1,064	$0	$0	$0	$1,064
Federal funds sold	2,412	0	0	0	2,412
Taxable investments	20,831	301	3,291	117,441	141,864
Tax-exempt investments	0	0	14,783	57,545	72,328
Total federal funds sold and investment securities	24,307	301	18,074	174,986	217,668
Loans					
Commercial	$15,569	$3,664	$12,266	$11,698	$43,197
Consumer	22,581	784	7,710	19,352	50,427
Real estate	55,433	26,156	256,944	118,311	456,844
Other	7,665	141	3,391	6,810	18,007
Total loans	101,248	30,745	280,311	156,171	568,475
Total earning assets	$125,555	$31,046	$298,385	$331,157	$786,143
Sources of funds					
Interest-bearing transaction accounts	$16,789	$0	$0	$0	$16,789
Money market deposit accounts	227,824	0	0	0	227,824
Savings accounts	76,757	0	0	0	76,757
Time deposits $100,000 or more	24,205	19,811	65,081	0	109,097
Other time deposits	13,527	29,142	58,245	0	100,914
Federal funds purchased and other borrowings	0	0	0	0	0
Overnight repurchase agreements	25,950	0	0	0	25,950
Term repurchase agreements	0	0	0	0	0
FHLB advances	25,000	0	0	0	25,000
Total interest bearing liabilities	$410,052	$48,953	$123,326	$0	$582,331

Rate sensitivity GAP	$(284,497)	$(17,907)	$175,059	$331,157	$203,812
Cumulative GAP	$(284,497)	$(302,404)	$(127,345)	$203,812	

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

Under the rate environment forecasted by management, rate shocks in 50 to 100 basis point increments are applied to estimate the impact on the Company's net interest income. The table below shows the estimated impact of changes in interest rates on net interest income as of December 31, 2015, assuming gradual and parallel changes in interest rates, and consistent levels of assets and liabilities. Net interest income for the following twelve months is projected to increase when interest rates are higher than current rates. Due to the current low interest rate environment, no measurement was considered necessary for a further decline in interest rates.

Estimated Changes in Net Interest Income
(dollars in thousands)
As of December 31, 2015

Changes in Net Interest Income		
Changes in Interest Rates	Amount	Percent
Up 4.00%	$ 535	1.95 %
Up 3.00%	$ 388	1.42 %
Up 2.00%	$ 208	0.76 %
Up 1.00%	$ 75	0.27 %
No change	$ 0	0.00 %

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

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

Provision for Loan Losses

The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the loan portfolio. The provision for loan losses is an expense that is based on management's estimate of credit losses that are probable of being sustained in the loan portfolio.

The provision for loan losses was $1.0 million for the year ended December 31, 2015 as compared to $600 thousand for 2014. Loans that were charged off during 2015 totaled $897 thousand compared to $1.2 million in 2014. Recoveries amounted to $535 thousand in 2015 and $882 thousand in 2014. The Company's net loans charged off to year-end loans were 0.06% in 2015 as compared to 0.07% in 2014. The allowance for loan losses, as a percentage of year-end loans, was 1.36% in 2015 and 1.32% in 2014. Net loan charge-offs for 2015 were lower than in 2014 due to continued improvements in asset quality and the concomitant reduction in charge-offs. Although net charge-offs in 2015 were marginally higher than in 2014, net charge-offs in 2014 were substantially lower than those experienced in prior years due to the receipt of unanticipated large recoveries. While the Company did obtain some significant recoveries in 2015, the unusually high level of recoveries seen in 2014 did not re-occur.

Management believes that net loan charge-offs in subsequent years will be higher than what was experienced in 2014 and 2015, as no similarly large recoveries are anticipated in the future. The state of the local economy also significantly impacts the level of loan charge-offs. If the economy begins to contract, nonperforming assets could increase as a result of declines in real estate values and home sales or increases in unemployment rates and financial stress on borrowers. Increased nonperforming assets would cause increased charge-offs and lower earnings due to larger contributions to the loan loss provision.

In 2015, management contributed $1.0 million to the allowance for loan losses through the provision, or $425 thousand more than the provision for the year ended December 31, 2014. This decision was based on management's evaluation of loan losses in the loan portfolio. Management's evaluation included credit quality trends, collateral values, discounted cash flow analysis, loan volumes, geographic, borrower and industry concentrations, the findings of internal credit quality assessments and results from external regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business conditions, were used in developing estimated loss factors for determining the loan loss provision.

The additional provision was mainly due to the growth in the loan portfolio. It was also impacted by impaired loans for which there was a specific allocation. While total impaired loans decreased by $1.4 million, the deteriorating condition of certain of these loans required management to set aside additional funds to cover anticipated future losses. Management believes that, if loan growth continues and current economic conditions remain stable, the loan loss provision will continue at the level seen in 2015.

Noninterest Income

Noninterest income increased $492 thousand or 3.89% for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase was driven by an additional $213 thousand in income from Old Point Mortgage. During the latter part of 2014 and continuing in 2015, Old Point Mortgage worked to improve its efficiencies and re-define its incentive structure for its sales staff. The success of these efforts is evident in the increased income seen in 2015, compared to 2014.

In addition to the improved income from Old Point Mortgage, most other categories of noninterest income also increased. Service charges on deposit accounts was the only category to decrease when comparing the years ended December 31, 2015 and 2014, a $98 thousand decline that was mainly driven by a decrease in overdraft fee income. Regulatory changes in recent years have curtailed this income source for most banks, including the Company. Service charges on deposit accounts not related to overdraft fees increased by $39 thousand for the year ended December 31, 2015, but that increase was offset by the $137 thousand decrease in overdraft fee income for the same period.

Income from fiduciary activities increased $111 thousand when comparing 2015 to 2014, in part because income in 2014 was artificially depressed by Trust's determination in the second quarter of that year that certain customer fees had been inadvertently charged in prior years. While the majority of the increase in income from fiduciary activities was due to the correction in 2014, estate administration income also increased and was not affected by the correction in 2014. Income from fiduciary activities is difficult to project, due to the unpredictable nature of its primary source, the market value of assets under management by Trust. However, management does expect that, over all, income from fiduciary activities will continue to trend upward in future years as a result of business development efforts.

Other service charges, commissions and fees increased $144 thousand when comparing 2015 to 2014. Additional income from merchant processing fees and brokerage sales contributed significantly to this increase, as did income from Penact. In the fourth quarter of 2013, Trust acquired Penact, a company that provides consultation, administration and valuation services for retirement plans. Revenue from Penact was $408 thousand for the year ended December 31, 2015, $71 thousand higher than in 2014.

In addition to the previously-discussed increase in income from Old Point Mortgage, other income was also increased by foreclosed property income and income from early withdrawal penalties on time deposits. Foreclosed property income increased due to foreclosures on tenant-occupied real estate. Several of these tenant-occupied properties were sold in 2015, and as a result, management expects foreclosed property income to be lower in 2016 than in 2015. Income from early withdrawal penalties increased due to a change in the Bank's fee structure for early withdrawals. With this change, management hopes to better control its interest expense when rates rise.

The Company also saw smaller increases in income from bank-owned life insurance and gain on sale of available-for-sale securities between 2014 and 2015. During the last several years, the Company has focused on restructuring its securities portfolio to improve the portfolio's cash flow, increase its yields, and reduce its susceptibility to interest rate risk. As a result of this restructuring, the Company recorded a net gain on sales of $76 thousand in 2015, compared to $2 thousand in 2014.

The Company continues to focus on diversifying noninterest income through efforts to expand Trust relationships and a continued focus on business checking and other corporate services. The portions of the Dodd-Frank Act that have been fully implemented have increased, and the Company expects the Dodd-Frank Act when fully implemented to further increase, government regulation of consumer financial products and services, including fees generated on

consumer financial transactions. Although the impact of the Dodd-Frank Act and regulations promulgated thereunder is not yet fully known, the Company expects that this additional regulation of consumer financial products, services and transactions may materially impact the Company's ability to generate future noninterest income.

Noninterest Expense

The Company's noninterest expense increased $914 thousand or 2.67% for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The largest increases were in salaries and employee benefits and occupancy and equipment expenses. Occupancy and equipment expenses increased $444 thousand, or 9.09% when comparing 2015 and 2014, due to the completion of the Company's new corporate headquarters. The building was completed and occupied in the second quarter of 2014, making 2015 its first full year of operations.

When comparing 2015 to 2014, salaries and employee benefits increased $863 thousand, or 4.34%, due to three main factors. The most significant of these was the retirement package provided by the Company to the retiring president of the Bank. Although the retirement package will be paid in 2016, accounting rules required that the entire amount of $353 thousand be expensed in 2015. Salaries and employee benefits was also impacted by an increase in the cost of employer-provided medical insurance of $258 thousand. In addition, the Company's expense for its pension plan, which was frozen in 2006, increased by $108 thousand due to changes in actuarial estimates.

The following categories of noninterest expense also increased in 2015 when compared to 2014: legal and audit expenses ($114 thousand), other outside service fees ($109 thousand), ATM and check losses ($42 thousand) and loss on write-down/sale of other real estate owned ($85 thousand). Legal and audit expenses increased due to legal fees paid for the negotiation and preparation of contracts with certain employees. Other outside services increased mainly as a result of outsourcing of certain information technology, loan review and audit functions requiring extremely specialized skills and expertise. Check cashing and wire frauds committed in 2015 increased ATM and check losses, while loss on write-down/sale of other real estate owned was affected by the Company's ongoing efforts to sell these properties, which are considered nonperforming assets.

These increases in noninterest expense were partially offset by decreases in other areas, the largest of which were FDIC insurance, customer development and employee professional development. FDIC insurance decreased $118 thousand due to reductions in nonperforming assets, which reduces the Company's FDIC insurance assessment rate. Reductions in charitable contributions and public relations expenses resulted in a decrease to customer development of $238 thousand. Employee professional development decreased $130 thousand due to reduced spending on external training for employees. Management is aware of the need to control noninterest expense and is working to reduce it wherever feasible.

Income tax expense was also lower in 2015 than in 2014 due to lower income. While income before income taxes declined from 2014 to 2015, tax-exempt income remained essentially flat. As a result, tax-exempt income made up a greater portion of the Company's income, reducing its effective tax rate to 1.46%. The Company also took advantage of several tax credits during 2015. Together, all of these factors reduced 2015 income tax expense by 72.45% compared to 2014.

Balance Sheet Review

At December 31, 2015, the Company had total assets of $896.8 million, an increase of $20.5 million or 2.34% compared to assets as of December 31, 2014. Net loans increased $31.8 million or 6.02%, from $528.9 million at December 31, 2014 to $560.7 million at December 31, 2015. Loan demand began to increase in 2013 and continued throughout 2014 and 2015, but until loan demand recovers significantly, the Company will likely continue to manage the interest margin by allowing higher cost funds, such as time deposits, to decrease. High-cost time deposits decreased $13.3 million or 5.95% between December 31, 2014 and December 31, 2015, while low-cost funds in the form of noninterest-bearing and savings deposits increased $43.1 million or 8.74% in the same time period.

The Company's holdings of Alternative A-paper, or "Alt-A", type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of December 31, 2015.

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

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

The following table details, as of December 31, 2015, the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end (i.e., equity lines of credit) and 1-4 family junior lien loans (i.e., second mortgages) for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family
First Mortgages,
1 - 4 Family Open-end and 1 - 4
Family Junior Liens
As of December 31, 2015
(dollars in thousands)

	Amount	Percent
Subprime	$20,856	13.9 %
Non-subprime	129,310	86.1 %
	$150,166	100.0 %
Total loans	$568,475	
Percentage of Real Estate-Secured Subprime Loans to Total Loans		3.67 %

In addition to the subprime loans secured by real estate discussed above, as of December 31, 2015, the Company had an additional $1.1 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of December 31, 2015 were $22.0 million, amounting to 3.86% of the Company's total loans at December 31, 2015.

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

Securities Portfolio

In February of 2016, management decided to transfer the Company's held-to-maturity securities to available-for-sale to increase the portfolio's liquidity and flexibility. Although management made this decision in the first quarter of 2016, it reflected a change in intent regarding the securities portfolio as of December 31, 2015. As the primary distinction between available-for-sale and held-to-maturity is management's intent, this transfer was effective-dated back to December 31, 2015. Due to this transfer, securities available-for-sale increased $74.8 million and securities held-to-maturity decreased $90.1 million when comparing December 31, 2015 to December 31, 2014. Classifying the securities as available-for-sale gives management the flexibility to sell the securities as needed to fund loan growth or manage the interest-rate risk in the portfolio. As detailed in Note 3 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K, the net effect of this transfer was to increase the carrying value of the securities portfolio by $3.7 million, reduce other assets by $1.2 million, and increase other comprehensive income by $2.3 million.

Beginning in 2014 and continuing in 2015, the Company began purchasing short-term U.S. Treasury and government agency securities as part of a strategy to reduce its capital stock tax expense. While both of these types of securities have very low yields, the anticipated future reduction in capital stock tax, included in noninterest expense, should more than offset the reduction in interest income.

During 2015, the total securities portfolio declined $15.2 million, mainly due to cash flows received from mortgage-backed securities. To reduce the portfolio's susceptibility to interest rate risk, the Company sold certain securities and purchased others during the year, with no net effect on the total of the portfolio. The Company's goal is

to provide maximum return on the securities portfolio within the framework of its asset/liability objectives and consistent with its need to manage tax exposure when necessary. The asset/liability objectives include managing interest sensitivity, liquidity and pledging requirements.

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

TABLE IV
SECURITIES PORTFOLIO

As of December 31,	2015	2014	2013
	(in thousands)		
Available-for-sale securities, at fair value:			
U.S. Treasury securities	$0	$20,000	$0
Obligations of U.S. Government agencies	24,240	4,618	15,024
Obligations of state and political subdivisions	78,433	50,246	47,100
Mortgage-backed securities	107,396	60,888	90,750
Money market investments	631	719	691
Corporate bonds	3,393	2,790	2,074
Other marketable equity securities	99	85	0
	$214,192	$139,346	$155,639
Held-to-maturity securities, at cost:			
Obligations of U.S. Government agencies	$0	$100	$400
Obligations of state and political subdivisions	0	29,529	30,120
Mortgage-backed securities	0	60,460	66,327
	$0	$90,089	$96,847
Restricted securities:			
Federal Home Loan Bank stock	$1,847	$2,124	$2,209
Federal Reserve Bank stock	169	169	169
	$2,016	$2,293	$2,378
Total	$216,208	$231,728	$254,864

The following table summarizes the contractual maturity of the securities portfolio and their weighted average yields as of December 31, 2015:

	1 year or less	1-5 years	5-10 years	Over 10 years	Total
	(dollars in thousands)				
Obligations of U.S. Government Agencies	$20,300	$99	$0	$3,841	$24,240
Weighted average yield	0.21 %	1.12 %	0.00 %	1.83 %	0.47 %
Obligations of state and political subdivisions	$0	$14,783	$23,935	$39,715	$78,433
Weighted average yield	0.00 %	1.81 %	2.37 %	2.54 %	2.35 %
Mortgage-backed securities	$0	$0	$0	$107,396	$107,396
Weighted average yield	0.00 %	0.00 %	0.00 %	2.09 %	2.09 %
Money market investments	$631	$0	$0	$0	$631
Weighted average yield	0.05 %	0.00 %	0.00 %	0.00 %	0.05 %
Corporate bonds	$200	$3,193	$0	$0	$3,393
Weighted average yield	1.25 %	1.40 %	0.00 %	0.00 %	1.39 %
Federal Home Loan Bank stock - restricted	$0	$0	$0	$1,847	$1,847
Weighted average yield	0.00 %	0.00 %	0.00 %	4.56 %	4.56 %
Federal Reserve Bank stock - restricted	$0	$0	$0	$169	$169
Weighted average yield	0.00 %	0.00 %	0.00 %	6.00 %	6.00 %
Other marketable equity securities	$0	$0	$0	$99	$99
Weighted average yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Total securities	$21,131	$18,075	$23,935	$153,067	$216,208
Weighted average yield	0.22 %	1.73 %	2.37 %	2.23 %	2.39 %

In the table above, obligations of U.S. government agencies show a yield of 0.21%, due to the fact that the Company purchased these securities, which matured in early January 2016, in late December 2015. See above for a discussion of the Company's purchase of these securities.

The table above is based on maturity. Therefore, it does not reflect cash flow from principal payments or prepayments prior to maturity. The weighted average life of the $107.4 million in mortgage-backed securities as of December 31, 2015 was 5.75 years. Yields are calculated on a fully tax-equivalent basis using a 34% rate.

Loan Portfolio

The following table shows a breakdown of total loans by segment at December 31 for years 2011 through 2015:

TABLE V
LOAN PORTFOLIO

As of December 31,	2015	2014	2013	2012	2011
	(in thousands)				
Commercial	$43,197	$37,698	$30,702	$25,341	$35,015
Real estate-construction	19,685	9,082	14,505	12,005	19,981
Real estate-mortgage (1)	437,159	435,914	416,966	398,522	415,960
Consumer	50,427	30,493	19,791	13,146	17,041
Other	18,007	22,807	18,735	22,119	32,330
Total	$568,475	$535,994	$500,699	$471,133	$520,327

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

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

As of December 31, 2015, the total loan portfolio increased by $32.5 million or 6.06% as compared to December 31, 2014. Quality loan demand began to increase in the second half of 2013, a trend which continued in 2014 and 2015. To assist with the loan growth generated by relationship building, the Company worked with Old Point Mortgage to generate 1 to 4 family mortgage loans and continued to market the fixed-rate equity line product developed in 2013.

In addition to mortgage loans purchased from Old Point Mortgage, the Company purchased loans from three other sources in 2015. Over the year, $5.5 million in commercial loans were purchased; the entire principal balance of the Company's commercial loan purchases is guaranteed by either the Small Business Administration (SBA) or the United States Department of Agriculture. In April of 2015, the Company also purchased an additional $14.0 million portfolio of student loans, bringing its total student loan portfolio to $21.5 million at December 31, 2015. The principal balance on these loans, which is included in the consumer category above, is 97 - 98% guaranteed by the government. The Company also purchased $7.3 million of consumer installment loans for which the Company maintains a dedicated reserve account. Any loan losses in this portfolio are covered first by the reserve account, and then by the allowance for loan losses only if the funds available in the reserve account are not sufficient.

The maturity distribution and rate sensitivity of certain categories of the Company's loan portfolio at December 31, 2015 is presented below:

TABLE VI
MATURITY SCHEDULE OF SELECTED LOANS

December 31, 2015	Within 1 year	1 to 5 years	After 5 years	Total
	(in thousands)			
Commercial	$14,979	$11,994	$16,224	$43,197
Real estate - construction	13,730	3,216	2,739	19,685
Total	$28,709	$15,210	$18,963	$62,882

Loans due after 1 year with:			
Fixed interest rate	$13,109	$13,069	$26,178
Variable interest rate	2,101	5,894	7,995
Total	$15,210	$18,963	$34,173

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, nonperforming restructured loans, and other real estate owned (OREO). Restructured loans are loans with terms that were modified in a troubled debt restructuring (TDR) for borrowers experiencing financial difficulties. During the year ended December 31, 2015, the Company restructured seven loans.

As of December 31, 2015, nonperforming assets totaled $10.7 million, down from $11.8 million at December 31, 2014. The 2015 total consisted of $2.7 million of OREO, $3.4 million in loans still accruing interest but past due 90 days or more and $4.6 million in nonaccrual loans. Of the $4.6 million in nonaccrual loans, $4.3 million were secured by real estate; the remaining $276 thousand is guaranteed by the SBA and the Company is in the process of filing the necessary paperwork to collect on this guarantee. All of the nonaccrual loans are classified as substandard. Substandard loans are a component of the allowance for loan losses. When a loan changes from "90 days past due but still accruing interest" to "nonaccrual" status, the loan is normally reviewed for impairment. If the loan is considered impaired, then the Company records a charge-off based on the value of the collateral or the present value of the loan's expected future cash flows. If the Company is waiting on an appraisal to determine the collateral's value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The recorded investment in impaired loans decreased to $13.1 million as of December 31, 2015 from $14.4 million as of December 31, 2014 as detailed in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. The majority of these loans were collateralized.

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

TABLE VII
NONPERFORMING ASSETS

As of December 31,	2015	2014	2013	2012	2011
	(in thousands)				
Nonaccrual loans					
Commercial	$276	$0	$149	$97	$129
Real estate-construction	0	499	2,545	3,065	0
Real estate-mortgage (1)	4,306	5,071	8,630	7,470	8,334
Consumer	0	0	0	0	12
Total nonaccrual loans	$4,582	$5,570	$11,324	$10,632	$8,475
Loans past due 90 days or more and accruing interest					
Commercial	$164	$10	$0	$25	$0
Real estate-construction	0	0	0	0	0
Real estate-mortgage (1)	23	107	527	408	510
Consumer (2)	3,163	1,019	5	11	2
Other	6	5	14	3	5
Total loans past due 90 days or more and accruing interest	$3,356	$1,141	$546	$447	$517
Restructured loans					
Real estate-construction	$99	$102	$0	$0	$0
Real estate-mortgage (1)	11,077	12,203	12,076	8,810	4,326
Consumer	12	13	15	16	18
Total restructured loans	$11,188	$12,318	$12,091	$8,826	$4,344
Less nonaccrual restructured loans (included above)	2,497	4,240	3,630	1,908	2,756
Less restructured loans in compliance (3)	8,691	8,078	8,461	6,918	1,588
Net nonperforming restructured loans	$0	$0	$0	$0	$0
Other real estate owned					
Construction, land development, and other land	$1,090	$2,138	$2,783	$3,804	$3,969
1-4 family residential properties	724	884	457	676	3,650
Multifamily (5 or more) residential properties	0	0	0	0	0
Former branch sites	0	886	886	0	0
Nonfarm nonresidential properties	927	1,198	2,289	2,094	1,771
	$2,741	$5,106	$6,415	$6,574	$9,390
Total nonperforming assets	$10,679	$11,817	$18,285	$17,653	$18,382
Interest income that would have been recorded under original loan terms on nonaccrual loans included above	$196	$301	$762	$673	$1,353
Interest income recorded for the period on nonaccrual loans included above	$141	$265	$251	$121	$506

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Amounts listed include student loans with principal amounts that are 97 - 98% guaranteed by the government. The past due portion of these guaranteed loans totaled $5.7 million at December 31, 2015 and

$2.4 million at December 31, 2014. For additional information, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

(3) Amounts listed represent restructured loans that are in compliance with their modified terms as of the date presented.

As shown in the table above, as of December 31, 2015 compared to December 31, 2014, the nonaccrual loan category decreased by $988 thousand or 17.74% and the 90-days past due and still accruing interest category increased by $2.2 million or 194.13%. The decline in nonaccrual loans was due primarily to the resolution of a large loan relationship. Loans past due 90 days or more and still accruing interest increased due to the purchase of an additional student loan portfolio by the Company in April of 2015; the principal amount of these loans is 97-98% guaranteed by the government. OREO decreased by $2.4 million or 46.32% when comparing December 31, 2015 to December 31, 2014, as the Company worked to sell these properties, including the former branch sites.

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

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

The Allowance for Loan Losses

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

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

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

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company has not yet received a current appraisal on loans being reviewed for impairment, any loan balance that is in excess of the estimated appraised value is allocated in the allowance. As of December 31, 2015 and December 31, 2014, the impaired loan component of the allowance for loan losses amounted to $798 thousand and $702 thousand, respectively. The increase in this component was due to the deteriorating condition of two borrowing relationships, which required the Company to set aside additional funds to cover anticipated future losses. The impaired loan component of the allowance for loan losses is reflected as a valuation allowance related to impaired loans in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

Historical loss is the second component of the allowance for loan losses. The calculation of the historical loss component is conducted on loans evaluated collectively for impairment and uses migration analysis on pooled

segments. These segments are based on the loan classifications set by the Federal Financial Institutions Examination Council in the instructions for the Call Report applicable to the Bank.

Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1 – 29 days past due), or are 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2015 and December 31, 2014, the Company had no loans in these categories.

For the December 31, 2015 and December 31, 2014 calculations, the migration analysis was based on twelve quarters of loss history. For a detailed discussion of migration analysis, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. Each quarter, management reviews the migration period to determine the most applicable period to use, which may be longer or shorter than the migration period used in prior quarters. Adding additional quarters to the migration analysis extends the period over which the loan could cease to perform; therefore, migration analysis of a longer period generally reflects a greater number of loans that default, and accordingly an increased historical loss rate, than migration analysis of a shorter period.

The final component of the allowance consists of qualitative factors such as economic conditions, trends in growth, loan concentrations, changes in certain loans, changes in underwriting, changes in management and changes in the legal and regulatory environment. On a combined basis, the historical loss and qualitative factor component of the allowance amounted to $6.9 million and $6.4 million as of December 31, 2015 and 2014, respectively. This increase is mainly due to growth in the loan portfolio.

As a result of continuing loan growth and the additional specific allocation for impaired loans, the Company added, through the provision, $1.0 million to the allowance for loan losses in 2015. Management 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 the loan portfolio and levels of nonperforming assets closely and make changes to the allowance for loan losses when necessary.

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

TABLE VIII
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2015	2014	2013	2012	2011
	(dollars in thousands)				
Balance at the beginning of period	$7,075	$6,831	$7,324	$8,498	$13,228
Charge-offs:					
Commercial	293	286	200	138	942
Real estate-construction	0	51	501	831	0
Real estate-mortgage (1)	321	563	1,548	2,554	7,822
Consumer	92	163	141	259	333
Other	191	175	316	187	210
Total charge-offs	897	1,238	2,706	3,969	9,307
Recoveries:					
Commercial	50	55	76	67	141
Real estate-construction	1	173	6	30	0
Real estate-mortgage (1)	393	524	513	162	575
Consumer	39	64	111	70	102
Other	52	66	207	66	59
Total recoveries	535	882	913	395	877
Net charge-offs	362	356	1,793	3,574	8,430
Provision for loan losses	1,025	600	1,300	2,400	3,700
Balance at end of period	$7,738	$7,075	$6,831	$7,324	$8,498
Selected loan loss statistics					
Loans (net of unearned income):					
End of period balance	$568,475	$535,994	$500,699	$471,133	$520,327
Average balance	$563,534	$517,183	$471,203	$478,220	$544,523
Net charge-offs to average total loans	0.06 %	0.07 %	0.38 %	0.75 %	1.55 %
Provision for loan losses to average total loans	0.18 %	0.12 %	0.28 %	0.50 %	0.68 %
Provision for loan losses to net charge-offs	283.15 %	168.54 %	72.50 %	67.15 %	43.89 %
Allowance for loan losses to period end loans	1.36 %	1.32 %	1.36 %	1.55 %	1.63 %
Earnings to loan loss coverage (2)	13.02	13.80	2.68	2.12	0.96
Allowance for loan losses to nonperforming loans	97.48 %	105.42 %	57.55 %	66.11 %	94.51 %

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

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

TABLE IX
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2015		2014		2013		2012		2011	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(dollars in thousands)									
Commercial	$633	7.60 %	$595	7.03 %	$350	6.13 %	$677	5.38 %	$1,011	6.73 %
Real estate-construction	985	3.46 %	703	1.69 %	662	2.90 %	187	2.55 %	323	3.84 %
Real estate-mortgage (1)	5,628	76.90 %	5,347	81.33 %	5,357	83.28 %	6,179	84.59 %	6,735	79.94 %
Consumer	279	8.87 %	219	5.69 %	294	3.95 %	204	2.79 %	300	3.28 %
Other	213	3.17 %	211	4.26 %	168	3.74 %	77	4.70 %	129	6.21 %
Total	$7,738	100.00%	$7,075	100.00%	$6,831	100.00%	$7,324	100.00%	$8,498	100.00%

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

For the year ended December 31, 2015 as compared to the year ended December 31, 2014, there was an increase in the allowance for loan losses due to growth in the loan portfolio and the additional specific allocation for impaired loans. The increase in the allowance was distributed among the loan segments based on the composition of loans in each segment. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K for further information related to the effect of the change in the calculation method.

Although the allowance for loan losses is allocated into these categories, the entire allowance for loan losses is available to cover loan losses in any category. For example, if real estate-construction loans experienced losses of $1.0 million, the allowance for loan losses could absorb these losses even though only $985 thousand is allocated to that category.

Deposits

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

TABLE X
DEPOSITS

Years ended December 31,	2015		2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					

Interest-bearing transaction accounts	$11,219	0.04	%	$11,537	0.04	%	$11,129	0.05	%
Money market deposit accounts	228,627	0.08	%	213,918	0.08	%	199,848	0.12	%
Savings accounts	74,436	0.05	%	73,576	0.06	%	62,562	0.10	%
Time deposits, $100,000 or more	113,945	0.98	%	108,630	0.96	%	126,127	1.14	%
Other time deposits	107,142	0.96	%	128,383	1.03	%	157,154	1.07	%
Total interest-bearing deposits	535,369	0.44	%	536,044	0.48	%	556,820	0.61	%
Demand deposits	194,677			184,555			180,538		
Total deposits	$730,046			$720,599			$737,358		

The Company's average total deposits were $730.0 million for the year ended December 31, 2015, an increase of $9.4 million or 1.31% from average total deposits for the year ended December 31, 2014. The money market deposit accounts category had the largest increase, totaling $14.7 million. In addition, average time deposits, which are currently the Company's most expensive deposit categories, decreased by a total of $15.9 million, as seen in the table above. The rates paid on interest-bearing deposits by the Company decreased to 0.44% for the year ended December 31, 2015 from 0.48% for the year ended December 31, 2014.

To manage its net interest margin, in 2014 and 2015 the Company focused on reducing higher-cost time deposits by lowering deposit rates and allowing time deposits to shrink through attrition.

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

TABLE XI
TIME DEPOSITS OF $100,000 OR MORE

As of December 31,	2015	2014	2013
	(in thousands)		
Maturing in:			
Within 3 months	$23,844	$32,995	$25,272
3 through 6 months	11,474	12,212	12,591
6 through 12 months	8,572	12,628	33,992
Greater than 12 months	65,207	47,197	42,920
	$109,097	$105,032	$114,775

Return on Equity and Assets

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

As of December 31,	2015	2014	2013
Return on average assets	0.41%	0.47%	0.36%
Return on average equity	4.02%	4.81%	3.73%
Dividend pay-out ratio	46.40%	31.32%	34.49%
Average equity to average assets	10.23%	9.83%	9.61%

Capital Resources

Total stockholders' equity as of December 31, 2015 was $93.2 million, up 5.29% from $88.5 million on December 31, 2014. The main cause of this increase was the mark-to-market adjustment on securities transferred from held-to-maturity to available-for-sale. Held-to-maturity securities are carried at book value, while available-for-sale securities are carried at market value. When the securities were transferred to available-for-sale, the Company recognized an unrealized gain to record these securities at their fair market value as a result of the elimination of the unrealized loss and corresponding fair value discount established in 2013 when available-for-sale securities were transferred to held-to-maturity.

The Company's capital position remains strong as evidenced by the regulatory capital measurements. Under the banking regulations, Total Capital is composed of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios for the past three years. As shown below, these ratios were all well above the regulatory minimum levels.

	2015 Regulatory Minimums	2015	2014	2013

Common Equity Tier 1 Capital	4.50 %	13.78 %	N/A	N/A
Tier 1 Capital	6.00 %	13.78 %	14.36 %	14.50 %
Total Capital	8.00 %	14.89 %	15.44 %	15.58 %
Tier 1 Leverage	4.00 %	10.93 %	10.75 %	10.37 %

Year-end book value per share was $18.79 in 2015, $17.85 in 2014, and $16.29 in 2013. Cash dividends were $1.7 million or $0.34 per share in 2015, $1.3 million or $0.26 per share in 2014, and $1.1 million or $0.22 per share in 2013. The common stock of the Company has not been extensively traded. The table below shows the high and low sales prices and dividends paid for each quarter of 2015 and 2014. The stock is quoted on the NASDAQ Capital Market under the symbol "OPOF" and the prices below are based on trade information as reported by The NASDAQ Stock Market, LLC. There were 1,119 stockholders of record of the Company as of March 8, 2016. This stockholder count does not include stockholders who hold their stock in a nominee registration.

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

	2015			2014		
		Sales Price			Sales Price	
	Dividend	High	Low	Dividend	High	Low
1st Quarter	$0.08	$15.44	$14.85	$0.06	$18.00	$12.81
2nd Quarter	$0.08	$15.75	$14.83	$0.06	$17.93	$14.86
3rd Quarter	$0.09	$16.00	$14.71	$0.07	$16.89	$14.36
4th Quarter	$0.09	$19.00	$15.40	$0.07	$15.50	$14.76

Liquidity

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

In addition, secondary sources are available through the use of borrowed funds if the need should arise. The Company's sources of funds include a large stable deposit base and secured advances from the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2015, the Company had $237.2 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 year-end 2015 and 2014, the Company had $50.0 million available in federal funds lines of credit to address any short-term borrowing needs.

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

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

The fair value of unpledged securities available for sale increased from December 31, 2014 to December 31, 2015 primarily because the Company transferred its portfolio of held-to-maturity securities to available-for-sale. Management believes that this transfer will provide the Company with additional liquidity and improved flexibility in managing it balance sheet in the future, at an acceptable level of risk to capital. The increase in availability for FHLB advances is mainly due to the payoff of a $5.0 million advance.

The following table sets forth information relating to the Company's sources of liquidity and the outstanding commitments for use of liquidity at December 31, 2015 and December 31, 2014. Dividing the total short-term sources of liquidity by the outstanding commitments for use of liquidity derives the liquidity coverage ratio.

LIQUIDITY SOURCES AND USES
(dollars in thousands)

	December 31, 2015			December 31, 2014		
	Total	In Use	Available	Total	In Use	Available
Sources:						
Federal funds lines of credit	$50,000	$0	$50,000	$50,000	$0	$50,000
Federal Home Loan Bank advances	262,196	25,000	237,196	261,507	30,000	231,507
Federal funds sold & balances at the Federal Reserve			3,195			2,028
Securities, available for sale and unpledged at fair value			93,672			98,409
Total short-term funding sources			$384,063			$381,944
Uses:						
Unfunded loan commitments and lending lines of credit			63,039			63,422
Letters of credit			1,042			1,076
Commitments to purchase assets			165			826
Total potential short-term funding uses			$64,246			$65,324
Liquidity coverage ratio			597.8 %			584.7 %

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

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

The Company's operating activities provided $7.8 million of cash during the year ended December 31, 2015, compared to $10.0 million provided during 2014, primarily due to increases in other assets, partially offset by increases in other liabilities; pension plan contributions in 2015 also contributed to the lower operating cash flows in 2015. The Company's investing activities used $15.4 million of cash during 2015, compared to $9.2 million used during 2014, principally due to a reduction in the volume of sales of securities when comparing 2015 to 2014. Company's financing activities provided $11.3 million of cash during 2015 compared to $1.2 million provided of cash during 2014. This change is principally due to increases in deposits in 2015, compared to a net decrease in deposits in 2014. Cash flows from financing activities were also impacted by a net decrease of $5.0 million in FHLB advances in 2015.

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

Company determined that the interest expense saved was more than the cost to prepay the advance.

Effects of Inflation

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

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

Off-Balance Sheet Lending Related Commitments

The Company had $133.3 million in consumer and commercial commitments at December 31, 2015. As of the same date, the Company also had $3.5 million in letters of credit that the Company will fund if certain future events occur. It is expected that only a portion of these commitments will ever actually be funded.

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

Contractual Obligations

In the normal course of business, there are various outstanding contractual obligations of the Company that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows. The following table provides the Company's contractual obligations as of December 31, 2015:

Payments due by period (in thousands)		Less Than 1	1-3	3-5	More Than 5
Contractual Obligations	Total	Year	Years	Years	Years
Short-Term Debt Obligations	$25,950	$25,950	$0	$0	$ 0
Long-Term Debt Obligations	25,000	25,000	0	0	0
Operating Lease Obligations	871	236	551	84	0
Commitment to purchase assets	165	165	0	0	0
Total contractual cash obligations excluding deposits	51,986	51,351	551	84	0
Deposits	746,471	622,370	87,009	37,092	0
Total	$798,457	$673,721	$87,560	$37,176	$ 0

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

After December 31, 2015 but prior to the filing of this annual report on Form 10-K, the Company signed additional contracts for fixed asset purchases and professional services. These contracts will require payments of approximately $165 thousand in 2016.

Short-Term Borrowings

Certain short-term borrowings at December 31, 2015, 2014 and 2013 are presented below. Information is presented only on those categories whose average balance at December 31 exceeded 30 percent of total stockholders' equity at the same date.

TABLE XII
SHORT-TERM BORROWINGS

	2015		2014		2013	
	Balance	Rate	Balance	Rate	Balance	Rate
	(dollars in thousands)					

Balance at December 31,						
Repurchase agreements	$25,950	0.09%	$37,816	0.10%	$31,586	0.10%
Average daily balance for the year ended December 31,						
Repurchase agreements	$30,654	0.10%	$32,780	0.10%	$32,219	0.11%
Maximum month-end outstanding balance:						
Repurchase agreements	$44,614		$42,429		$41,604	

Quarterly Data

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

	Years Ended December 31,							
	2015				2014			
	(in thousands, except per share data)							
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest and dividend income	$7,632	$7,609	$7,550	$7,504	$7,760	$7,527	$7,536	$7,466
Interest expense	(906)	(915)	(918)	(893)	(905)	(951)	(962)	(1,031)
Net interest income	6,726	6,694	6,632	6,611	6,855	6,576	6,574	6,435
Provision for loan losses	(775)	50	(25)	(275)	200	(450)	(100)	(250)
Net interest income, after provision for loan losses	5,951	6,744	6,607	6,336	7,055	6,126	6,474	6,185
Noninterest income	3,276	3,223	3,359	3,277	3,134	3,195	3,153	3,162
Noninterest expenses	(9,154)	(9,151)	(8,494)	(8,287)	(8,724)	(8,718)	(8,467)	(8,263)
Income before income taxes	73	816	1,472	1,326	1,465	603	1,160	1,084
Provision for income taxes	237	24	(193)	(121)	(119)	89	(59)	(107)
Net income	$310	$840	$1,279	$1,205	$1,346	$692	$1,101	$977
Earnings per common share:								
Basic	$0.06	$0.17	$0.26	$0.24	$0.27	$0.14	$0.22	$0.20
Diluted	$0.06	$0.17	$0.26	$0.24	$0.27	$0.14	$0.22	$0.20

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This information is incorporated herein by reference from Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", on pages 19 through 43 of this report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Old Point Financial Corporation and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old Point Financial Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Winchester, Virginia
March 11, 2016

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$33,514	$31,081
Interest-bearing due from banks	1,064	833
Federal funds sold	2,412	1,391
Cash and cash equivalents	36,990	33,305
Securities available-for-sale, at fair value	214,192	139,346
Securities held-to-maturity (fair value approximates $94,406)	0	90,089
Restricted securities	2,016	2,293
Loans, net of allowance for loan losses of $7,738 and $7,075	560,737	528,919
Premises and equipment, net	41,282	42,075
Bank-owned life insurance	24,411	23,525
Other real estate owned, net of valuation allowance of $2,549 and $2,908	2,741	5,106
Other assets	14,418	11,622
	$896,787	$876,280
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$215,090	$186,280
Savings deposits	321,370	307,078
Time deposits	210,011	223,296
Total deposits	746,471	716,654
Overnight repurchase agreements	25,950	37,404
Term repurchase agreements	0	412
Federal Home Loan Bank advances	25,000	30,000
Accrued expenses and other liabilities	6,190	3,313
Total liabilities	803,611	787,783
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,959,009 shares issued and outstanding	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	55,151	53,203
Accumulated other comprehensive loss, net	(3,162)	(5,893)
Total stockholders' equity	93,176	88,497
Total liabilities and stockholders' equity	$896,787	$876,280

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31,	
	2015	2014
	(dollars in thousands, except per share data)	
Interest and Dividend Income:		
Interest and fees on loans	$25,972	$24,881
Interest on due from banks	15	13
Interest on federal funds sold	2	5
Interest on securities:		
Taxable	2,510	3,562
Tax-exempt	1,663	1,703
Dividends and interest on all other securities	133	125
Total interest and dividend income	30,295	30,289
Interest Expense:		
Interest on savings deposits	227	230
Interest on time deposits	2,144	2,354
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	30	32
Interest on Federal Home Loan Bank advances	1,231	1,233
Total interest expense	3,632	3,849
Net interest income	26,663	26,440
Provision for loan losses	1,025	600
Net interest income, after provision for loan losses	25,638	25,840
Noninterest Income:		
Income from fiduciary activities	3,617	3,506
Service charges on deposit accounts	4,021	4,119
Other service charges, commissions and fees	4,084	3,940
Income from bank-owned life insurance	885	851
Gain on sale of available-for-sale securities, net	76	2
Other operating income	453	226
Total noninterest income	13,136	12,644
Noninterest Expense:		
Salaries and employee benefits	20,747	19,884
Occupancy and equipment	5,330	4,886
Data processing	1,625	1,663
FDIC insurance	586	704
Customer development	584	822
Legal and audit expenses	720	606
Other outside service fees	693	584
Employee professional development	591	721
Postage and courier	373	445
Stationery and supplies	374	446
Capital stock tax	439	499

ATM and check losses	452	410
Loss on write-down/sale of other real estate owned	957	872
Other operating expenses	1,615	1,630
Total noninterest expense	35,086	34,172
Income before income taxes	3,688	4,312
Income tax expense	54	196
Net income	$3,634	$4,116
Basic earnings per share		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.73	$0.83
Diluted earnings per share		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.73	$0.83

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2015	2014
	(dollars in thousands)	
Net income	$3,634	$4,116
Other comprehensive income, net of tax		
Net unrealized gains (losses) on available-for-sale securities	(498)	5,239
Net change in unrealized losses on securities transferred from available-for-sale to held-to-maturity	3,386	551
Net change in defined benefit plan assets and benefit obligations	(157)	(881)
Other comprehensive income	2,731	4,909
Comprehensive income	$6,365	$9,025

See Notes to Consolidated Financial Statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(dollars in thousands, except per share data)					
Balance at December 31, 2013	4,959,009	$24,795	$16,392	$50,376	$(10,802)	$80,761
Net income	0	0	0	4,116	0	4,116
Other comprehensive income, net of tax	0	0	0	0	4,909	4,909
Cash dividends ($0.26 per share)	0	0	0	(1,289)	0	(1,289)
Balance at December 31, 2014	4,959,009	$24,795	$16,392	$53,203	$(5,893)	$88,497
Net income	0	0	0	3,634	0	3,634
Other comprehensive income, net of tax	0	0	0	0	2,731	2,731
Cash dividends ($0.34 per share)	0	0	0	(1,686)	0	(1,686)
Balance at December 31, 2015	4,959,009	$24,795	$16,392	$55,151	$(3,162)	$93,176

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31,	2015	2014
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,634	$ 4,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,543	2,277
Provision for loan losses	1,025	600
Net gain on sale of available-for-sale securities	(76)	(2)
Net amortization of securities	2,188	2,241
Net loss on disposal of premises and equipment	6	1
Net loss on write-down/sale of other real estate owned	957	872
Income from bank owned life insurance	(885)	(851)
Deferred tax benefit	(227)	(101)
(Increase) decrease in other assets	(3,969)	440
Increase in other liabilities	3,637	442
Pension plan contribution	(1,000)	0
Net cash provided by operating activities	7,833	10,035
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(104,103)	(25,471)
Proceeds from redemption of restricted securities	277	85
Proceeds from maturities and calls of available-for-sale securities	80,790	725
Proceeds from maturities and calls of held-to-maturity securities	300	300
Proceeds from sales of available-for-sale securities	23,005	38,653
Paydowns on available-for-sale securities	9,353	9,318
Paydowns on held-to-maturity securities	8,161	6,160
Purchases of government-guaranteed student loans	(14,315)	0
Net increase in all other loans (including repayments on student loans)	(19,081)	(36,985)
Proceeds from sales of other real estate owned	1,956	1,799
Payments for improvements to other real estate owned	0	(23)
Purchases of premises and equipment	(1,756)	(3,806)
Net cash used in investing activities	(15,413)	(9,245)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	28,810	3,767
Increase in savings deposits	14,292	20,993
Decrease in time deposits	(13,285)	(33,511)
Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings, net	(11,866)	6,230
Increase in Federal Home Loan Bank advances	20,000	10,000
Repayment of Federal Home Loan Bank advances	(25,000)	(5,000)
Cash dividends paid on common stock	(1,686)	(1,289)
Net cash provided by financing activities	11,265	1,190
Net increase in cash and cash equivalents	3,685	1,980
Cash and cash equivalents at beginning of period	33,305	31,325
Cash and cash equivalents at end of period	$ 36,990	$ 33,305

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 3,646	$ 3,920
Income tax	$ 200	$ 535
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on securities available-for-sale	$ (755)	$ 7,938
Loans transferred to other real estate owned	$ 553	$ 1,815
Loans made to finance the sale of other real estate owned	$ 0	$ 481
Increase in pension liability	$ (237)	$ (1,336)
Book value of equity securities transferred from other assets to available-for-sale	$ 0	$ 100
Securities transferred from held-to-maturity to available-for-sale	$ 85,555	$ 0
Unamortized losses on transfer date on securities transferred from available-for-sale to held-to-maturity, eliminated upon transfer back to available-for-sale	$ 4,197	$ 0
Amortization of unrealized loss on securities transferred to held-to-maturity	$ 934	$ 835

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1, Significant Accounting Policies

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

NATURE OF OPERATIONS
Old Point Financial Corporation is a holding company that conducts substantially all of its operations through two subsidiaries, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A. The Bank serves individual and commercial customers, the majority of which are in Hampton Roads, Virginia. As of December 31, 2015, the Bank had 18 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers. Trust offers a full range of services for individuals and businesses. Products and services include retirement planning, estate planning, financial planning, estate and trust administration, retirement plan administration, tax services and investment management services.

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

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

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

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK
Most of the Company's activities are with customers located within the Hampton Roads region. The types of securities that the Company invests in are included in Note 3. The types of lending that the Company engages in are included in Note 4. The Company has significant concentrations in the following industries: construction, lessors of real estate,

activities related to real estate, ambulatory health care and religious organizations. The Company does not have any significant concentrations to any one customer.

At December 31, 2015 and 2014, there were $297.4 million and $296.6 million, or 52.32% and 55.34%, respectively, of total loans concentrated in commercial real estate. Commercial real estate for purposes of this note includes all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties.

CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

The accrual of interest on commercial loans (including construction loans and commercial loans secured and not secured by real estate) is generally discontinued at the time the loan is 90 days past due unless the credit is well-secured and in the process of collection. Consumer loans not secured by real estate and consumer real estate secured loans (i.e., residential 1-4 family mortgages, second mortgages and equity lines of credit) are generally placed on nonaccrual status when payments are 120 days past due. Past due status is based on the contractual terms of the loan, and loans are considered past due when a payment of principal and/or interest is due but not paid. Regular

payments not received within the payment cycle are considered to be 30, 60, or 90 or more days past due accordingly. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

LOAN CHARGE-OFF POLICIES

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

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

TROUBLED DEBT RESTRUCTURINGS

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty before their loans reach nonaccrual status and works with them to grant appropriate concessions, if necessary, and modify their loans to more affordable terms. These modified terms could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Company had $11.2 million and $12.3 million in loans classified as TDRs as of December 31, 2015 and 2014, respectively.

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

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

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

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

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

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

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

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

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

INCOME TAXES

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

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

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

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

No uncertain tax positions were recorded in 2015 or 2014.

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

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

ADVERTISING EXPENSES
Advertising expenses are expensed as incurred. Advertising expense for the years ended 2015 and 2014 was $217 thousand and $265 thousand, respectively.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)", should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company does not expect the adoption of ASU 2014-12 to have a material impact on its consolidated financial statements.

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

In November 2014, the FASB issued ASU No. 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity". The amendments in this ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Company does not expect the adoption of ASU 2014-16 to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB ASC and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable

interest entity (VIE), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115". The amendments in ASU 2015-08 amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, "Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) – 1. Fully Benefit-Responsive Investment Contracts, 2. Plan Investment Disclosures, and 3. Measurement Date Practical Expedient". The amendments within this ASU are in 3 parts. Among other things, Part 1 amendments designate contract value as the only required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments. Part III amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end. The amendments in Parts I and II of this ASU are effective on a retrospective basis and Part III is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-12 to have a material impact on its consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date". The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should

apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Company does not expect the adoption of ASU 2015-14 (or ASU 2014-09) to have a material impact on its consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting)". On April 7, 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs", which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 adds these SEC comments to the "S" section of the Codification. The adoption of ASU 2015-15 did not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments". The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of ASU 2015-16 to have a material impact on its consolidated financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are

effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

NOTE 2, Restrictions on Cash and Amounts Due from Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2015 and 2014, the Company had no balance requirements on any of its accounts. The Company had approximately $25.2 million and $17.2 million in deposits in financial institutions in excess of amounts insured by the FDIC at December 31, 2015 and December 31, 2014, respectively.

NOTE 3, Securities Portfolio

The amortized cost and fair value, with gross unrealized gains and losses, of securities held-to-maturity were:

December 31, 2014	Carrying Value	Unamortized Unrealized Transfer Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)					
Obligations of U.S. Government agencies	$100	$ 0	$ 100	$ 0	$ (3)	$97
Obligations of state and political subdivisions	29,529	0	29,529	449	(18)	29,960
Mortgage-backed securities	60,460	5,131	65,591	0	(1,242)	64,349
Total	$90,089	$ 5,131	$ 95,220	$ 449	$ (1,263)	$94,406

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

The mortgage-backed securities classified as held-to-maturity at December 31, 2014 were originally classified as available-for-sale when the Company purchased them. In 2013, due to fluctuations in interest rates following statements from the Federal Reserve that it was likely to begin slowing the pace of bond purchases under its quantitative easing program, the market value of the Company's available-for-sale securities portfolio declined. As part of a plan to minimize the risk to capital caused by these changes in market value, the Company transferred a portion of its mortgage-backed securities portfolio from available-for-sale to held-to-maturity. These mortgage-backed securities had an unrealized loss of $6.2 million at the date of transfer, which the Company has been amortizing since the transfer. At December 31, 2014, the unamortized balance remaining was $5.1 million, as seen in the table above. When these mortgage-backed securities were transferred back to available-for-sale, this unamortized loss was eliminated and the securities marked to their current fair market value, as required by accounting rules for available-for-sale securities.

Although the book value of the mortgage-backed securities transferred back to available-for-sale remains below their market value, resulting in an unrealized loss, this unrealized loss is smaller than the unrealized loss at the date they were originally transferred from available-for-sale to held-to-maturity in 2013. In addition, classifying the securities as available-for-sale gives management the flexibility to sell the securities as needed to fund loan growth or manage the interest-rate risk in the portfolio.

The Company's entire portfolio of held-to-maturity securities was transferred to available-for-sale. At December 31, 2015 when the securities were transferred, their carrying value was $81.4 million and the remaining unamortized loss on the mortgage-backed securities was $4.2 million. This unamortized loss was eliminated with the transfer. Its

associated deferred tax asset and other comprehensive income accounts, which were $1.4 million and $2.8 million respectively, were also eliminated. As a result, equity and total assets increased by $2.8 million, while the carrying value of the securities portfolio increased $4.2 million. When the securities previously classified as held-to-maturity were marked to market, the Company recorded an unrealized loss of $781 thousand, which reduced other comprehensive income by $516 thousand.

The net effect of this transfer was to increase the carrying value of the securities portfolio by $3.4 million, reduce other assets by $1.2 million, and increase other comprehensive income by $2.3 million.

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2015				
U.S. Treasury securities	$0	$ 0	$ 0	$0
Obligations of U.S. Government agencies	24,353	1	(114)	24,240
Obligations of state and political subdivisions	77,223	1,323	(113)	78,433
Mortgage-backed securities	109,360	0	(1,964)	107,396
Money market investments	631	0	0	631
Corporate bonds and other securities	3,397	4	(8)	3,393
Other marketable equity securities	100	0	(1)	99
Total	$215,064	$ 1,328	$ (2,200)	$214,192
December 31, 2014				
U.S. Treasury securities	$20,000	$ 0	$ 0	$20,000
Obligations of U.S. Government agencies	4,768	2	(152)	4,618
Obligations of state and political subdivisions	49,783	698	(235)	50,246
Mortgage-backed securities	61,296	34	(442)	60,888
Money market investments	719	0	0	719
Corporate bonds and other securities	2,798	3	(11)	2,790
Other marketable equity securities	100	0	(15)	85
Total	$139,464	$ 737	$ (855)	$139,346

Securities with a fair value of $119.8 million and $134.5 million at December 31, 2015 and 2014, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, FHLB advances and for other purposes required or permitted by law.

At December 31, 2015, the Company held no securities of any single issuer (excluding U.S. Government agencies) with a book value that exceeded 10 percent of stockholders' equity.

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

	December 31, 2015 Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$20,500	$20,501
Due after one year through five years	17,853	18,074
Due after five years through ten years	23,505	23,936
Due after ten years	152,475	150,951
Total debt securities	214,333	213,462
Other securities without stated maturities	731	730
Total securities	$215,064	$214,192

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

	2015	2014
	(in thousands)	
Proceeds from sales	$23,005	$38,653
Gross realized gains	$76	$276
Gross realized losses	$0	$274

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

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

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

The Company has not recorded impairment charges on securities for the years ended December 31, 2015 and 2014.

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

	December 31, 2015						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$0	$0	$114	$3,940	$114	$3,940	2
Obligations of state and political subdivisions	42	4,177	71	3,545	113	7,722	13
Mortgage-backed securities	848	62,698	1,116	44,698	1,964	107,396	13
Corporate bonds and other securities	6	2,091	2	198	8	2,289	16
Other marketable equity securities	1	99	0	0	1	99	1
Total securities available-for-sale	$897	$69,065	$1,303	$52,381	$2,200	$121,446	45

	December 31, 2014						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U. S. Government agencies	$0	$0	$152	$4,316	$152	$4,316	1
Obligations of state and political subdivisions	2	604	233	11,951	235	12,555	24
Mortgage-backed securities	62	16,589	380	32,104	442	48,693	6
Corporate bonds and other securities	3	1,096	8	792	11	1,888	14
Other marketable equity securities	15	85	0	0	15	85	1
Total securities available-for-sale	$82	$18,374	$773	$49,163	$855	$67,537	46
Securities Held-to-Maturity							
Obligations of U. S. Government agencies	$0	$0	$3	$97	$3	$97	1
Obligations of state and political subdivisions	2	1,261	16	1,203	18	2,464	6
Mortgage-backed securities	0	0	1,242	64,349	1,242	64,349	6
Total securities held-to-maturity	$2	$1,261	$1,261	$65,649	$1,263	$66,910	13
Total	$84	$19,635	$2,034	$114,812	$2,118	$134,447	59

Certain investments within the Company's portfolio had unrealized losses at December 31, 2015 and December 31, 2014, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. The Company purchases only highly-rated securities, including U.S. government agencies and mortgage-backed securities guaranteed by government-sponsored entities. The municipal securities portfolio is reviewed regularly to ensure that ratings of individual securities have not deteriorated below the threshold established by the Company's policy.

Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2015 or December 31, 2014.

Restricted Securities

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

NOTE 4, Loans and the Allowance for Loan Losses

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

	December 31, 2015	December 31, 2014
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$96,997	$91,318
Commercial	277,758	287,531
Construction	19,685	9,082
Second mortgages	15,148	13,403
Equity lines of credit	47,256	43,662
Total mortgage loans on real estate	456,844	444,996
Commercial loans	43,197	37,698
Consumer loans	50,427	30,493
Other	18,007	22,807
Total loans	568,475	535,994
Less: Allowance for loan losses	(7,738)	(7,075)
Loans, net of allowance and deferred fees (1)	$560,737	$528,919

(1) Deferred loan fees totaled $407 thousand and $473 thousand at December 31, 2015 and December 31, 2014, respectively.

Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $648 thousand and $541 thousand at December 31, 2015 and December 31, 2014, respectively.

CREDIT QUALITY INFORMATION

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

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

- Pass: Loans are of acceptable risk.
- Other Assets Especially Mentioned (OAEM): Loans have potential weaknesses that deserve management's close attention.
- Substandard: Loans reflect significant deficiencies due to several adverse trends of a financial, economic or managerial nature.
- Doubtful: Loans have all the weaknesses inherent in a substandard loan with added characteristics that make collection or liquidation in full based on currently existing facts, conditions and values highly questionable or

improbable.

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

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

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

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

Credit Quality Information
As of December 31, 2014
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$89,480	$0	$ 1,838	$91,318
Commercial	272,654	10,602	4,275	287,531
Construction	8,026	0	1,056	9,082
Second mortgages	13,306	0	97	13,403
Equity lines of credit	42,976	0	686	43,662
Total mortgage loans on real estate	426,442	10,602	7,952	444,996
Commercial loans	36,007	1,669	22	37,698
Consumer loans	30,463	0	30	30,493
Other	22,807	0	0	22,807
Total	$515,719	$12,271	$ 8,004	$535,994

As of December 31, 2015 and 2014 the Company did not have any loans internally classified as Loss or Doubtful.

AGE ANALYSIS OF PAST DUE LOANS BY CLASS

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

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

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$309	$1,042	$275	$1,626	$95,371	$96,997	$ 0
Commercial	1,266	31	23	1,320	276,438	277,758	23
Construction	161	0	0	161	19,524	19,685	0
Second mortgages	21	39	165	225	14,923	15,148	0
Equity lines of credit	170	0	0	170	47,086	47,256	0
Total mortgage loans on real estate	1,927	1,112	463	3,502	453,342	456,844	23
Commercial loans	500	88	232	820	42,377	43,197	164
Consumer loans	1,673	1,350	3,163	6,186	44,241	50,427	3,163
Other	64	3	6	73	17,934	18,007	6
Total	$4,164	$2,553	$3,864	$10,581	$557,894	$568,475	$ 3,356

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

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

Age Analysis of Past Due Loans as of December 31, 2014

	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	$1,043	$55	$792	$1,890	$89,428	$91,318	$ 0
Commercial	31	0	432	463	287,068	287,531	0
Construction	0	0	499	499	8,583	9,082	0
Second mortgages	81	32	168	281	13,122	13,403	107
Equity lines of credit	49	0	0	49	43,613	43,662	0
Total mortgage loans on real estate	1,204	87	1,891	3,182	441,814	444,996	107

Commercial loans	195	0	10	205	37,493	37,698	10
Consumer loans	1,099	323	1,019	2,441	28,052	30,493	1,019
Other	51	3	5	59	22,748	22,807	5
Total	$2,549	$413	$2,925	$5,887	$530,107	$535,994	$ 1,141

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

In the table above, the consumer category includes student loans with principal amounts that are 97 - 98% guaranteed by the government. The past due portion of these guaranteed loans totaled $2.4 million at December 31, 2014.

NONACCRUAL LOANS

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

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

Generally, consumer loans not secured by real estate are placed in nonaccrual status only when part of the principal has been charged off. If a charge-off has not occurred sooner for other reasons, a consumer loan not secured by real estate will generally be placed in nonaccrual status when payments are 120 days past due. These loans are charged off or written down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors as discussed in the Loan Charge-Off Policies section of Note 1, or when they are past due based on loan product, industry practice, terms and other factors.

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

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

Nonaccrual Loans by Class

	December 31, 2015	December 31, 2014
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$1,457	$ 924
Commercial	2,623	4,086
Construction	0	499
Second mortgages	226	61
Total mortgage loans on real estate	4,306	5,570
Commercial loans	276	0
Total	$4,582	$ 5,570

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

Years Ended December 31,	
2015	2014

	(in thousands)	
Interest income that would have been recorded under original loan terms	$196	$301
Actual interest income recorded for the period	141	265
Reduction in interest income on nonaccrual loans	$55	$36

TROUBLED DEBT RESTRUCTURINGS

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

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

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

Troubled Debt Restructurings by Class
For the Year Ended December 31, 2015
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2015
Mortgage loans on real estate:				
Residential 1-4 family	0	$ 0	$ 0	$ 0
Commercial	5	2,094	2,594	2,400
Construction	1	435	435	0
Second mortgages	1	61	61	61
Total	7	$ 2,590	$ 3,090	$ 2,461

Troubled Debt Restructurings by Class
For the Year Ended December 31, 2014
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2014
Mortgage loans on real estate:				
Residential 1-4 family	2	$ 375	$ 375	$ 366
Commercial	0	0	0	0
Construction	1	103	103	102
Second mortgages	1	89	89	86
Total	4	$ 567	$ 567	$ 554

All of the loans restructured in 2014 and five of the loans restructured in 2015 were given below-market rates for debt with similar risk characteristics. Two of the loans restructured in 2015 were given terms not otherwise available to borrowers with similar risk characteristics.

At December 31, 2015 and 2014, the Company had no outstanding commitments to disburse additional funds on any TDR. Also at December 31, 2015 and 2014, the Company had $53 thousand and $446 thousand, respectively, in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure.

The following table presents TDRs for the periods indicated for which there was a payment default where the default occurred within twelve months of restructuring. The Company considers a TDR in default when any of the following occurs: the loan, as restructured, becomes 90 days or more past due; the loan is moved to nonaccrual status following the restructure; the loan is restructured again under terms that would qualify it as a TDR if it were not already so classified; or any portion of the loan is charged off.

Restructurings that Subsequently Defaulted

	For the Years Ended December 31,	
	2015	2014
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 0	$ 389

The TDRs in the tables above are factored into the determination of the allowance for loan losses as of the periods indicated. These loans are included in the impaired loan analysis, as discussed below.

IMPAIRED LOANS

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

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

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

Impaired Loans by Class
(in thousands)

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

Impaired Loans by Class
(in thousands)

	As of December 31, 2014				For the year ended December 31, 2014	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$2,898	$2,083	$ 646	$ 91	$4,099	$ 126
Commercial	11,766	4,729	5,322	163	10,669	449
Construction	1,157	623	534	270	2,431	55
Second mortgages	506	195	282	178	470	25
Total mortgage loans on real estate	$16,327	$7,630	$ 6,784	$ 702	$17,669	$ 655
Commercial loans	0	0	0	0	37	0
Consumer loans	14	14	0	0	26	1
Total	$16,341	$7,644	$ 6,784	$ 702	$$ 17,732	$ 656

MONITORING OF LOANS AND EFFECT OF MONITORING FOR THE ALLOWANCE FOR LOAN LOSSES
Loan officers are responsible for continual portfolio analysis and prompt identification and reporting of problem loans, which includes assigning a risk grade to each applicable loan at its origination and revising such grade as the situation dictates. Loan officers maintain frequent contact with borrowers, which should enable the loan officer to identify potential problems before other personnel. In addition, meetings with loan officers and upper management are held to discuss problem loans and review risk grades. Nonetheless, in order to avoid over-reliance upon loan officers for problem loan identification, the Company's loan review system provides for review of loans and risk grades by

individuals who are independent of the loan approval process. Risk grades and migration analysis by risk grades are used as a component of the calculation of the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES

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

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

Each portfolio segment has risk characteristics as follows:

- Commercial: Commercial loans carry risks associated with the successful operation of a business or project, in addition to other risks associated with the ownership of a business. The repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Real estate-construction: Construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may at any point in time be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be the loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Real estate-mortgage: Residential mortgage loans and equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Commercial real estate loans carry risks associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.
- Consumer loans: Consumer loans carry risks associated with the continued credit-worthiness of the borrowers and the value of the collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- Other loans: Other loans are loans to mortgage companies, loans for purchasing or carrying securities, and loans to insurance, investment and finance companies. These loans carry risks associated with the successful operation of a business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time, depend on interest rates or fluctuate in active trading markets.

Each segment of the portfolio is pooled by risk grade or by days past due. Loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on days past due, while all other loans, including loans to consumers that are secured by real estate, are segmented by risk grades. A historical loss percentage is then calculated by migration analysis and applied to each pool. The migration analysis applied to all pools is able to track the risk grading and historical performance of individual loans throughout a number of periods set by management, which provides management with information regarding trends (or migrations) in a particular loan segment. At December 31, 2015 and December 31, 2014, management used twelve-quarter migration periods.

THE COMPANY'S ESTIMATION PROCESS

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

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

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

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $7.7 million adequate to cover loan losses inherent in the loan portfolio at December 31, 2015.

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

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

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

For the year ended December 31, 2014	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 350	$ 662	$ 5,357	$ 294	$ 168	$ 6,831
Charge-offs	(286)	(51)	(563)	(163)	(175)	(1,238)
Recoveries	55	173	524	64	66	882
Provision for loan losses	476	(81)	29	24	152	600
Ending balance	$ 595	$ 703	$ 5,347	$ 219	$ 211	$ 7,075
Ending balance individually evaluated for impairment	$ 0	$ 270	$ 432	$ 0	$ 0	$ 702
Ending balance collectively evaluated for impairment	595	433	4,915	219	211	6,373
Ending balance	$ 595	$ 703	$ 5,347	$ 219	$ 211	$ 7,075
Loan Balances:						
Ending balance individually evaluated for impairment	$ 0	$ 1,157	$ 13,257	$ 14	$ 0	$ 14,428
	37,698	7,925	422,657	30,479	22,807	521,566

Ending balance collectively evaluated for impairment						
Ending balance	$ 37,698	$ 9,082	$435,914	$30,493	$22,807	$535,994

CHANGES IN ACCOUNTING METHODOLOGY

There were no changes in accounting methodology for the allowance for loan losses for the year ended December 31, 2015.

NOTE 5. Other Real Estate Owned (OREO)

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

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Balance at beginning of year	$8,014	$9,190
Transfers to OREO due to foreclosure	553	1,815
Other additions to foreclosed properties	0	23
Properties sold	(3,277)	(3,014)
Balance at end of year	$5,290	$8,014

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

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

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Balance at beginning of year	$2,908	$2,775
Additions and write-downs	1,011	1,056
Reductions due to sales or increases in value	(1,370)	(923)
Balance at end of year	$2,549	$2,908

Expenses applicable to OREOs include the following:

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Net loss (gain) on sales of real estate	$(54)	$(184)
Provision for losses (net write-downs)	1,011	1,056
Operating expenses, net of income (1)	219	285
Total Expenses	$1,176	$1,157

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

NOTE 6. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2015	2014
	(in thousands)	
Land	$7,688	$7,261
Buildings	37,848	38,301
Construction in process	555	291
Leasehold improvements	852	906
Furniture, fixtures and equipment	18,303	19,391
	65,246	66,150
Less accumulated depreciation and amortization	23,964	24,075
	$41,282	$42,075

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $2.5 and $2.3 million, respectively.

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

The total approximate minimum rental commitment at December 31, 2015 under noncancellable leases is $871 thousand which is due as follows (in thousands):

2016	$236
2017	235
2018	167
2019	149
2020	84
Total	$871

The aggregate rental expense of premises and equipment was $270 thousand and $281 thousand for December 31, 2015 and 2014, respectively.

NOTE 7, Low-Income Housing Tax Credits

The Company was invested in four separate housing equity funds at December 31, 2015 and three separate funds at December 31, 2014. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and preserve and protect project assets.

The investments in these funds were recorded as other assets on the consolidated balance sheets and were $4.2 million and $722 thousand at December 31, 2015 and December 31, 2014, respectively. The expected terms of these investments and the related tax benefits run through 2032. During the years ended December 31, 2015 and 2014, the Company recognized tax credits and other tax benefits related to these investments of $365 thousand and $477 thousand, respectively. Total tax credits received for 2015 were $274 thousand, which is based on the most recent quarterly estimates received from the funds. Additional committed capital calls expected for the funds totaled $3.0 million and $2.7 million at December 31, 2015 and December 31, 2014, respectively, and are recorded in accrued expenses and other liabilities on the corresponding consolidated balance sheet.

NOTE 8, Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2015 and 2014 was $36.4 million and $40.2 million, respectively. As of December 31, 2015, no single customer relationship exceeded 5 percent of total deposits.

At December 31, 2015 the scheduled maturities of time deposits (in thousands) are as follows:

2016	$85,910
2017	48,942
2018	18,932
2019	19,135
2020	37,092
Total	$210,011

NOTE 9, Short Term and Long Term Borrowings

The Company's short-term borrowing sources include federal funds purchased and overnight repurchase agreements. The Company had no federal funds purchased on December 31, 2015 or 2014. At December 31, 2015, the Company had $50.0 million available in federal funds lines of credit to address any short-term borrowing needs.

Overnight repurchase agreements, which totaled $26.0 million and $37.4 million as of December 31, 2015 and 2014, respectively, are classified as secured borrowings that generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

As of December 31, 2015, three customer relationships exceeded 5 percent of total repurchase agreements, with a combined outstanding balance of $20.0 million, or 77.23% of total repurchase agreements.

The Company's long-term debt at December 31, 2015 and 2014 consisted of fixed-rate FHLB advances. The FHLB advances are secured by a blanket lien on qualified 1 – 4 family residential real estate loans. These pledged loans totaled $75.8 million at December 31, 2015. In February of 2016, the Company elected to prepay its remaining FHLB advance of $25.0 million. Although prepayment of the advance subjected the Company to a prepayment penalty equal to the cost to the FHLB to unwind its underlying hedge plus an administrative fee, the Company determined that the interest expense saved was more than the cost to prepay the advance.

At December 31, 2015, the Company had $237.2 million in FHLB borrowing availability, in addition to the $25.0 million already outstanding on that date.

The contractual maturities of long-term debt are as follows:

	December 31,			
	2015		2014	
	Fixed Rate (in thousands)	Weighted Avg Rate	Fixed Rate (in thousands)	Weighted Avg Rate
Due in 2015	$0	0.00 %	$5,000	0.26 %
Due in 2016	25,000	4.83 %	25,000	4.83 %
Total long-term debt	$25,000	4.83 %	$30,000	4.07 %

NOTE 10. Stock Option Plan

The Company's 1998 Stock Option Plan, pursuant to which stock options could be granted to key employees and non-employee directors, expired on March 9, 2008. Stock options that were outstanding on March 9, 2008 remained outstanding in accordance with their terms, but no new awards can be granted under the plan after March 9, 2008. At December 31, 2015, options to purchase 74,960 shares of common stock granted under the stock option plan were outstanding. The exercise price of each option equals the market price of the Company's common stock on the date of the grant, and each option's maximum term is ten years.

Stock option plan activity for the year ended December 31, 2015 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2015	81,210	$ 20.05		
Granted	0	0		
Exercised	0	0		
Canceled or expired	(6,250)	20.05		
Options outstanding, December 31, 2015	74,960	$ 20.05	1.79	$ 0
Options exercisable, December 31, 2015	74,960	$ 20.05	1.79	$ 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 December 31, 2015.This amount changes based on changes in the market value of the Company's common stock.

As of December 31, 2015, 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 options were granted or exercised during the years ended December 31, 2015 or December 31, 2014.

As of December 31, 2015 and December 31, 2014, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

Information pertaining to options outstanding at December 31, 2015 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 20.05	74,960	1.79	$ 20.05	74,960	$ 20.05

NOTE 11. Stockholders' Equity and Earnings per Common Share

STOCKHOLDERS' EQUITY -- OTHER COMPREHENSIVE INCOME (LOSS)
The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category, during the periods indicated:

	Years Ended December 31,		Affected Line Item on Consolidated Statement of Income
	2015	2014	
	(in thousands)		
Available-for-sale securities			
Realized gains (losses) on sales of securities	$76	$2	Gain (loss) on sale of available-for-sale securities, net
Tax effect	26	1	Income tax (benefit) expense
	$50	$1	
Defined-benefit pension plan			
Amortization of actuarial loss (1)	$(390)	$(251)	Salaries and employee benefits
Tax effect	(133)	(85)	Income tax benefit
	$(257)	$(166)	
Total reclassifications for the period	$(207)	$(165)	

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

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

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Losses on Securities Transferred from Available-for-Sale to Held-to-Maturity (1)	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
	(in thousands)			
Balance at December 31, 2013	$(5,317)	$ (3,937)	$(1,548)	$ (10,802)
Net change for the year ended December 31, 2014	5,239	551	(881)	4,909

Balance at December 31, 2014	(78)	(3,386)	(2,429)	(5,893)
Net change for the year ended December 31, 2015	(498)	3,386	(157)	2,731
Balance at December 31, 2015	$(576)	$ 0	$(2,586)	$ (3,162)

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

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

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

	Year Ended December 31, 2014		
	Pretax	Tax Effect	Net-of-Tax
	(in thousands)		
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$7,940	$2,700	$ 5,240
Reclassification adjustment for gains recognized in income	(2)	(1)	(1)
Net change	7,938	2,699	5,239
Unrealized losses on securities transferred from available-for-sale to held-to-maturity:			
Amortization	835	284	551
Net change	835	284	551
Defined benefit pension plans:			
Net actuarial loss for the period	(1,587)	(540)	(1,047)
Amortization of actuarial loss from prior period	251	85	166
Net change	(1,336)	(455)	(881)
Total change in accumulated other comprehensive loss	$7,437	$2,528	$ 4,909

EARNINGS PER COMMON SHARE

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

	Years Ended December 31,	
	2015	2014
	(dollars in thousands)	
Net income (in thousands)	$3,634	$4,116
Average number of common shares outstanding	4,959,009	4,959,009
Effect of dilutive options	0	0
Average number of common shares outstanding used to calculate diluted earnings per common share	4,959,009	4,959,009

The Company did not include an average of 76 thousand and 117 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for 2015 and 2014, respectively, because they were antidilutive.

NOTE 12, Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal stockholders, executive officers and directors and their affiliates. These loans were made on substantially the same terms and conditions, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management and the Company's board of directors, do not involve more than normal risk or present other unfavorable features. None of the principal stockholders, executive officers or directors had direct or indirect loans exceeding 10 percent of stockholders' equity at December 31, 2015.

Annual activity consisted of the following:

	2015	2014
	(in thousands)	
Balance, beginning of year	$5,787	$2,589
Additions	4	3,596
Reductions	(1,362)	(398)
Balance, end of year	$4,429	$5,787

Deposits from related parties held by the Company at December 31, 2015 and 2014 amounted to $14.4 million and $13.2 million, respectively.

NOTE 13, Income Taxes

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

	2015	2014
	(in thousands)	
Current income tax expense	$281	$297
Deferred income tax benefit	(227)	(101)
Reported income tax expense	$54	$196

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

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Expected tax expense (34%)	$1,254	$1,466
Interest expense on tax-exempt assets	22	24
Low-income housing tax credits	(274)	(324)
Tax-exempt interest	(654)	(631)
Bank-owned life insurance	(301)	(289)
Other, net	7	(50)
Reported tax expense	$54	$196

The effective tax rates for 2015 and 2014 were 1.5% and 4.6%, respectively.

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

	December 31,	
	2015	2014
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$2,631	$2,397
Interest on nonaccrual loans	67	100
Other real estate owned	867	989
Pension - other comprehensive income	1,332	1,252
Bank owned life insurance benefit	88	83
Charitable contributions carried forward	109	92
Net unrealized loss on securities available-for-sale	297	40
Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	0	1,744
Unexercised nonqualified options	36	36
Alternative minimum tax	610	269
Deferred benefits and compensation	347	166
Other	78	70
	$6,462	$7,238
Deferred tax liabilities:		
Depreciation	$(854)	$(696)
Accretion of discounts on securities	(1)	0
Deferred loan fees and costs	(293)	(295)
Pension	(874)	(627)
	(2,022)	(1,618)
Net deferred tax assets	$4,440	$5,620

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2012.

NOTE 14, Pension Plan and 401(k) Plan

PENSION PLAN

The Company provides pension benefits for eligible participants through a non-contributory defined-benefit pension plan. The plan was frozen effective September 30, 2006; therefore no additional participants have been or will be added to the plan since such date.

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

	Years ended December 31,	
	2015	2014
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$7,104	$5,656
Service cost	0	0
Interest cost	260	278
Benefits paid	(294)	(298)
Actuarial (gain) loss	(31)	1,468
Benefit obligation at end of year	$7,039	$7,104
Change in plan assets		
Fair value of plan assets at beginning of year	$5,268	$5,322
Actual return on plan assets	(283)	244
Employer contribution	1,000	0
Benefits paid	(294)	(298)
Fair value of plan assets at end of year	$5,691	$5,268
Funded Status at end of year	$(1,348)	$(1,836)

Amounts recognized in the consolidated balance sheets at December 31,	2015	2014
Accrued pension liability	$(1,348)	$(1,836)
Amounts recognized in other comprehensive income (loss)		
Loss	$3,918	$3,681
Deferred taxes	(1,332)	(1,252)
Net loss	$2,586	$2,429
Accumulated benefit obligation	$7,039	$7,104

Assumptions used to determine the benefit obligations at December 31,	2015	2014
Discount rate	4.03%	3.73%

	During the years ending December 31,	
Weighted-average assumptions used to determine net periodic pension cost	2015	2014
Discount rate	3.73%	4.90%
Expected long-term rate of return on plan assets	7.00%	7.00%

Components of net periodic pension cost	Years ended December 31, 2015	2014
	(in thousands)	
Interest cost	$260	$278
Expected return on plan assets	(376)	(362)
Amortization of unrecognized loss	390	251
Net periodic pension cost	$274	$167

Components of other amounts recognized in other comprehensive income (loss)		
Net actuarial (gain) loss	$627	$1,587
Settlement loss	0	0
Amortization of actuarial loss	(390)	(251)
Total recognized in other comprehensive income (loss)	$237	$1,336
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$511	$1,503

The estimated net loss for the pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $560 thousand.

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

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

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

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

	Assets at Fair Value as of December 31, 2015 (in thousands)			
Asset Category	Level 1	Level 2	Level 3	Total
Money market funds	$654	$0	$ 0	$654
Mutual funds	74	0	0	74
Common stock	2,766	0	0	2,766
Corporate bonds	0	2,133	0	2,133
Partnerships	0	64	0	64
Total assets at fair value	$3,494	$2,197	$ 0	$5,691

Assets at Fair Value as of
December 31, 2014

(in thousands)

Asset Category	Level 1	Level 2	Level 3	Total
Money market funds	$310	$0	$ 0	$310
Mutual funds	73	0	0	73
Common stock	2,847	0	0	2,847
Corporate bonds	0	2,038	0	2,038
Total assets at fair value	$3,230	$2,038	$ 0	$5,268

The Company contributed $1.0 million to the pension plan in 2015, and made no contributions in 2014. Management has not determined at this time the amount, if any, it will contribute to the plan for the year ending December 31, 2016.

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

2016	$219
2017	259
2018	281
2019	294
2020	352
Thereafter	2,051
Total	$3,456

401(K) PLAN

The Company has a 401(k) Plan in which substantially all employees are eligible to participate. Employees may contribute to the plan subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100 percent of the first 4 percent of an employee's compensation contributed to the plan. Matching contributions vest to the employee immediately. The Company may make profit sharing contributions to the plan as determined by the Board of Directors. Profit sharing contributions vest to the employee over a six-year period. For the years ended December 31, 2015 and 2014, expense attributable to the plan amounted to $519 thousand and $527 thousand, respectively.

NOTE 15. Commitments and Contingencies

CREDIT-RELATED FINANCIAL INSTRUMENTS

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

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

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

	2015	2014
	(in thousands)	
Commitments to extend credit:		
Home equity lines of credit	$41,995	$43,372
Commercial real estate, construction and development loans committed but not funded	18,113	21,839
Other lines of credit (principally commercial)	73,213	70,368
Total	$133,321	$135,579
Letters of credit	$3,473	$3,586

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

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

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

LEGAL CONTINGENCIES

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

NOTE 16. Fair Value Measurements

DETERMINATION OF FAIR VALUE

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

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

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

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

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

Level 2 –	Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3 –	Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

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

		Fair Value Measurements at December 31, 2015 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	$0	$0	$ 0	$ 0
Obligations of U.S. Government agencies	24,240	0	24,240	0
Obligations of state and political subdivisions	78,433	0	78,433	0
Mortgage-backed securities	107,396	0	107,396	0
Money market investments	631	0	631	0
Corporate bonds	3,393	0	3,393	0
Other marketable equity securities	99	0	99	0
Total available-for-sale securities	$214,192	$0	$ 214,192	$ 0

		Fair Value Measurements at December 31, 2014 Using (in thousands)		
Description	Balance	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)		
Available-for-sale securities				
U.S. Treasury securities	$20,000	$0	$ 20,000	$ 0
Obligations of U.S. Government agencies	4,618	0	4,618	0
Obligations of state and political subdivisions	50,246	0	50,246	0
Mortgage-backed securities	60,888	0	60,888	0
Money market investments	719	0	719	0
Corporate bonds	2,790	0	2,790	0
Other marketable equity securities	85	0	85	0
Total available-for-sale securities	$139,346	$0	$ 139,346	$ 0

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

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

Impaired loans

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

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

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

Other Real Estate Owned (OREO)

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

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

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

		Carrying Value at December 31, 2014 Using (in thousands)		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$399	$0	$ 0	$ 399
Commercial	1,973	0	0	1,973

Construction	264	0	0	264
Second mortgages	104	0	0	104
Total	$2,740	$0	$ 0	$ 2,740
Other real estate owned				
Residential 1-4 family	$884	$0	$ 0	$ 884
Commercial	1,198	0	0	1,198
Construction	2,139	0	0	2,139
Total	$4,221	$0	$ 0	$ 4,221

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

Description	Fair Value at December 31, 2015 (dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Average)	
Impaired loans					
Residential 1-4 family real estate	$ 952	Market comparables	Selling costs	7.25	%
			Liquidation discount	0.00% - 4.00% (3.75	%)
Commercial real estate	267	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Construction	62	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Other real estate owned					
Residential 1-4 family	724	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 7.17% (4.79	%)
Commercial	927	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 24.70% (11.77	%)
Construction	1,090	Market comparables	Selling costs	6.72	%
			Liquidation discount	33.05	%

Description	Fair Value at December 31, 2014 (dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Average)	
Impaired loans					
Residential 1-4 family real estate	$ 399	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Commercial real estate	1,973	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Construction	264	Market comparables	Selling costs	0.00% - 7.25% (1.18	%)
			Liquidation discount	4.00% - 28.71% (24.70	%)
Second mortgages	104	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Other real estate owned					
Residential 1-4 family	884	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 10.00% (8.09	%)
Commercial	1,198	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 10.00% (5.91	%)
Construction	2,139	Market comparables	Selling costs	7.25% - 11.25% (7.38	%)
			Liquidation discount	0.00% - 10.00% (2.68	%)

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

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED SECURITIES

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

LOANS RECEIVABLE

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

BANK-OWNED LIFE INSURANCE

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

DEPOSIT LIABILITIES

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

SHORT-TERM BORROWINGS

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

LONG-TERM BORROWINGS

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

ACCRUED INTEREST

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

COMMITMENTS TO EXTEND CREDIT AND IRREVOCABLE LETTERS OF CREDIT

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2015 and December 31, 2014, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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

		Fair Value Measurements at December 31, 2015 Using (in thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$36,990	$36,990	$0	$0
Securities available-for-sale	214,192	0	214,192	0
Securities held-to-maturity	0	0	0	0
Restricted securities	2,016	0	2,016	0
Loans, net of allowances for loan losses	560,737	0	0	559,488
Bank owned life insurance	24,411	0	24,411	0
Accrued interest receivable	3,059	0	3,059	0
Liabilities				
Deposits	$746,471	$0	$746,740	$0
Overnight repurchase agreements	25,950	0	25,950	0
Term repurchase agreements	0	0	0	0
Federal Home Loan Bank advances	25,000	0	25,501	0
Accrued interest payable	241	0	241	0

		Fair Value Measurements at December 31, 2014 Using (in thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$33,305	$33,305	$0	$0
Securities available-for-sale	139,346	0	139,346	0
Securities held-to-maturity	90,089	0	94,406	0
Restricted securities	2,293	0	2,293	0

Loans, net of allowances for loan losses	528,919	0	0	527,138
Bank owned life insurance	23,525	0	23,525	0
Accrued interest receivable	2,695	0	2,695	0
Liabilities				
Deposits	$716,654	$0	$ 717,260	$ 0
Overnight repurchase agreements	37,404	0	37,404	0
Term repurchase agreements	412	0	410	0
Federal Home Loan Bank advances	30,000	0	31,536	0
Accrued interest payable	255	0	255	0

NOTE 17. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The terms Tier 1 capital, risk-weighted assets and average assets, as used in this note, are as defined in the applicable regulations. Management believes, as of December 31, 2015 and 2014, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Comptroller categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 are also presented in the table.

	Capital		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2015:						
Total Capital to Risk Weighted Assets:						
Consolidated	$104,076	14.89%	$55,910	8.00%	N/A	N/A
Old Point National Bank	96,079	13.83%	55,589	8.00%	$69,486	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,338	13.78%	41,932	6.00%	N/A	N/A
Old Point National Bank	88,341	12.71%	41,692	6.00%	55,589	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,338	13.78%	31,449	4.50%	N/A	N/A
Old Point National Bank	88,341	12.71%	31,269	4.50%	45,166	6.50%
Tier 1 Capital to Average Assets:						
Consolidated	96,338	10.93%	35,260	4.00%	N/A	N/A
Old Point National Bank	88,341	10.06%	35,124	4.00%	43,905	5.00%
December 31, 2014:						
Total Capital to Risk Weighted Assets:						
Consolidated	$101,450	15.44%	$52,560	8.00%	N/A	N/A
Old Point National Bank	94,472	14.45%	52,294	8.00%	$65,367	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	94,375	14.36%	26,280	4.00%	N/A	N/A
Old Point National Bank	87,397	13.37%	26,147	4.00%	39,220	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	94,375	10.75%	35,131	4.00%	N/A	N/A
Old Point National Bank	87,397	10.01%	34,940	4.00%	43,675	5.00%

The approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank and Trust can distribute as dividends to the Company in 2016, without approval

of the Comptroller, $3.0 million plus an additional amount equal to the Bank's and Trust's retained net profits for 2016 up to the date of any dividend declaration.

NOTE 18, Segment Reporting

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

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

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

2015	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$30,242	$54	$ 4,009	$ (4,010)	$ 30,295
Income from fiduciary activities	0	3,617	0	0	3,617
Other income	8,548	1,032	200	(261)	9,519
Total operating income	38,790	4,703	4,209	(4,271)	43,431
Expenses					
Interest expense	3,633	0	0	(1)	3,632
Provision for loan losses	1,025	0	0	0	1,025
Salaries and employee benefits	17,630	2,685	432	0	20,747
Other expenses	13,254	1,010	336	(261)	14,339
Total operating expenses	35,542	3,695	768	(262)	39,743
Income before taxes	3,248	1,008	3,441	(4,009)	3,688
Income tax expense (benefit)	(96)	343	(193)	0	54
Net income	$3,344	$665	$ 3,634	$ (4,009)	$ 3,634
Capital expenditures	$1,682	$74	$ 0	$ 0	$ 1,756
Total assets	$891,877	$5,694	$ 93,191	$ (93,975)	$ 896,787

2014	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$30,239	$50	$ 4,349	$ (4,349)	$ 30,289
Income from fiduciary activities	0	3,506	0	0	3,506
Other income	8,283	916	200	(261)	9,138
Total operating income	38,522	4,472	4,549	(4,610)	42,933
Expenses					
Interest expense	3,849	0	0	0	3,849
Provision for loan losses	600	0	0	0	600
Salaries and employee benefits	16,761	2,695	428	0	19,884
Other expenses	13,371	1,053	125	(261)	14,288
Total operating expenses	34,581	3,748	553	(261)	38,621
Income before taxes	3,941	724	3,996	(4,349)	4,312

Income tax expense (benefit)	69	247	(120)	0	196
Net income	$3,872	$477	$ 4,116	$ (4,349)	$ 4,116
Capital expenditures	$3,786	$20	$ 0	$ 0	$ 3,806
Total assets	$871,691	$5,513	$ 88,497	$ (89,421)	$ 876,280

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

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

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

NOTE 19, Condensed Financial Statements of Parent Company

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

Balance Sheets	December 31, 2015	2014
	(in thousands)	
Assets		
Cash and cash equivalents	$2,198	$1,349
Securities available-for-sale	99	85
Investment in common stock of subsidiaries	90,836	87,005
Other assets	58	58
Total assets	$93,191	$88,497
Liabilities and Stockholders' Equity		
Note payable - subsidiary	$15	$0
Common stock	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	55,151	53,203
Accumulated other comprehensive loss	(3,162)	(5,893)
Total liabilities and stockholders' equity	$93,191	$88,497

Statements of Income	Years Ended December 31, 2015	2014
	(in thousands)	
Income:		
Dividends from subsidiaries	$2,900	$2,475
Other income	200	200
Total income	3,100	2,675
Expenses:		
Salaries and benefits	432	428
Legal expenses	180	107
Service fees	137	143
Other operating expenses	19	(125)
Total expenses	768	553
Income before income taxes and equity in undistributed net income of subsidiaries	2,332	2,122
Income tax benefit	(193)	(120)
	2,525	2,242

Equity in undistributed net income of subsidiaries	1,109	1,874
Net income	$3,634	$4,116

Statements of Cash Flows	Years Ended December 31, 2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$3,634	$4,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(1,109)	(1,874)
(Increase) decrease in other assets	(5)	124
Increase (decrease) in other liabilities	15	(1)
Net cash provided by operating activities	2,535	2,365
Cash flows from investing activities:	0	0
Cash flows from financing activities: cash dividends paid on common stock	(1,686)	(1,289)
Net increase in cash and cash equivalents	849	1,076
Cash and cash equivalents at beginning of year	1,349	273
Cash and cash equivalents at end of year	$2,198	$1,349
Supplemental schedule of noncash transactions:		
Unrealized loss on securities available-for-sale	$(1)	$(15)
Book value of equity securities transferred from other assets to available-for-sale	$0	$100

NOTE 20, Subsequent Events

In February of 2016, the Company elected to pay off its advance from the Federal Home Loan Bank. This $25 million advance, which would have matured in June of 2016, bore an interest rate of 4.83%, significantly higher than other borrowing sources in the current rate environment. Previously, the Company had elected not to prepay this advance due to the penalty that would be assessed in the event of prepayment. As the amount of the penalty was dependent on market rates of interest, the volatility in the financial markets during the first quarter of 2016 provided the Company with an opportunity to prepay the advance for a penalty that was less than the amount of interest it would have paid for the remaining term of the advance. The amount of the penalty was $391 thousand.

Also in February of 2016, the Company transferred its portfolio of held-to-maturity securities to available-for-sale to increase liquidity and flexibility in the future. This transfer allows the Company to sell these securities as necessary to manage interest rate risk or to fund loan growth. For a detailed discussion of this transfer and its effects on the consolidated financial statements, refer to Note 3, Securities Portfolio.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period

covered by this report to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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

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

Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework in 2013. Based on this evaluation, using those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

Changes in Internal Control over Financial Reporting. There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Except as otherwise indicated, information called for by the following items under Part III is contained in the Proxy Statement for the Company's 2016 Annual Meeting of Stockholders (the 2016 Proxy Statement) to be held on May 24, 2016.

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to the directors of the Company is set forth under the caption "Election of Directors" in the 2016 Proxy Statement and is incorporated herein by reference. The information regarding the Section 16(a) reporting requirements of the directors and executive officers is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2016 Proxy Statement and is incorporated herein by reference. The information concerning the executive officers of the Company required by this item is included in Part I of this report on Form 10-K under the caption "Executive Officers of the Registrant." The information regarding the Company's Audit Committee and its Audit Committee Financial Expert is set forth under the caption "Board Committees and Attendance" in the 2016 Proxy Statement and is incorporated herein by reference.

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

A copy of the Code of Ethics will be provided free of charge, upon written request made to the Company's secretary at 1 West Mellen Street, Hampton, Virginia 23663 or by calling (757) 728-1200. The Code of Ethics is also posted on

the Company's website at www.oldpoint.com in the "Community" section, under "Investor Relations" and then "Governance Documents." The Company intends to satisfy the disclosure requirements of Form 8-K with respect to waivers of or amendments to the Code of Ethics with respect to certain officers of the Company by posting such disclosures on its website under "Waivers of or amendments to the Code of Ethics." The Company may, however, elect to disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure.

Item 11. Executive Compensation

The information set forth under the captions "Compensation and Benefits Committee Interlocks and Insider Participation" and "Executive Compensation" in the 2016 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in the 2016 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2016 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Interest of Management in Certain Transactions" in the 2016 Proxy Statement is incorporated herein by reference.

The information regarding director independence set forth under the caption "Board Committees and Attendance" in the 2016 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the captions "Principal Accountant Fees" and "Audit Committee Pre-Approval Policy" in the 2016 Proxy Statement is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Consolidated Financial Statements

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

Report of Independent Registered Public Accounting Firm (Yount, Hyde & Barbour, P.C.)
Consolidated Balance Sheets – December 31, 2015 and 2014
Consolidated Statements of Income – Years Ended December 31, 2015 and 2014
Consolidated Statements of Comprehensive Income – Years Ended December 31, 2015 and 2014
Consolidated Statements of Changes in Stockholders' Equity – Years Ended December 31, 2015 and 2014
Consolidated Statements of Cash Flows – Years Ended December 31, 2015 and 2014
Notes to Consolidated Financial Statements

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

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

Exhibit No.	Description
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed on March 12, 2009)

3.2	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 on March 10, 2011)
10.1*	Old Point Financial Corporation 1998 Stock Option Plan, as amended April 24, 2001 (incorporated by reference to Exhibit 4.4 to Form S-8 filed July 24, 2001)
10.2*	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 10-K filed March 30, 2005)
10.3*	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Form 10-K filed March 30, 2005)

10.4*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with The Northwestern Mutual Life Insurance Company entered into with each of Robert F. Shuford, Sr., Louis G. Morris, Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 30, 2005)
10.5*	Directors' Compensation
10.6*	Base Salaries of Executive Officers of the Registrant
10.7*	Summary of Old Point Financial Corporation Incentive Plan (incorporated by reference to Exhibit 10.7 to Form 10-K filed March 30, 2015)
10.8*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with each of Louis G. Morris, Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 14, 2008)
10.9	Memorandum of Understanding between The Old Point National Bank of Phoebus and Tidewater Mortgage Services, Inc., dated September 10, 2007 (incorporated by reference to Exhibit 10.8 to Form 10-Q filed November 9, 2007)
10.10*	Form of 162 Insurance Plan (incorporated by reference to Exhibit 10.10 to Form 10-K filed March 12, 2009)
10.11*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with Joseph R. Witt (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 12, 2010)
10.12*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with New York Life Insurance and Annuity Corporation entered into with Eugene M. Jordan, II, Robert F. Shuford, Jr., and Joseph R. Witt (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 30, 2012)
10.13*	Separation Agreement and General Release by and between Louis G. Morris and Old Point Financial Corporation and The Old Point National Bank of Phoebus, dated September 8, 2015 (incorporated by reference to Exhibit 10.13 to Form 10-Q filed November 9, 2015)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Form 10-K filed March 30, 2005)
23	Consent of Yount, Hyde & Barbour, P.C.
24	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Old Point Financial Corporation's annual report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Stockholders' Equity, (v)

Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

* Denotes management contract.

SIGNATURES

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

OLD POINT
FINANCIAL
CORPORATION

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

Date: March 11, 2016

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

/s/Robert F. Shuford, Sr. Robert F. Shuford, Sr.	Chairman, President & Chief Executive Officer and Director Principal Executive Officer
Date: March 11, 2016	
/s/Laurie D. Grabow Laurie D. Grabow	Chief Financial Officer & Senior Vice President/Finance Principal Financial & Accounting Officer
Date: March 11, 2016	
/s/Stephen C. Adams* Stephen C. Adams	Director
/s/James Reade Chisman* James Reade Chisman	Director
/s/Russell S. Evans, Jr.* Russell S. Evans, Jr.	Director
/s/Michael A. Glasser* Michael A. Glasser	Director
/s/Dr. Arthur D. Greene* Dr. Arthur D. Greene	Director
/s/John Cabot Ishon* John Cabot Ishon	Director
/s/Tom B. Langley* Tom B. Langley	Director

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

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

Date: March 11, 2016