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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

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.)

101 East Queen Street, Hampton, Virginia 23669
(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:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $5.00 par value	OPOF	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

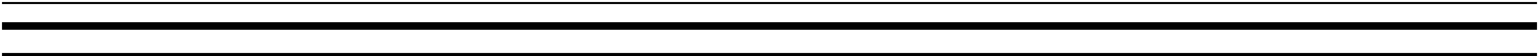
Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 28, 2019 (the last business day of the Company’s most recently completed second fiscal quarter) was $84,024,047 based on the closing sales price on the NASDAQ Capital Market of $22.06.

There were 5,200,896 shares of common stock outstanding as of March 12, 2020.



DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company’s Annual Meeting of Stockholders to be held on May 26, 2020, 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 2019, the Bank had 19 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, 2019, the Company had assets of $1,054.5 million, gross loans of $747.9 million, deposits of $889.5 million, and stockholders' equity of $109.8 million. At year-end, the Company and its subsidiaries had a total of 297 employees, 10 of whom were part-time.

STRATEGIC ACQUISITION

On April 1, 2018, the Company acquired Citizens National Bank (Citizens). Under the terms of the merger agreement, Citizens stockholders received 0.1041 shares of Company common stock and $2.19 in cash for each share of Citizens stock. Systems integration was completed in May 2018.

MARKET AREA AND COMPETITION

The Company's market area is located in Hampton Roads, situated in the southeastern corner of Virginia and boasting the world's largest natural deepwater harbor. The Hampton Roads Metropolitan Statistical Area (MSA) is the 37th most populous MSA in the United States according to the U.S. Census Bureau's 2010 census and the 3rd 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 57 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. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with customers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because nonbank financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. The Company also faces competitive pressure from large credit unions in the area. The three largest credit unions headquartered in the Hampton Roads MSA are Langley Federal Credit Union, Chartway Federal Credit Union, and Newport News Shipbuilding Employees' Credit Union.

The Company continues to build a strong presence in the business banking market, as well as expanding into other fee-based lines of business. In 2017, the Company purchased full ownership of Old Point Mortgage, LLC and launched Old Point Insurance, LLC. Through these comprehensive business services and new lines of business, the Company is able to service a highly lucrative market that offers increased opportunities for new fee-based revenue streams and to cross sell additional products.

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 Company's SEC filings can also be obtained on the SEC's website on the Internet at www.sec.gov.

REGULATION AND SUPERVISION

General. Bank holding companies, banks and their affiliates are extensively regulated under both federal and state law. The following summary briefly describes significant provisions of currently applicable federal and state laws and certain regulations and the potential impact of such provisions. This summary is not complete and is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals. Because regulation of financial institutions changes regularly and is the subject of constant legislative and regulatory debate, no assurance can be given as to forecast how federal and state regulation and supervision of financial institutions may change in the future and affect the Company's and the Bank's operations.

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.

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 regulations promulgated by the Comptroller at 12 C.F.R. Part 9 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.

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.

Regulatory Reform. The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other events led to the adoption of numerous laws and regulations that apply to, and focus on, financial institutions. The most significant of these laws is the Dodd-Frank Act, which was enacted on July 21, 2010 and, in part, was intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including the Company and the Bank. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the EGRRCPA) was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion as well as for larger banks with assets above $50 billion. In addition, the EGRRCPA included regulatory relief for community banks regarding regulatory examination cycles, call reports, application of the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, qualified mortgages, and risk weights for certain high-risk commercial real estate loans. However, federal banking regulators retain broad discretion to impose additional regulatory requirements on banking organizations based on safety and soundness and U.S. financial system stability considerations.

The Company continues to experience ongoing regulatory reform. These regulatory changes could have a significant effect on how the Company conducts its business. The specific implications of the Dodd-Frank Act, the EGRRCPA, and other potential regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are to be adopted in the future. Certain aspects of the Dodd-Frank Act and the EGRRCPA 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 Capital 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 of other capital instruments, principally 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 Capital 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 Capital Rules and minimum capital ratios required to be maintained by banks were effective on January 1, 2015. The Basel III Capital Rules also include a requirement that banks maintain additional capital, or a capital conservation buffer (as described below) which was phased in beginning January 1, 2016 and became fully phased in as of January 1, 2019. As fully phased in, the Basel III Capital 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, 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, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (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, effectively resulting in a minimum total capital ratio of 10.5%) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Capital 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.

Community Bank Leverage Ratio. As a result of the EGRRCPA, the federal banking agencies were required to develop a Community Bank Leverage Ratio (the ratio of a bank's tangible equity capital to average total consolidated assets) for banking organizations with assets of less than $10 billion, such as the Bank. On October 29, 2019, the federal banking agencies issued a final rule that implements the Community Bank Leverage Ratio Framework (the "CBLRF"). To qualify for the CBLRF, a bank must have less than $10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9%. A bank that elects the CBLRF and has a leverage ratio greater than 9% will be considered to be in compliance with the Basel III capital requirements and exempt from the complex Basel III risk-based capital calculations, and will also be deemed "well capitalized" under the prompt corrective action regulations. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided its leverage ratio remains above 8% (a bank will be deemed well-capitalized during the grace period). The CBLRF will be available for banking organizations to use as of March 31, 2020 (with the flexibility for banking organizations to subsequently opt into or out of the CBLRF, as applicable). The Company is evaluating whether to opt in.

Small Bank Holding Company. The EGRRCPA also expanded the category of bank holding companies that may rely on the FRB's Small Bank Holding Company Policy Statement by raising the maximum amount of assets a qualifying bank holding company may have from $1 billion to $3 billion. In addition to meeting the asset threshold, a bank holding company must not engage in significant nonbanking activities, not conduct significant off-balance sheet activities, and not have a material amount of debt or equity securities outstanding and registered with the SEC (subject to certain exceptions). The FRB may, in its discretion, exclude any bank holding company from the application of the Small Bank Holding Company Policy Statement if such action is warranted for supervisory purposes.

In August 2018, the FRB issued an interim final rule to apply the Small Bank Holding Company Policy Statement to bank holding companies with consolidated total assets of less than $3 billion. The policy statement, which, among other things, exempts certain bank holding companies from minimum consolidated regulatory capital ratios that apply to other bank holding companies. As a result of the interim final rule, which was effective August 30, 2018, the Company expects that it will be treated as a small bank holding company and will no longer be subject to regulatory capital requirements. The comment period on the interim final rule closed on October 29, 2018 and, to date, the FRB. The Bank remains subject to the regulatory capital requirements described above.

Insurance of Accounts, Assessments and Regulation by the FDIC. The Bank's deposits are insured by the DIF of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. The basic limit on FDIC deposit insurance coverage is $250,000 per depositor. Under the 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.

Deposit Insurance Assessments. The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets less average tangible equity (defined as Tier 1 capital). The Dodd-Frank Act required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020, and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. On June 30, 2019, the DIF reserve ratio reached 1.40%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the 2020 deadline. Banks with assets of less than $10 billion were awarded assessment credits for their portion of their assessments that contributed to the growth in the reserve ratio. The FDIC applied these credits to assessment invoices beginning in the second quarter assessment period of 2019. The Company's total assessment credit was $250 thousand.

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

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

Federal Home Loan Bank of Atlanta. The Bank is a member of the Federal Home Loan Bank (FHLB) of Atlanta, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. Additional information related to the Bank's FHLB stock can be found in Note 17: Fair Value Measurements of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data," of this report on Form 10-K.

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. At its last evaluation in 2019, the Bank received an "Outstanding" CRA rating.

In December 2019, the FDIC and the Office of the Comptroller of the Currency jointly proposed rules that would significantly change existing CRA regulations. The proposed rules are intended to increase bank activity in low and moderate-income communities where there is significant need for credit, more responsible lending, greater access to banking services, and improvements to critical infrastructure. The proposals change four key areas: (i) clarifying what activities qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping, and reporting. The Company is evaluating what impact this proposed rule, if implemented, may have.

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

In August 2018, the CFPB published its final rule to update Regulation P pursuant to the amended Gramm-Leach-Bliley Act. Under this rule, certain qualifying financial institutions are not required to provide annual privacy notices to customers. To qualify, a financial institution must not share nonpublic personal information about customers except as described in certain statutory exceptions which do not trigger a customer's statutory opt-out right. In addition, the financial institution must not have changed its disclosure policies and practices from those disclosed in its most recent privacy notice. The rule sets forth timing requirements for delivery of annual privacy notices in the event that a financial institution that qualified for the annual notice exemption later changes its policies or practices in such a way that it no longer qualifies for the exemption.

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

Although these laws and programs impose compliance costs and create privacy obligations and, in some cases, reporting obligations, and compliance with all of the laws, programs, and privacy and reporting obligations may require significant resources of the Company and the Bank, these laws and programs do not materially affect the Bank's products, services or other business activities.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Company, the Bank or Trust fails to meet the expectations set forth in this regulatory guidance, the Company, the Bank or Trust could be subject to various regulatory actions and any remediation efforts may require significant resources. In addition, all federal and state bank regulatory agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

In October 2016, the federal banking agencies issued proposed rules on enhanced cybersecurity risk-management and resilience standards that would apply to very large financial institutions and to services provided by third parties to these institutions. The comment period for these proposed rules has closed and a final rule has not been published. Although the proposed rules would apply only to bank holding companies and banks with $50 billion or more in total consolidated assets, these rules could influence the federal banking agencies' expectations and supervisory requirements for information security standards and cybersecurity programs of smaller financial institutions, such as the Company, the Bank and Trust.

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

The CFPB is the federal regulatory agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services and has rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth in Lending Act and the Real Estate Settlement Procedures Act). As a smaller institution (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the FRB and to the Bank and Trust by the Comptroller. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's prudential regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and banks, could influence how the FRB and Comptroller apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB's consumer protection activities on the Company cannot be forecast. As of January 1, 2019, the Company and the Bank are not subject to the direct supervision of the CFPB.

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, 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. Under the EGRRCPA, most residential mortgages loans originated and held in portfolio by a bank with less than $10 billion in assets will be designated as “qualified mortgages.” Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Bank does not originate first mortgage loans at this time, and the first mortgages it purchases comply with Regulation Z's "qualified mortgage" rules. The Bank does originate second mortgages, or equity loans, and these loans do not conform to the qualified mortgage criteria but comply with applicable ability-to-repay rules.

Volcker Rule. The Dodd-Frank Act prohibits bank holding companies and their subsidiary banks from engaging in proprietary trading except in limited circumstances, and places limits on ownership of equity investments in private equity and hedge funds (the Volcker Rule). The EGRRCPA exempted all banks with less than $10 billion in assets (including their holding companies and affiliates) from the Volcker Rule, provided that the institution has total trading assets and liabilities of five percent or less of total assets, subject to certain limited exceptions. In December 2018, the federal banking agencies invited public comment on a proposal to exclude community banks from the application of the Volcker Rule. The Company believes that its financial condition and its operations are not and will not be significantly affected by the Volcker Rule, amendments thereto, or its implementing regulations.

Call Reports and Examination Cycle. All institutions, regardless of size, submit a quarterly call report that includes data used by federal banking agencies to monitor the condition, performance, and risk profile of individual institutions and the industry as a whole. The EGRRCPA contained provisions expanding the number of regulated institutions eligible to use streamline call report forms. In November 2018, the federal banking agencies issued a proposal to permit insured depository institutions with total assets of less than $5 billion that do not engage in certain complex or international activities to file the most streamlined version of the quarterly call report, and to reduce data reportable on certain streamlined call report submissions.

In December 2018, consistent with the provisions of the EGRRCPA, the federal banking agencies jointly adopted final rules that permit banks with up to $3 billion in total assets, that received a composite CAMELS rating of “1” or “2,” and that meet certain other criteria (including not having undergone any change in control during the previous 12-month period, and not being subject to a formal enforcement proceeding or order), to qualify for an 18-month on-site examination cycle.

Future Regulation. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank (or Trust) could have a material effect on our business.

Item 1A. Risk Factors

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

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

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

The Company generally seeks to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period so that it may reasonably maintain its net interest margin; however, interest rate fluctuations, loan prepayments, loan production, deposit flows, and competitive pressures are constantly changing and influence the ability to maintain a neutral position. Generally, the Company's earnings will be more sensitive to fluctuations in interest rates depending upon the variance in volume of assets and liabilities that mature and re-price in any period. The extent and duration of the sensitivity will depend on the cumulative variance over time, the velocity and direction of changes in interest rates, shape and slope of the yield curve, and whether the Company is more asset sensitive or liability sensitive. Accordingly, the Company may not be successful in maintaining a neutral position and, as a result, the Company's net interest margin may be affected. For additional details, See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Sensitivity" in Item 7 of this report on Form 10-K.

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

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

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

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

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

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

Weaknesses in the commercial real estate markets could negatively affect the Company's financial performance due to the Company's concentration in commercial real estate loans. At December 31, 2019, the Company had $344.1 million, or 46.0%, of total loans concentrated in commercial real estate, which includes, for purposes of this concentration, all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties. Commercial real estate loans expose the Company to a greater risk of loss than residential real estate and consumer loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Consequently, an adverse development with respect to one commercial real estate loan or credit relationship exposes the Company to a significantly greater risk of loss compared to an adverse development with respect to one residential real estate loan. Commercial real estate loans carry risks associated with the successful operation of a business if the properties are owner occupied. If the properties are non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts. Repayment of commercial real estate loans may, to a greater extent than residential real estate loans, be subject to adverse conditions in the real estate market or economy. Weak economic or market conditions may impair a borrower's business operations, slow the execution of new leases and lead to turnover in existing leases. The combination of these factors could result in deterioration in value of some of the Company's loans. The deterioration of one or more of the Company's significant commercial real estate loans could cause a significant increase in nonaccrual loans. An increase in nonaccrual loans could result in a loss of interest income from those loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial performance.

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

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

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

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

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

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

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

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

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

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

The Company does originate first mortgage loans. TRID also applies to second mortgages originated by the Company (but not to equity lines of credit). In recent years, the Company has 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 Capital 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 Capital Rules began to be phased in beginning in 2015. The Basel III Capital Rules, fully phased in as of January 1, 2019, 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 additional compliance burdens for the Company and the Bank. The Basel III Capital Rules 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 Capital 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 (ALL) to provide for loan defaults and non-performance. Accounting measurements related to impairment and the allowance for loan losses require significant estimates that are subject to uncertainty and changes relating to new information and changing circumstances. The allowance for loan losses may not be adequate to cover actual loan losses. In addition, future provisions for loan losses could materially and adversely affect, and have in recent years materially and adversely affected, the Company's operating results.

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

Additionally, the measure of the Company's ALL is dependent on the adoption and interpretation of accounting standards. In June 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." Under this ASU, the current incurred loss credit impairment methodology will be replaced with the CECL model, a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Accordingly, the implementation of the CECL model will change the Company's current method of providing ALL and may result in material changes in the Company's accounting for credit losses on financial instruments. The CECL model may create more volatility in the Company's level of ALL. If the Company is required to materially increase its level of ALL for any reason, such increase could adversely affect its business, financial condition, and results of operations. At the FASB's October 16, 2019 meeting, the FASB Board affirmed its decision to amend the effective date of this ASU for many companies. Public business entities that are SEC filers, excluding those meeting the smaller reporting company definition, will retain the initial required implementation date of fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. See Note 1 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" contained in Item 8 of this Form 10-K for information regarding the Company's implementation of CECL.

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

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

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

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

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

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

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

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

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

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

Natural disasters, severe weather events, acts of war or terrorism, pandemics or endemics, climate change and other external events could significantly impact our business. Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, pandemics or endemics and other adverse external events could have a significant adverse impact on the business operations of the Company, third parties who perform operational services for the Company or its customers and the Company's borrowers and customers. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The potential effects of the 2019 novel coronavirus (or "COVID-19") outbreak on international trade (including supply chains and export levels), travel, employee productivity and other economic activities, and concerns regarding the extent that COVID-19 may spread, may have a destabilizing effect on financial markets and economic activity and may increasingly affect international trade (including supply chains and export levels), travel, employee productivity and other economic activities. COVID-19 has the potential to negatively impact the Company's and its customers' costs, demand for the Company's products and services, and the U.S. economy or certain sectors thereof and, thus, adversely affect the Company's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Company's branch offices or the offices or other businesses of the Company's customers, which could significantly disrupt the Company's operations and the operations of the Company's customers. The extent of the adverse impact of the COVID-19 outbreak on the Company cannot be predicted at this time.

COVID-19 and similar events and disputes, domestic and international, have adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%, and the Federal Reserve has announced it will purchase U.S. Treasury bills into the second quarter of 2020, conduct overnight repurchase agreement operations at least through April 2020, and continue to reinvest principal received on the Federal Reserve's securities portfolio. The Federal Reserve has also reduced the interest it pays on excess reserves from 1.60% to 1.10%. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's 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 20.59% of the Company's common stock as of June 30, 2019. Consequently, if they vote their shares in concert, they can significantly influence the outcome of matters submitted to the Company's stockholders for approval, including the election of directors. The interests of the Company's directors and executive officers may conflict with the interests of other holders of the Company's common stock, and the Company's directors and executive officers may take actions affecting the Company with which other holders of the Company's common stock disagree.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2019, the Company owned and leased buildings in the normal course of business. It owns its main office, which represents its corporate headquarters and includes a branch at 101 East Queen Street, Hampton, Virginia. As of March 12, 2020, the Bank operated nineteen branches in the Hampton Roads area of Virginia.

For more information concerning the amounts recorded for premises and equipment and commitments under current leasing agreements, see Note 7 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.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Name (Age) And Present Position	Served in Current Position Since	Principal Occupation During Past Five Years
Robert F. Shuford, Jr. (55) Chairman, President & Chief Executive Officer Old Point Financial Corporation	2015	Chairman of the Board, President & Chief Executive Officer of the Company and the Bank since 2020. Executive Vice President/Bank of the Company since 2015; Chief Operating Officer & Senior Vice President/Operations of the Company from 2003 to 2015 President & Chief Executive Officer of the Bank since 2015; Senior Executive Vice President & Chief Operating Officer of the Bank from 2012 to 2015; Executive Vice President & Chief Operating Officer of the Bank from 2003 to 2012; Chairman of the Board of the Bank
Elizabeth T. Beale (47) Chief Financial Officer & Senior Vice President/Finance Old Point Financial Corporation	2019	Chief Financial Officer & Senior Vice President/Finance of the Company; a Certified Public Accountant; Senior Vice President & Chief Accounting Officer of the Bank from 2018 to 2019; Executive Vice President and Chief Financial Officer for Citizens National Bank (formerly CNB Bancorp, Inc.) from 2003 to 2018; corporate accountant for James River Bankshares from 1995 to 2000. Chief Financial Officer & Executive Vice President of the Bank
Donald S. Buckless (55) Chief Lending Officer & Senior Vice President Old Point Financial Corporation	2016	Chief Lending Officer & Senior Vice President of the Company since 2016 Chief Lending Officer & Executive Vice President of the Bank since 2016; Chief Lending Officer & Senior Vice President of the Bank from 2015 to 2016; Senior Vice President/Commercial Lending Officer of the Bank from May 2012 to 2015; Senior Vice President of SunTrust from December 2000 to May 2012
Thomas L. Hotchkiss (64) Chief Credit Officer & Executive Vice President Old Point National Bank	2019	Chief Credit Officer & Executive Vice President of the Bank since 2019; Chief Credit Officer of finanical institution in Maryland from February 2015 to February 2019; Managing director of Hotchkiss & Associates Analytics, LLC from June 2011 to January 2015
Eugene M. Jordan, II (65) Secretary to the Board & Executive Vice President/Trust Old Point Financial Corporation	2003	Secretary to the Board & Executive Vice President/Trust of the Company since 2015; Executive Vice President/ Trust of the Company from 2003 to 2015 President and Chief Executive Officer of Trust since 2003; Chairman of the Trust Board
Susan R. Ralston (56) Chief Operating Officer & Executive Vice President Old Point National Bank	2019	Chief Operating Officer & Executive Vice President of the Bank since 2019; President & Founder of Ralston Coaching and Consulting, LLC from 2018 to 2019; Chief Operating Officer & Senior Vice President of Dollar Bank from 2016 to 2018; President & Chief Executive Officer of Bank @lantec from 2004 to 2016
Joseph R. Witt (59) Executive Vice President/Financial Service Old Point Financial Corporation	2008	Executive Vice President/Financial Services beginning in 2020. Chief Business Development Officer & Senior Vice President of the Company since 2015; Chief Administrative Officer & Senior Vice President/Administration of the Company from 2012 to 2015; Senior Vice President/ Corporate Banking/Human Resources of the Company from 2010 to 2012; Senior Vice President/Corporate Banking of the Company from 2008 to 2010 Chief Strategy Officer & President, Financial Services of the Bank beginning in 2020; Senior Executive Vice President & Chief Business Development Officer of the Bank since 2015; Senior Executive Vice President & Chief Administrative Officer of the Bank from 2012 to 2015; Executive Vice President/ Corporate Banking & Human Resources Director of the Bank from 2010 to 2012

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 6, 2020 was 1,628. On that date, the closing price of the Company’s common stock on the NASDAQ Capital Market was $23.96. Additional information related to restrictions on funds available for dividend declaration can be found in Note 18 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 2019. There is currently no stated expiration date for this program.

Pursuant to the Company’s equity compensation plans, participants may exercise stock options by surrendering shares of the Company’s common stock that the participants already own. Additionally, participants may also surrender shares upon the vesting of restricted stock awards to pay certain taxes. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable awards. No such repurchases occurred during 2019.

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)	**2019**	**2018**	**2017**	**2016**	**2015**
RESULTS OF OPERATIONS					
Interest income	$ 40,241	$ 38,219	$ 32,934	$ 29,826	$ 30,295
Interest expense	6,422	4,969	3,012	2,574	3,632
Net interest income	33,819	33,250	29,922	27,252	26,663
Provision for loan losses	318	2,861	4,160	1,930	1,025
Net interest income after provision for loan losses	33,501	30,389	25,762	25,322	25,638
Noninterest income	14,077	13,309	13,307	12,746	12,382
Noninterest expenses	38,638	38,500	39,195	34,111	34,332
Income before income taxes	8,940	5,198	(126)	3,957	3,688
Income tax expense	1,080	279	(97)	160	54
Net income (loss)	$ 7,860	$ 4,919	$ (29)	$ 3,797	$ 3,634
FINANCIAL CONDITION					
Total assets	$ 1,054,488	$ 1,038,183	$ 981,826	$ 902,966	$ 896,787
Securities available for sale, at fair value	145,715	148,247	157,121	199,365	214,192
Loans held for investment	747,865	774,009	738,540	603,882	568,475
Allowance for loan losses	9,660	10,111	9,448	8,245	7,738
Deposits	889,496	843,144	783,594	784,502	746,471
Total borrowings	50,402	88,325	98,193	18,704	50,950
Total liabilities	944,732	936,177	885,438	808,976	803,611
Stockholders' equity	109,756	102,006	96,388	93,990	93,176
PERTINENT RATIOS					
Return on average assets	0.76%	0.48%	0.00%	0.43%	0.41%
Return on average equity	7.33%	4.93%	-0.03%	3.99%	4.02%
Net interest margin (FTE) (1)	3.61%	3.62%	3.64%	3.66%	3.56%
Efficiency ratio	80.67%	82.69%	90.67%	85.28%	87.93%
Tier 1 capital (to risk weighted assets) (2)	11.73%	10.90%	11.18%	13.39%	13.78%
Total capital (to risk weighted assets) (2)	12.86%	12.06%	12.28%	14.51%	14.89%
Leverage Ratio (2)	9.73%	9.34%	9.98%	10.68%	10.93%
Cash dividends declared	$ 0.48	$ 0.44	$ 0.44	$ 0.40	$ 0.34
ASSET QUALITY					
Nonaccrual loans	$ 6,037	$ 12,141	$ 12,882	$ 7,159	$ 4,582
OREO	-	83	-	1,067	2,741
ALL/total outstanding loans	1.29%	1.31%	1.28%	1.37%	1.36%
Nonaccrual loans/total loans	0.81%	1.57%	1.74%	1.19%	0.81%
ALL/nonaccrual loans	160.01%	83.28%	73.34%	115.17%	168.88%
NPAs/total outstanding loans	0.95%	1.90%	2.18%	1.84%	1.88%
Net charge-offs/total average loans	0.10%	0.29%	0.44%	0.24%	0.06%
Provision/total average loans	0.04%	0.37%	0.62%	0.33%	0.18%
PER SHARE DATA					
Basic earnings (loss) per share	$ 1.51	$ 0.96	$ (0.01)	$ 0.77	$ 0.73
Diluted earnings (loss) per share	1.51	0.96	(0.01)	0.77	0.73
Cash dividends declared	0.48	0.44	0.44	0.40	0.34
Market value per share	27.49	21.83	29.75	25.00	17.16
Book value per share	21.11	19.68	19.20	18.94	18.79
Price to earnings ratio, diluted	18.18	22.74	(2,975.00)	32.47	23.51
Price to book value ratio	1.30	1.11	1.55	1.32	0.91
Dividend payout ratio	31.74%	45.83%	-4400.00%	51.95%	46.58%
Weighted average shares outstanding, basic	5,196,812	5,141,364	4,991,060	4,959,173	4,959,009
Weighted average shares outstanding, diluted	5,196,853	5,141,429	4,991,060	4,960,934	4,959,009

(1) Computed on a fully tax-equivalent basis using 21% rate for 2019 and 2018 and a 34% rate for 2017, 2016, and 2015.
(2) Bank only for 2019 and 2018. Consolidated for 2017, 2016, and 2015.

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

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

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, including the focus on reducing time deposits; the net interest margin; strategies for managing the net interest margin and the expected impact of such efforts; levels and sources of liquidity; the loan portfolio and expected trends in the quality of the loan portfolio; the allowance and provision for loan losses; the effect of a sustained increase in nonperforming assets; the securities portfolio; monetary policy actions of the Federal Open Market Committee; changes in interest rates; interest rate sensitivity; asset quality; levels of net loan charge-offs and nonperforming assets; sales of OREO properties; levels of interest expense; levels and components of noninterest income and noninterest expense; lease expense; income taxes; expected impact of efforts to restructure the balance sheet; expected yields on the loan and securities portfolios; expected rates on interest-bearing liabilities; market risk; future impacts of the Tax Cuts and Jobs Act (the Tax Act) on the Company's operations; 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 are not limited to, effects of or changes in interest rates and yields; general economic and general business conditions, including unemployment levels; demand for loan products; future levels of government defense spending, particularly in the Company's service area; uncertainty over future federal spending or the budget priorities of the current presidential administration, particularly in connection with the Department of Defense, on the Company's service area; the Tax Act, including, but not limited to, the effect of the lower corporate income tax rate, including on the valuation of the Company's tax assets and liabilities; the transfer of the securities portfolio from held-to-maturity securities to available-for-sale securities; the quality or composition of the loan or securities portfolios; changes in the volume and mix of interest-earning assets and interest-bearing liabilities; the effects of management's investment strategy and strategy to manage the net interest margin; the adequacy of the Company's credit quality review processes; the level of nonperforming assets and related charge-offs and recoveries; turnover times experienced by the mortgage companies to which the Company has extended warehouse lines of credit; the performance of the Company's re-opened indirect automobile dealer lending program; the federal government's guarantee of repayment of student and small business loans purchased by the Company; the ability of the Company to diversify its sources of noninterest income; new incentive structure for securities brokerage activities; the local real estate market; volatility and disruption in national and international financial markets; government intervention in the U.S. financial system; application of the Basel III capital standards to the Company and its subsidiaries; FDIC premiums and/or assessments; demand for loan and other banking products and financial services in the Company's primary service area; levels of noninterest income and expense; deposit flows; competition; the use of inaccurate assumptions in management's modeling systems; technological risks and developments and cyber-attacks, threats, and events; 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; changes in management; the effects of epidemics and other public health crises, 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 FRB and any changes associated with the current presidential administration.

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, except as otherwise required by law. In addition, past results of operations are not necessarily indicative of future results.

Executive Overview

Headquartered in Hampton, Virginia, the Company is the parent company of Trust and the Bank. Trust is a wealth management services provider. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and commercial customers. The Bank is an independent community bank and has 19 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.

Net income for 2019 was $7.9 million ($1.51 per diluted share) compared to $4.9 million ($0.96 per diluted share) in 2018. The $2.9 million increase in net income year over year was primarily attributable to increased non-interest income of $768 thousand, a slight increase in net interest income, as well as reduced provision for loan loss expense. Net income in 2018 was impacted by significantly higher levels of provision expense as well as merger expense related to the Citizens acquisition.

Assets as of December 31, 2019 were $1.05 billion, an increase of $16.3 million or 1.57% compared to assets as of December 31, 2018. During 2018, the Company experienced significant growth largely as a result of the Citizens acquisition, which was completed on April 1, 2018. Net loans held for investment decreased $25.7 million, or 3.36%, over the year, while securities available for sale declined $2.5 million, cash and cash equivalents increased $47.6 million, and FHLB advances decreased $23.0 million.

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

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

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

For loans not individually evaluated for impairment, the loan portfolio is segmented into pools, based on the loan classifications as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report) and collectively evaluated for impairment. Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1-29 days past due), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company’s internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2019 and December 31, 2018, 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.

Results of Operations

In 2019, the Company's net income increased $2.9 million to net income of $7.9 million, as compared to $4.9 million in 2018. The increase was primarily attributable to slightly higher net interest income, increased non-interest income of $768 thousand, and a reduced provision for loan loss expense. Net income in 2018 was impacted by significantly higher levels of provision expense as well as merger expense related to the Citizens acquisition. As of December 31, 2019 return on average assets was 0.76% compared to 0.48% in 2018 and the return on average equity was 7.33% at December 31, 2019 compared to 4.93% in 2018.

Assets as of December 31, 2019 were $1.05 billion, an increase of $16.3 million or 1.57% compared to assets as of December 31, 2018. Net loans held for investment decreased $25.7 million, or 3.36%, over the year, while securities available for sale declined $2.5 million, cash and cash equivalents increased $47.6 million, and FHLB advances decreased $23.0 million. During 2018, the Company experienced significant growth largely as a result of the Citizens acquisition, which was completed on April 1, 2018.

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 $34.1 million in 2019, an increase of $438 thousand from 2018. The net interest margin was 3.61% in 2019 as compared to 3.62% in 2018. The increase in net interest income year-over-year was primarily due to higher average earnings assets with higher average yields slightly outweighing higher funding costs.

When comparing 2019 to 2018, the following changes occurred. Tax equivalent interest income increased $1.9 million, or 4.90%. Average earning assets increased $13.9 million, or 1.50%. The average tax-equivalent yield increased 14 basis points to 4.29%. Total average loans decreased $11.3 million, or 1.47%, and average investment securities increased $177 thousand, or 0.12%. The decrease in average loans was primarily attributable to a planned reduction in indirect automobile dealer lending as well as resolution of significant non-performing assets. Interest bearing due from banks increased $25.2 million as a result of decreased loan funding and reduced yield availability in the investment market.

Average interest-bearing liabilities increased $564 thousand, or 0.08%, however interest-bearing deposits increases of $22.4 million were offset by a $21.9 million reduction in FHLB advances and repurchase agreements and other borrowings. Total interest expense increased $1.5 million, or 29.24%, when comparing 2019 to 2018. The increase was driven by increased deposit and borrowing costs. The average rate on interest-bearing liabilities in 2019 was 0.94%, an increase of 21 basis points from 2018.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME AND RATES

	For the years ended December 31,					
	2019			2018		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
ASSETS						
Loans*	$ 757,677	$ 35,771	4.72%	$ 768,960	$ 34,504	4.49%
Investment securities:						
Taxable	116,930	2,827	2.42%	95,752	2,080	2.17%
Tax-exempt*	29,425	955	3.25%	50,426	1,547	3.07%
Total investment securities	146,355	3,782	2.58%	146,178	3,627	2.48%
Interest-bearing due from banks	34,592	689	1.99%	9,358	198	2.12%
Federal funds sold	1,546	31	2.01%	1,150	21	1.83%
Other investments	3,484	221	6.36%	4,083	253	6.20%
Total earning assets	943,654	$ 40,494	4.29%	929,729	$ 38,603	4.15%
Allowance for loan losses	(10,562)			(10,254)		
Other nonearning assets	105,422			101,100		
Total assets	$1,038,514			$ 1,020,575		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Time and savings deposits:						
Interest-bearing transaction accounts	$ 32,603	$ 11	0.03%	$ 28,246	$ 10	0.04%
Money market deposit accounts	257,884	1,037	0.40%	242,025	542	0.22%
Savings accounts	86,787	88	0.10%	87,534	76	0.09%
Time deposits	231,774	3,845	1.66%	228,800	2,916	1.27%
Total time and savings deposits	609,048	4,981	0.82%	586,605	3,544	0.60%
Federal funds purchased, repurchase agreements and other borrowings	22,302	132	0.59%	28,427	131	0.46%
Federal Home Loan Bank advances	50,397	1,309	2.60%	66,151	1,294	1.96%
Total interest-bearing liabilities	681,747	6,422	0.94%	681,183	4,969	0.73%
Demand deposits	245,518			236,249		
Other liabilities	3,947			3,378		
Stockholders' equity	107,302			99,765		
Total liabilities and stockholders' equity	$1,038,514			$ 1,020,575		
Net interest margin		$ 34,072	3.61%		$ 33,634	3.62%

*Computed on a fully tax-equivalent basis using a 21% rate, adjusting interest income by $253 thousand and $384 thousand, respectively.

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*

(dollars in thousands)	2019 vs. 2018 Increase (Decrease) Due to Changes in: Volume	Rate	Total
EARNING ASSETS			
Loans	$ (520)	$ 1,787	$ 1,267
Investment securities:			
Taxable	457	290	747
Tax-exempt	(645)	53	(592)
Total investment securities	(188)	343	155
Federal funds sold	7	3	10
Other investments	827	(368)	459
Total earning assets	126	1,765	1,891
INTEREST-BEARING LIABILITIES			
Interest-bearing transaction accounts	2	(1)	1
Money market deposit accounts	35	460	495
Savings accounts	(1)	13	12
Time deposits	37	892	929
Total time and savings deposits	73	1,364	1,437
Federal funds purchased, repurchase agreements and other borrowings	(28)	29	1
Federal Home Loan Bank advances	(309)	324	15
Total interest-bearing liabilities	(264)	1,717	1,453
Change in net interest income	$ 390	$ 48	$ 438

* Computed on a fully tax-equivalent basis using a 21% rate.

Market Risk
Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. The Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will impact the amount of interest income and expense the Company receives or pays on a significant portion of its assets and liabilities and the market value of its interest-earning assets and interest-bearing liabilities, excluding those which have a very short-term until maturity. Management is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to this risk.

Three complementary modeling techniques are utilized to measure and monitor the exposure to interest rate risk: static gap analysis, earnings simulation analysis, and economic value of equity (EVE) analysis. Static gap measures the aggregate dollar volume of rate-sensitive assets relative to rate-sensitive liabilities re-pricing over various time horizons. This metric does not effectively capture the re-pricing characteristics or embedded optionality of the Company's assets and liabilities, so it is not relied upon or addressed here. Earnings simulation measures the potential effect of changes in market interest rates on future net interest income. This analysis incorporates management's assumptions for product pricing and pre-payment expectations and is the Company's preferred tool to assess its interest rate sensitivity in the short- to medium-term. The simulation utilizes a "static" balance sheet approach, which assumes that management makes no changes to the composition of the balance sheet to mitigate the impact of interest rate changes. EVE modeling estimates the fair value of assets and liabilities in different interest rate environments using discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. This measure provides an indication of the future earnings capacity of the balance sheet, and the change in EVE over different rate scenarios is a measure of long-term interest rate risk. The Company places less emphasis on EVE results due to the inherent imprecision of cash flow estimations and the limited utility of a static balance sheet assumption over the long-term.

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.

When the Company is liability sensitive, net interest income should improve if interest rates fall since liabilities will reprice faster than assets (depending on the optionality or prepayment speeds of the assets). Conversely, if interest rates rise, net interest income should decline. When the Company is asset sensitive, net interest income should improve if interest rates rise and fall if rates fall. The rate change model assumes that these changes will occur gradually over the course of a year.

The table below shows the Company's interest rate sensitivity for the periods and rate scenarios presented (dollars in thousands):

TABLE III
CHANGE IN NET INTEREST INCOME

	As of December 31,			
	2019		2018	
Change in interest Rates:	**%**	**$**	**%**	**$**
+300 basis points	0.30	105	2.57	921
+200 basis points	0.14	50	1.71	612
+100 basis points	0.14	48	0.78	281
Unchanged	-	-	-	-
-100 basis points	(2.12)	(751)	(1.30)	(466)
-200 basis points	(4.62)	(1,639)	(3.03)	(1,086)

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

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

Provision for Loan Losses

The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the portfolio. This expense is based on management's estimate of probable credit losses inherent 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. Based on its analysis of the adequacy of the allowance for loan losses, management concluded that the provision was appropriate.

The provision for loan losses was $318 thousand for the year ended December 31, 2019 as compared to $2.9 million for 2018. The decline in the provision for loan losses in 2019 versus 2018 was largely due to a decline in loans of $26.1 million, the upgrade of one large classified asset to a pass rating, and declines in past due loans as well as adversely, classified non-performing loans offset somewhat by an increase in specific reserves required on impaired loans. Charged-off loans totaled $1.4 million in 2019, compared to $2.8 million in 2018. Recoveries amounted to $629 thousand in 2019 and $644 thousand in 2018. The Company’s net loans charged off to average loans were 0.10% in 2019 as compared to 0.29% in 2018.

The state of the local economy can have a significant impact on the level of loan charge-offs. If the economy begins to contract, nonperforming assets could increase as a result of declines in real estate values and home sales or increases in unemployment rates and financial stress on borrowers. Increased nonperforming assets would increase charge-offs and reduce earnings due to larger contributions to the loan loss provision.

Noninterest Income

Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2019 and the twelve months ended December 31, 2018.

Noninterest income increased $768 thousand or 5.77% for the year ended December 31, 2019 as compared to the year ended December 31, 2018. In 2019, increases in other service charges, commissions and fees ($378 thousand or 10.66%), and nonrecurring gains on sale of available for sale securities ($194 thousand or 161.67%) were the primary drivers of noninterest income growth.

Aside from the increase in other service charges, commissions and fees and impact of the nonrecurring gain, the other increases in noninterest income were fiduciary and asset management fees ($124 thousand or 3.33%), and mortgage banking income (up $97 thousand or 12.31%). Other service charges, commissions and fees increased primarily due to growth in merchant processing income and debit card fee income.

The Company continues to focus on diversifying noninterest income through efforts to expand Trust, insurance, and mortgage banking activities, and a continued focus on business checking and other corporate services.

Noninterest Expense

Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2019 and the twelve months ended December 31, 2018.

The Company's noninterest expense increased $138 thousand or 0.36%. In 2019, salaries and benefit costs increased $1.4 million or 6.40% which was primarily impacted by the addition of quality staff in lending and credit management, the full inclusion of staff added in connection with the Citizens acquisition, as well as increased incentive compensation accruals. Data processing expenses increased $471 thousand, or 35.49%, as the Company continued to implement process improvement initiatives. Noninterest expense was elevated in 2018 due to merger costs, FDIC insurance costs, data processing and professional services costs related to process improvement initiatives.

Of the remaining categories of noninterest expense, the most significant changes when comparing 2019 to 2018 were in:

- occupancy and equipment (decreased $393 thousand or 6.53%) due to reduced depreciation expense in 2019 as a number of assets became fully depreciated combined with higher than normal expenses in 2018 due to costs related to the Citizens acquisition.
- ATM and other losses declined $116 thousand or 28.50%, primarily due to a single loss event in 2018.
- Other operating expense (decreased $535 thousand or 16.78%) due to a $458 thousand reduction in FDIC insurance expense related to Small Bank Assessment Credits received in 2019 as well as reduced overall premium calculations. Trailing twelve month earnings and level of non-performing assets are significant factors in the insurance assessment rate.

The provision for income taxes is based upon the results of operations, adjusted for the effect of certain tax-exempt income, non-deductible expenses, and tax credits. In addition, certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

The effective tax rates for the years ended December 31, 2019 and 2018 were 12.1% and 5.4%, respectively.

Balance Sheet Review

At December 31, 2019, the Company had total assets of $1.05 billion, an increase of $16.3 million or 1.57% compared to assets as of December 31, 2018.

Net loans held for investment decreased $25.7 million or 3.36%, from $763.9 million at December 31, 2018 to $738.2 million at December 31, 2019. Cash and cash equivalents increased $47.6 million or 112.86% from December 31, 2018 to December 31, 2019, and securities available for sale decreased $2.5 million or 1.71% over the same period. Total deposits increased $46.4 million or 5.50% in 2019.

Asset growth in 2018 was primarily driven by the acquisition of Citizens, which was completed on April 1, 2018. Below is a summary of the transaction and related impact on the Company's Consolidated Balance Sheets.

- The fair value of assets acquired equaled $50.4 million and the fair value of liabilities assumed equaled $44.3 million.
- Loans held for investment acquired totaled $42.8 million, as acquired and at fair value.
- Total deposits assumed totaled $43.8 million with a fair value of $44.0 million.
- Total goodwill arising from the transaction equaled $1.0 million.
- Core deposit intangibles acquired totaled $440 thousand.

Securities Portfolio

When comparing December 31, 2019 to December 31, 2018, securities available-for-sale decreased $2.5 million, or 1.71%. The majority of the change was due to principal curtailments on mortgage-backed securities and calls and maturities of other securities.

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

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

TABLE IV
SECURITIES PORTFOLIO

(Dollars in thousands)	As of December 31, 2019	2018
U.S. Treasury securities	$ 7,003	$ 12,328
Obligations of U.S. Government agencies	33,604	10,714
Obligations of state and policitcal subdivisions	24,742	48,837
Mortgage-backed securities	71,908	71,191
Money market investments	3,825	1,897
Corporate bonds and other securities	4,633	3,280
	145,715	148,247
Restricted securities:		
Federal Home Loan Bank stock	$ 2,502	3,429
Federal Reserve Bank stock	382	382
Community Bankers' Bank stock	42	42
	2,926	3,853
Total Securities	**$ 148,641**	**$ 152,100**

The following table summarizes the contractual maturity of the securities portfolio and their weighted average yields as of December 31, 2019:

(Dollars in thousands)	1 year or less 2019	1-5 years	5-10 years	Over 10 years	Total
U.S. Treasury securities	$ -	$ 7,003	$ -	$ -	$ 7,003
Weighted average yield	-	2.50%	-	-	2.50%
Obligations of U.S. Government agencies	$ 1,198	$ 1,499	$ 5,299	$ 25,608	$ 33,604
Weighted average yield	2.53%	1.91%	2.56%	2.59%	2.56%
Obligations of state and policitcal subdivisions	$ 466	$ 506	$ 4,490	$ 19,280	$ 24,742
Weighted average yield	5.03%	5.05%	3.30%	3.09%	3.20%
Mortgage-backed securities	$ -	$ 5,929	$ 23,166	$ 42,813	$ 71,908
Weighted average yield	-	1.84%	2.32%	2.51%	2.41%
Money market investments	$ 3,825	$ -	$ -	$ -	$ 3,825
Weighted average yield	1.75%	-	-	-	1.75%
Corporate bonds and other securities	$ -	$ 821	$ 3,812	$ -	$ 4,633
Weighted average yield	-	3.07%	5.49%	-	5.06%
Federal Home Loan Bank stock	$ -	$ -	$ -	$ 2,502	$ 2,502
Weighted average yield	-	-	-	6.31%	6.31%
Federal Reserve Bank stock	$ -	$ -	$ -	$ 382	$ 382
Weighted average yield	-	-	-	6.00%	6.00%
Community Bankers' Bank stock	$ -	$ -	$ -	$ 42	$ 42
Weighted average yield	-	-	-	0.00%	0.00%
Total Securities	**$ 5,489**	**$ 15,758**	**$ 36,767**	**$ 90,627**	**$ 148,641**
Weighted average yield	2.20%	2.27%	2.80%	2.75%	2.69%

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 $71.9 million in mortgage-backed securities as of December 31, 2019 was 5.78 years. Yields are calculated on a fully tax-equivalent basis using a 21% rate.

Loan Portfolio

The following table shows a breakdown of total loans by segment at December 31 for years 2015 through 2019:

TABLE V
LOAN PORTFOLIO

(Dollars in thousands)	As of December 31, 2019	2018	2017	2016	2015
Commercial and industrial	$ 75,383	$ 63,398	$ 60,398	$ 54,434	$ 43,197
Real estate-construction	40,716	32,383	27,489	23,116	19,685
Real estate-mortgage (1)	488,194	500,441	465,231	448,408	437,159
Consumer	137,007	169,138	174,225	58,907	50,427
Other	6,565	8,649	11,197	19,017	18,007
Ending Balance	$ 747,865	$ 774,009	$ 738,540	$ 603,882	$ 568,475

(1) The real estate-mortgage segment included 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, 2019, the total loan portfolio decreased by $26.1 million or 3.38% from December 31, 2018, primarily due to increases in commercial and industrial and real estate construction which were offset by reductions in indirect automobile dealer lending and real estate mortgage. 2018 loan growth was attributed in large part to the Citizens acquisition. The Citizens portfolio mainly focused on commercial real estate, construction, and commercial and industrial lending.

The maturity distribution and rate sensitivity of certain categories of the Company's loan portfolio at December 31, 2019 is presented below:

TABLE VI
MATURITY SCHEDULE OF SELECTED LOANS

(Dollars in thousands)	As of December 31, Within 1 year	1 to 5 years	After 5 years	Total
Commercial and industrial	$ 27,190	$ 32,629	$ 15,564	$ 75,383
Real estate-construction	23,771	9,106	7,839	40,716
Total	$ 50,961	$ 41,735	$ 23,403	$ 116,099
Loans due after 1 year with:				
Fixed interest rate		$ 32,513	$ 12,968	$ 45,481
Variable interest rate		9,222	10,435	19,657
Total		$ 41,735	$ 23,403	$ 65,138

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. Refer to Note 5 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report Form 10-K for more information.

Nonperforming assets decreased by $7.6 million or 51.58%, from $14.7 million at December 31, 2018 to $7.1 million at December 31, 2019. The 2019 total consisted of $1.1 million in loans still accruing interest but past due 90 days or more and $6.0 million in nonaccrual loans. Of the $6.0 million in nonaccrual loans, $5.8 million was secured by real estate. All of the nonaccrual loans are classified as impaired. Impaired 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 impairment is identified, then the Company records a charge-off based on the value of the collateral or the present value of the loan’s expected future cash flows, discounted at the loan's effective interest rate. If the Company is waiting on an appraisal to determine the collateral’s value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The recorded investment in impaired loans decreased to $8.4 million as of December 31, 2019 from $16.2 million as of December 31, 2018 as detailed in 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. 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,				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Nonaccrual loans					
Commercial and industrial	$ 257	$ 298	$ 836	$ 231	$ 276
Real estate-construction	-	417	721	-	-
Real estate-mortgage (1)	5,780	11,426	11,325	6,847	4,306
Consumer loans	-	-	-	81	-
Total nonaccrual loans	**$ 6,037**	**$ 12,141**	**$ 12,882**	**$ 7,159**	**$ 4,582**
Loans past due 90 days or more and accruing interest					
Commercial and industrial	$ -	$ -	$ 471	$ -	$ 164
Real estate-construction	-	205	-	-	-
Real estate-mortgage (1)	-	315	306	276	23
Consumer loans (2)	1,091	1,965	2,401	2,603	3,163
Other	-	12	4	5	6
Total loans past due 90 days or more and accruing interest	**$ 1,091**	**$ 2,497**	**$ 3,182**	**$ 2,884**	**$ 3,356**
Restructured loans					
Commercial and industrial	$ 257	$ 217	$ 98	$ 144	$ -
Real estate-construction	88	92	92	96	99
Real estate-mortgage (1)	6,754	12,098	14,781	11,616	11,077
Consumer loans	-	-	-	-	12
Total restructured loans	**$ 7,099**	**$ 12,407**	**$ 14,971**	**$ 11,856**	**$ 11,188**
Less nonaccrual restructured loans (included above)	4,693	8,454	8,561	2,838	2,497
Less restructured loans currently in compliance (3)	2,406	3,953	6,410	9,018	8,691
Net nonperforming, accruing restructured loans	$ -	$ -	$ -	$ -	$ -
Nonperforming loans	**$ 7,128**	**$ 14,638**	**$ 16,064**	**$ 10,043**	**$ 7,938**
Other real estate owned					
Construction, land development, and other land	$ -	$ 83	$ -	$ 940	$ 1,090
1-4 family residential properties	-	-	-	-	724
Nonfarm nonresidential properties	-	-	-	-	927
Former branch site	-	-	-	127	-
Total other real estate owned	$ -	$ 83	$ -	$ 1,067	$ 2,741
Total nonperforming assets	**$ 7,128**	**$ 14,721**	**$ 16,064**	**$ 11,110**	**$ 10,679**
Interest income that would have been recorded under original loan terms on nonaccrual loans above	**$ 283**	**$ 533**	**$ 474**	**$ 318**	**$ 196**
Interest income recorded for the period on nonaccrual loans included above	**$ 115**	**$ 336**	**$ 281**	**$ 269**	**$ 141**

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Amounts listed include student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $885 thousand at December 31, 2019 and $1.7 million at December 31, 2018. For additional information, refer to 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.
(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, 2019 compared to December 31, 2018, the nonaccrual loan category decreased by $6.1 million or 50.28% and the 90-days past due and still accruing interest category decreased by $980 thousand or 39.25%.

The majority of the balance of nonaccrual loans at December 31, 2019 was related to a few large credit relationships. Of the $6.0 million of nonaccrual loans at December 31, 2019, $4.2 million, or approximately 70.03%, was comprised of three credit relationships. All loans in these relationships have been analyzed to determine whether the cash flow of the borrower and the collateral pledged to secure the loans is sufficient to cover outstanding principal balances. The Company has set aside specific allocations for those loans without sufficient cash flow or collateral and charged off any balance that management does not expect to collect.

The majority of the loans past due 90 days or more and still accruing interest at December 31, 2019 ($885 thousand) were student loans. The federal government has provided guarantees of repayment of these student loans in an amount ranging from 97% to 98% of the total principal and interest of the loans; as such, management does not expect even a significant increase in past due student loans to have a material effect on the Company.

Management believes the Company has excellent credit quality review processes in place to identify problem loans quickly. For a detailed discussion of the Company's nonperforming assets, refer to Note 5 and 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.

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

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company 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, 2019 and December 31, 2018, the impaired loan component of the allowance for loan losses amounted to $481 thousand and $116 thousand, respectively. The increase in the impaired loan component is due to a specific impairment on one commercial credit relationship. The impaired loan component of the allowance for loan losses is reflected as a valuation allowance related to impaired loans in 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.

The second component of the allowance consists of qualitative factors and includes items such as economic conditions, growth trends, loan concentrations, changes in certain loans, changes in underwriting, changes in management and legal and regulatory changes.

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

Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1 – 29 days past due), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2019 and December 31, 2018, the Company had no loans in these categories.

The calculation for December 31, 2019 and 2018 was based on eight migration periods covering twelve quarters each. On a combined basis, the historical loss and qualitative factor components amounted to $9.2 million and $10.0 million as of December 31, 2019 and December 31, 2018, respectively. Both the historical loss and qualitative factor components of the allowance are applied to loans evaluated collectively for impairment. The qualitative factor components increased 11 basis points as a percentage of loans evaluated collectively for impairment overall from December 31, 2018 to December 31, 2019. There have been adjustments for volume, concentrations, past due and non-accrual levels, and economic conditions. For the same period, the overall historical loss rate as a percentage of loans evaluated collectively for impairment has improved by 20 basis points.

Acquired loans are recorded at their fair value at acquisition date without carryover of the acquiree's previously established ALL, as credit discounts are included in the determination of fair value. The fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then applying a market-based discount rate to those cash flows. During evaluation upon acquisition, acquired loans are also classified as either acquired impaired or acquired performing.

Acquired impaired loans reflect credit quality deterioration since origination, as it is probable at acquisition that the Company will not be able to collect all contractually required payments. These acquired impaired loans are accounted for under ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The acquired impaired loans are segregated into pools based on loan type and credit risk. Loan type is determined based on collateral type, purpose, and lien position. Credit risk characteristics include risk rating groups, nonaccrual status, and past due status. For valuation purposes, these pools are further disaggregated by maturity, pricing characteristics, and re-payment structure. Acquired impaired loans are written down at acquisition to fair value using an estimate of cash flows deemed to be collectible. Accordingly, such loans are no longer classified as nonaccrual even though they may be contractually past due because the Company expects to fully collect the new carrying values of such loans, which is the new cost basis arising from purchase accounting.

Acquired performing loans are accounted for under ASC 310-20, *Receivables – Nonrefundable Fees and Other Costs*. The difference between the fair value and unpaid principal balance of the loan at acquisition date (premium or discount) is amortized or accreted into interest income over the life of the loans. If the acquired performing loan has revolving privileges, it is accounted for using the straight-line method; otherwise the effective interest method is used.

Overall Change in Allowance

As a result of management's analysis, the Company added, through the provision, $318 thousand to the allowance for loan losses for the year ended December 31, 2019. The allowance for loan losses, as a percentage of year-end loans, was 1.29% in 2019 and 1.31% in 2018. Management believes that the allowance has been appropriately funded for losses on existing loans, based on currently available information. The Company will continue to monitor the loan portfolio, levels of nonperforming assets, and the sustainability of improving asset quality trends experienced in 2019 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
ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

(Dollars in thousands)	As of December 31, 2019	2018	2017	2016	2015
Balance, beginning	$ 10,111	$ 9,448	$ 8,245	$ 7,738	$ 7,075
Charge-offs:					
Commercial and industrial	-	81	807	915	293
Real estate-construction	-	-	-	-	-
Real estate-mortgage (1)	197	1,625	1,934	504	321
Consumer	776	769	279	204	92
Other	425	367	267	147	191
Total charge-offs	1,398	2,842	3,287	1,770	897
Recoveries:					
Commercial and industrial	10	140	37	79	50
Real estate-construction	-	-	104	3	1
Real estate-mortgage (1)	200	158	45	197	393
Consumer	351	262	56	28	39
Other	68	84	88	40	52
Total recoveries	629	644	330	347	535
Net charge-offs	769	2,198	2,957	1,423	362
Provision for loan	318	2,861	4,160	1,930	1,025
Ending Balance	$ 9,660	$ 10,111	$ 9,448	$ 8,245	$ 7,738
Selected loan loss statistics					
Loans (net of unearned income):					
End of period balance	$ 747,865	$ 774,009	$ 738,540	$ 603,882	$ 568,475
Average balance	$ 757,677	$ 768,960	$ 673,015	$ 585,206	$ 563,534
Net charge-offs to average total loans	0.10%	0.29%	0.44%	0.24%	0.06%
Provision for loan losses to average total loans	0.04%	0.37%	0.62%	0.33%	0.18%
Provision for loan losses to net charge-offs	41.35%	130.16%	140.68%	135.63%	283.15%
Allowance for loan losses to period end loans	1.29%	1.31%	1.28%	1.37%	1.36%
Earnings to loan loss coverage (2)	12.04	3.67	1.36	4.14	13.02
Allowance for loan losses to nonperforming loans	135.52%	69.07%	58.81%	82.10%	97.48%

(1) The real estate-mortgage segment included 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. 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.

TABLE IX
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31, 2019		2018		2017		2016		2015	
(Dollars in thousands)	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
Commercial and industrial	$ 1,244	10.08%	$ 2,340	8.19%	$ 1,889	8.18%	$ 1,493	9.16%	$ 633	7.60%
Real estate-construction	258	5.44%	156	4.18%	541	3.72%	846	3.83%	985	3.46%
Real estate-mortgage (1)	6,168	65.28%	5,956	64.66%	5,217	62.99%	5,267	74.25%	5,628	76.90%
Consumer	1,694	18.32%	1,354	21.85%	1,644	23.59%	455	9.61%	279	8.87%
Other	296	0.88%	305	1.12%	157	1.52%	184	3.15%	213	3.17%
Ending Balance	$ 9,660	100.00%	$ 10,111	100.00%	$ 9,448	100.00%	$ 8,245	100.00%	$ 7,738	100.00%

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

For the year ended December 31, 2019 as compared to the year ended December 31, 2018, there was a decrease in the allowance for loan losses due to decreases in outstanding loans, resolution of non-performing loans, and improving asset quality trends. The change in the allowance was distributed among the loan segments based on the composition of loans in each segment. See 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 for further information related to the effect of the change in the calculation method.

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,			
	2019		2018	
(Dollars in thousands)	**Average Balance**	**Average Rate**	Average Balance	Average Rate
Interest-bearing transaction	$ 32,603	0.03%	$ 28,246	0.04%
Money market	257,884	0.40%	242,025	0.22%
Savings	86,787	0.10%	87,534	0.09%
Time deposits	231,774	1.66%	228,800	1.27%
Total interest bearing	609,048	0.82%	586,605	0.60%
Demand	245,518		236,249	
Total deposits	$ 854,566		$ 822,854	

The Company's average total deposits were $854.6 million for the year ended December 31, 2019, an increase of $31.7 million or 3.85% from average total deposits for the year ended December 31, 2018. Other than time deposits, the demand deposit and money market account categories had the largest increases, totaling $9.3 million and $15.6 million, respectively. Average time deposits, which is the Company's most expensive deposit category, increased by a total of $3.0 million as seen in the table above. The average rate paid on interest-bearing deposits by the Company in 2019 was 0.82% compared to 0.60% in 2018.

The Company made strategic increases in the rates on time deposits in certain maturities to fund balance sheet growth and manage its interest-rate risk. Selected money market deposit rates were also raised in 2019 to attract and retain desirable customers relationships as market and competitors' rates increased. The Company remains focused on increasing lower-cost deposits by actively targeting new noninterest-bearing deposits and savings deposits.

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

TABLE XI
TIME DEPOSITS OF $100,000 OR MORE

	As of December 31,	
(dollars in thousands)	2019	2018
Maturing in:		
Within 3 months	$ 36,677	$ 19,121
4 through 6 months	13,699	8,699
7 through 12 months	21,550	25,820
Greater than 12 months	56,428	75,689
	$ 128,354	$ 129,329

Capital Resources

Total stockholders' equity as of December 31, 2019 was $109.8 million, up 7.60% from $102.0 million on December 31, 2018 as the result of increased retained earnings and the reversal of the net unrealized loss on available-for-sale securities, a component of accumulated other comprehensive income (loss) on the consolidated balance sheets. The improvement in the unrealized gain/loss position was driven by changes in market rates and continued execution of our portfolio repositioning strategy related to tax-exempt and short term, low yielding investments.

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

In June 2013, the federal bank regulatory agencies adopted the Basel III Capital 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. The EGRRCPA, enacted in May 2018, required action by the FRB to expand the applicability of its small bank holding company policy statement, which, among other things, exempts certain bank holding companies from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements that apply to other bank holding companies. In August 2018, the FRB issued an interim final rule provisionally expanding the applicability of the small bank holding company policy statement to bank holding companies with consolidated total assets of less than $3 billion. For an overview of the Basel III Capital Rules and the EGRRCPA, refer to "Regulation and Supervision" included in Item 1, "Business" of this report on Form 10-K.

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

	2019 Regulatory Minimums	December 31, 2019	2018 Regulatory Minimums	December 31, 2018
Common Equity Tier 1 Capital to Risk-Weighted Assets	4.500%	11.73%	4.500%	10.90%
Tier 1 Capital to Risk-Weighted Assets	6.000%	11.73%	6.000%	10.90%
Tier 1 Leverage to Average Assets	4.000%	9.73%	4.000%	9.34%
Total Capital to Risk-Weighted Assets	8.000%	12.86%	8.000%	12.06%
Capital Conservation Buffer	2.500%	4.86%	1.875%	4.06%
Risk-Weighted Assets (in thousands)		$ 863,905		$ 884,444

Year-end book value per share was $21.11 in 2019 and $19.68 in 2018. The common stock of the Company has not been extensively traded. The stock is quoted on the NASDAQ Capital Market under the symbol "OPOF." There were 1,628 stockholders of record of the Company as of March 6, 2020. This stockholder count does not include stockholders who hold their stock in a nominee registration.

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, 2019, the Company had $276.3 million in FHLB borrowing availability. As of year-end 2019 and 2018, the Company had $55.0 million available in federal funds lines of credit to address any short-term borrowing needs.

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

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

The following table sets forth information relating to the Company's sources of liquidity and the outstanding commitments for use of liquidity at December 31, 2019 and December 31, 2018. Dividing the total short-term sources of liquidity by the outstanding commitments for use of liquidity derives the liquidity coverage ratio.

LIQUIDITY SOURCES AND USES

	December 31,					
	2019			2018		
(dollars in thousands)	Total	In Use	Available	Total	In Use	Available
Sources:						
Federal funds lines of credit	$ 55,000	$ -	$ 55,000	$ 55,000	$ -	$ 55,000
Federal Home Loan Bank advances	313,275	37,000	276,275	305,937	60,000	245,937
Federal funds sold & balances at the Federal Reserve			50,665			20,673
Securities, available for sale and unpledged at fair value			71,712			88,350
Total short-term funding sources			$ 453,652			$ 409,960
Uses: (1)						
Unfunded loan commitments and lending lines of credit			66,986			71,186
Letters of credit			2,317			2,469
Total potential short-term funding uses			69,303			73,655

Liquidity coverage ratio	654.6%	556.6%

(1) Represents partial draw levels based on loan segment.

The fair value of unpledged available-for-sale securities decreased from December 31, 2018 to December 31, 2019 primarily due to higher levels of required pledging related to increases in customer repurchase agreements during the year which subsequently decreased as of December 31, 2019. The fluctuation in repurchase agreements from December 31, 2018 to December 31, 2019 was primarily a result of balance fluctuations in the account of a single customer.

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

The Company's operating activities provided $12.3 million of cash during the year ended December 31, 2019, compared to $12.2 million provided during 2018. The Company's investing activities provided $29.2 million of cash during 2019, compared to $12.0 million provided during 2018. The Company's financing activities provided $6.1 million of cash during 2019 compared to $3.6 million of cash provided during 2018.

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 $140.2 million in consumer and commercial commitments at December 31, 2019. As of the same date, the Company also had $7.7 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 16 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, which may or may not require future cash outflows. The following table provides the Company's contractual obligations as of December 31, 2019:

Payments due by period

(dollars in thousands)	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Contractual Obligations					
Short-Term Debt Obligations	$ 11,452	$ 11,452	$ -	$ -	$ -
Long-Term Debt Obligations	38,950	24,100	14,700	150	-
Operating Lease Obligations	448	253	195	-	-
Total contractual cash obligations excluding deposits	**50,850**	**35,805**	**14,895**	**150**	**-**
Deposits	889,496	785,489	73,801	30,206	-
Total	**$ 940,346**	**$ 821,294**	**$ 88,696**	**$ 30,356**	**$ -**

Short-term debt obligations include federal funds purchased, overnight repurchase agreements and Federal Home Loan Bank advances maturing within a year of origination. Long-term debt obligations consist of Federal Home Loan Bank advances with original maturities greater than one year.

Short-Term Borrowings

Certain short-term borrowings at December 31, 2019 and 2018 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

	2019		2018	
(dollars in thousands)	Balance	Rate	Balance	Rate
Balance at December 31,				
Repurchase agreements	$ 11,452	0.10%	$ 25,775	0.10%
Federal Home Loan Bank advances	-	0.00%	13,000	2.58%
Average daily balance for the year ended December 31,				
Federal funds purchased	$ 13	3.19%	$ 358	1.75%
Repurchase agreements	19,998	0.10%	26,163	0.10%
Federal Home Loan Bank advances	27,382	2.54%	36,356	1.83%
Maximum month-end outstanding balance:				
Federal funds purchased	$ -		$ 10,000	
Repurchase agreements	25,497		36,141	
Federal Home Loan Bank advances	60,000		68,500	

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

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

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Old Point Financial Corporation and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated March 16, 2020 expressed an opinion that the Company had not maintained an effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations as of the Treadway Commission in 2013.

Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company’s auditor since 2004.

Winchester, Virginia
March 16, 2020

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting
We have audited Old Point Financial Corporation and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements of the Company, and our report dated March 16, 2020 expressed an unqualified opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Internal controls surrounding the Company's primary correspondent bank account did not allow for the timely identification of stale-dated and other reconciling items. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report dated March 16, 2020 on those financial statements.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report of Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, 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.

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

Winchester, Virginia
March 16, 2020

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

(dollars in thousands, except share data)	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 37,280	$ 19,915
Interest-bearing due from banks	48,610	20,000
Federal funds sold	3,975	2,302
Cash and cash equivalents	89,865	42,217
Securities available-for-sale, at fair value	145,715	148,247
Restricted securities, at cost	2,926	3,853
Loans held for sale	590	479
Loans, net	738,205	763,898
Premises and equipment, net	35,312	36,738
Bank-owned life insurance	27,547	26,763
Other real estate owned, net	-	83
Goodwill	1,650	1,650
Core deposit intangible, net	363	407
Other assets	12,315	13,848
Total assets	$ 1,054,488	$ 1,038,183
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$ 262,558	$ 246,265
Savings deposits	399,020	367,915
Time deposits	227,918	228,964
Total deposits	889,496	843,144
Overnight repurchase agreements	11,452	25,775
Federal Home Loan Bank advances	37,000	60,000
Other borrowings	1,950	2,550
Accrued expenses and other liabilities	4,834	4,708
Total liabilities	944,732	936,177
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 5,200,038 and 5,184,289 shares outstanding (includes 19,933 and 13,689 of nonvested restricted stock, respectively)	25,901	25,853
Additional paid-in capital	20,959	20,698
Retained earnings	62,975	57,611
Accumulated other comprehensive loss, net	(79)	(2,156)
Total stockholders' equity	109,756	102,006
Total liabilities and stockholders' equity	$ 1,054,488	$ 1,038,183

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

(dollars in thousands, except per share data)	Years ended December 31, 2019	2018
Interest and Dividend Income:		
Loans, including fees	$ 35,718	$ 34,446
Due from banks	689	198
Federal funds sold	31	21
Securities:		
Taxable	2,827	2,080
Tax-exempt	755	1,221
Dividends and interest on all other securities	221	253
Total interest and dividend income	40,241	38,219
Interest Expense:		
Checking and savings deposits	1,136	628
Time deposits	3,845	2,916
Federal funds purchased, securities sold under agreements to repurchase and other borrowings	132	131
Federal Home Loan Bank advances	1,309	1,294
Total interest expense	6,422	4,969
Net interest income	33,819	33,250
Provision for loan losses	318	2,861
Net interest income after provision for loan losses	33,501	30,389
Noninterest Income:		
Fiduciary and asset management fees	3,850	3,726
Service charges on deposit accounts	4,085	4,157
Other service charges, commissions and fees	3,925	3,547
Bank-owned life insurance income	784	782
Mortgage banking income	884	788
Gain on sale of available-for-sale securities, net	314	120
Other operating income	235	189
Total noninterest income	14,077	13,309
Noninterest Expense:		
Salaries and employee benefits	24,024	22,580
Occupancy and equipment	5,628	6,021
Data processing	1,798	1,327
Customer development	552	611
Professional services	2,311	2,296
Employee professional development	791	749
Other taxes	592	580
ATM and other losses	291	407
(Gain) loss on other real estate owned	(2)	86
Merger expenses	-	655
Other operating expenses	2,653	3,188
Total noninterest expense	38,638	38,500
Income before income taxes	8,940	5,198
Income tax expense	1,080	279
Net income	$ 7,860	$ 4,919
Basic Earnings per Share:		
Weighted average shares outstanding	5,196,812	5,141,364
Net income per share of common stock	$ 1.51	$ 0.96
Diluted Earnings per Share:		
Weighted average shares outstanding	5,196,853	5,141,429
Net income per share of common stock	$ 1.51	$ 0.96

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation
Consolidated Statements of Comprehensive Income

(dollars in thousands)	Years Ended December 31, 2019	Years Ended December 31, 2018
Net income	$ 7,860	$ 4,919
Other comprehensive income (loss), net of tax		
Net unrealized gain (loss) on available-for-sale securities	2,325	(1,138)
Reclassification for (gain) loss included in net income	(248)	(95)
Other comprehensive income (loss), net of tax	2,077	(1,233)
Comprehensive income	$ 9,937	$ 3,686

See Notes to Consolidated Financial Statements.

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

(dollars in thousands,except share and per share data)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
YEAR ENDED DECEMBER 31, 2019						
Balance at December 31, 2018	5,170,600	$ 25,853	$ 20,698	$ 57,611	$ (2,156)	$ 102,006
Net income	-	-	-	7,860	-	7,860
Other comprehensive income, net of tax	-	-	-	-	2,077	2,077
Employee Stock Purchase Plan share issuance	3,666	19	66	-	-	85
Restricted stock vested	5,839	29	(29)	-	-	-
Stock-based compensation expense	-	-	224	-	-	224
Cash dividends ($.48 per share)	-	-	-	(2,496)	-	(2,496)
Balance at end of period	5,180,105	$ 25,901	$ 20,959	$ 62,975	$ (79)	$ 109,756
YEAR ENDED DECEMBER 31, 2018						
Balance at December 31, 2017	5,017,458	$ 25,087	$ 17,270	$ 54,738	$ (707)	$ 96,388
Net income	-	-	-	4,919	-	4,919
Other comprehensive loss, net of tax	-	-	-	-	(1,233)	(1,233)
Issuance of common stock related to acquisition	149,625	748	3,199	-	-	3,947
Reclassification of the stranded income tax effects of the Tax Cuts and Jobs Act from AOCI	-	-	-	139	(139)	-
Reclassification of net unrealized gains on equity securities from AOCI per ASU 2016-01	-	-	-	77	(77)	-
Employee Stock Purchase Plan share issuance	3,517	18	69	-	-	87
Stock-based compensation expense	-	-	160	-	-	160
Cash dividends ($.44 per share)	-	-	-	(2,262)	-	(2,262)
Balance at end of period	5,170,600	$ 25,853	$ 20,698	$ 57,611	$ (2,156)	$ 102,006

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(dollars in thousands)	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,860	$ 4,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,220	2,469
Amortization of right of use lease asset	319	-
Accretion related to acquisition, net	(239)	(341)
Provision for loan losses	318	2,861
Gain on sale of securities, net	(314)	(120)
Net amortization of securities	1,103	1,687
(Increase) decrease in loans held for sale, net	(111)	300
Net loss on disposal of premises and equipment	82	9
Net (gain) loss on write-down/sale of other real estate owned	(2)	86
Income from bank owned life insurance	(784)	(782)
Stock compensation expense	224	160
Deferred tax benefit	352	(164)
Increase in other assets	1,967	338
(Increase) decrease in accrued expenses and other liabilities	(625)	732
Net cash provided by operating activities	12,370	12,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(103,036)	(26,002)
Proceeds from redemption of restricted securities, net	927	270
Proceeds from maturities and calls of available-for-sale securities	29,725	10,990
Proceeds from sales of available-for-sale securities	65,699	12,536
Paydowns on available-for-sale securities	11,984	10,183
Proceeds from sale of loans held for investment	-	8,746
Net decrease (increase) in loans held for investment	25,529	(3,568)
Proceeds from sales of other real estate owned	85	210
Purchases of premises and equipment	(1,782)	(478)
Cash paid in acquisition	-	(3,164)
Cash acquired in acquisition	-	2,304
Net cash provided by investing activities	29,131	12,027
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	16,293	14,236
Increase in savings deposits	31,105	15,487
Decrease in time deposits	(917)	(14,056)
Decrease in federal funds purchased, repurchase agreements and other borrowings, net	(14,923)	(2,368)
Increase in Federal Home Loan Bank advances	10,000	140,500
Repayment of Federal Home Loan Bank advances	(33,000)	(148,000)
Proceeds from ESPP issuance	85	87
Cash dividends paid on common stock	(2,496)	(2,262)
Net cash provided by (used in) financing activities	6,147	3,624
Net increase in cash and cash equivalents	47,648	27,805
Cash and cash equivalents at beginning of period	42,217	14,412
Cash and cash equivalents at end of period	$ 89,865	$ 42,217
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 6,396	$ 4,735
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on securities available-for-sale	$ 2,629	$ (1,560)
Loans transferred to other real estate owned	$ -	$ 203
Former bank property transferred from fixed assets to held for sale assets	$ 906	$ -
Right of use lease asset and liability	$ 751	$ -
TRANSACTIONS RELATED TO ACQUISITIONS		
Assets acquired	$ -	$ 50,406
Liabilities assumed	$ -	$ 44,324
Common stock issued in acquisition	$ -	$ 3,947

See Notes to Consolidated Financial Statements.

NOTE 1, Significant Accounting Policies

THE COMPANY
Headquartered in Hampton, Virginia, 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, 2019, the Bank had 19 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers, including mortgage loan products offered through Old Point Mortgage. A full array of insurance products is also offered through Old Point Insurance, LLC in partnership with Morgan Marrow Company. 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.

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.

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.

BUSINESS COMBINATIONS
Business combinations are accounted for under ASC 805, *Business Combinations*, using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company utilizes third party valuations, appraisals, and internal valuations based on discounted cash flow analysis or other valuation techniques. Under the acquisition method of accounting, the Company will identify the acquiree and the closing date and apply applicable recognition principles and conditions. If they are necessary to implement its plan to exit an activity of an acquiree, costs that the Company expects, but is not obligated, to incur in the future are not liabilities at the acquisition date, nor are costs to terminate the employment or relocate an acquiree's employees. The Company does not recognize these costs as part of applying the acquisition method. Instead, the Company recognizes these costs as expenses in its post-combination financial statements in accordance with other applicable GAAP.

Merger-related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants, contract terminations, and advertising costs. The Company will account for merger-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities will be recognized in accordance with other applicable accounting guidance. These merger-related costs are included on the Company's Consolidated Statements of Income classified within the noninterest expense caption.

On April 1, 2018, the Company acquired Citizens National Bank (Citizens) based in Windsor, Virginia. Refer to Note 2 for further discussion.

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 4. The types of lending that the Company engages in are included in Note 5. 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, 2019 and 2018, there were $344.1 million and $347.9 million, or 46.01% and 44.94%, 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. Refer to Note 5 for further detail.

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, excluding equity securities with readily determinable fair values which are recorded at fair value through the income statement, 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.

RESTRICTED SECURITIES, AT COST
The Company, as a member of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta (FHLB), is required to maintain an investment in the capital stock of both the FRB and the FHLB. As a result of the acquisition of Citizens, the Company also has an investment in the capital stock of Community Bankers' Bank (CBB). Based on the redemption provisions of these investments, the stocks have no quoted market value, are carried at cost and are listed as restricted securities. The Company reviews its holdings for impairment based on the ultimate recoverability of the cost basis in the FRB, FHLB, and CBB stock.

LOANS HELD FOR SALE
The Company records loans held for sale using the lower of cost or fair value. In addition, the Company requires a firm purchase commitment from a permanent investor before a loan can be closed, thus limiting interest rate risk. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. The change in fair value of loans held for sale is recorded as a component of “Mortgage banking income” within the Company’s Consolidated Statements of Income.

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.

NONACCRUALS, PAST DUES AND CHARGE-OFFS
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 agreement, 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 status or charged off. 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.

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.

ALLOWANCE FOR LOAN LOSSES

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

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

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

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, 2019 and 2018 management used eight twelve-quarter migration periods.

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.

Acquired loans are recorded at their fair value at acquisition date without carryover of the acquiree's previously established ALL, as credit discounts are included in the determination of fair value. The fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then applying a market-based discount rate to those cash flows. During evaluation upon acquisition, acquired loans are also classified as either purchased credit-impaired (PCI) or purchased performing.

PCI loans reflect credit quality deterioration since origination, as it is probable at acquisition that the Company will not be able to collect all contractually required payments. These PCI loans are accounted for under ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The PCI loans are segregated into pools based on loan type and credit risk. Loan type is determined based on collateral type, purpose, and lien position. Credit risk characteristics include risk rating groups, nonaccrual status, and past due status. For valuation purposes, these pools are further disaggregated by maturity, pricing characteristics, and re-payment structure. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the "nonaccretable difference" and is not recorded. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the "accretable yield" and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

On an annual basis, the estimate of cash flows expected to be collected on PCI loans is evaluated. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. Subsequent significant increases in cash flows may result in a reversal of post-acquisition provision for loan losses or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan, or pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

The Company's PCI loans currently consist of loans acquired in connection with the acquisition of Citizens. PCI loans that were classified as nonperforming loans by Citizens are no longer classified as nonperforming so long as, at re-estimation periods, it is expected to fully collect the new carrying value of the pools of loans.

The Company accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required for any deterioration in these loans in future periods.

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.

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 loss (gain) on other real estate owned on the Consolidated Statements of Income.

BANK-OWNED LIFE INSURANCE

The Company owns insurance on the lives of a certain group of key employees. 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 operating 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.

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.

REVENUE RECOGNITION: Revenue recognized from contracts with customers is accounted for under ASC 606 and is primarily included in the Company's noninterest income. Fiduciary and asset management fees are earned as the Company satisfies it performance obligation over time. Additional services are transactional-based and the revenue is recognized as incurred. Service charges on deposit accounts consist account analysis fees, monthly service fees, and other deposit account related fees. Account analysis and monthly service fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Other deposit account related fees are largely transactional based and therefore fees are recognized at the point in time when the Company has satisfied its performance obligation. The Company earns other service charges, commissions and fees from its customers for transaction-based services. Such services include debit card, ATM, merchant services, investment services, and other service charges. In each case, these service charges and fees are recognized in income at the time or within the same period that the Company's performance obligation is satisfied. The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

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 2019 or 2018.

EARNINGS PER COMMON SHARE

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

TRUST ASSETS AND INCOME

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

ADVERTISING EXPENSES

Advertising expenses are expensed as incurred. Advertising expense for the years ended 2019 and 2018 was $207 thousand and $255 thousand, respectively.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income, net of tax. Other comprehensive income (loss), net of tax includes unrealized gains and losses on securities available-for-sale 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 17. 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 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. At the FASB's October 16, 2019 meeting, the Board affirmed its decision to amend the effective date of this ASU for many companies. Public business entities that are SEC filers, excluding those meeting the smaller reporting company definition, will retain the initial required implementation date of fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. Based on the proposed ASU, the Company expects this ASU will be effective for the Company beginning on January 1, 2023. The Company has formed a committee to oversee the adoption of the new standard, has engaged a third party to assist with implementation, has performed data fit gap and loss driver analyses, intends to run parallel models beginning in 2020, and is continuing to evaluate the impact that ASU 2016-13 will have on its consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.” This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various Transition Resource Group (or TRG) Meetings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.” The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the consolidated balance sheet. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes.” The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers’ application of certain income tax-related guidance. This ASU is part of the FASB’s simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, “Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.” The ASU is based on a consensus of the Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2020-01 to have a material impact on its consolidated financial statements.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, “Financial Instruments – Credit Losses.” It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

ACCOUNTING STANDARDS ADOPTED IN 2019

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. 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 FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 ("Codification Improvements to Topic 842, Leases") and ASU 2018-11 ("Leases (Topic 842): Targeted Improvements"). Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP (Topic 840, Leases). The Company adopted ASU 2018-11 on January 1, 2019 using the optional transition method. As the Company owns the majority of its buildings, the adoption of this ASU did not have a material impact on its consolidated financial statements. Refer to Note 7 for further discussion.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. Adoption of this standard did not have a material impact to the consolidation financial statements, and as a result, a cumulative effects adjustment was not necessary.

NOTE 2, Acquisitions

On April 1, 2018, the Company acquired Citizens. Under the terms of the merger agreement, Citizens stockholders received 0.1041 shares of the Company's common stock and $2.19 in cash for each share of Citizens common stock, resulting in the Company issuing 149,625 shares of the Company's common stock at a fair value of $3.9 million, for a total purchase price of $7.1 million.

The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition, in accordance with ASC 350, *Intangibles-Goodwill and Other*. The following table provides a preliminary assessment of the consideration transferred, assets acquired, and liabilities assumed as of the date of the acquisition (dollars in thousands):

	As Recorded by Citizens	Fair Value Adjustments	As Recorded by the Company
Consideration paid:			
Cash			$ 3,164
Old Point common stock			3,947
Total purchase price			$ 7,111
Identifiable assets acquired:			
Cash and cash equivalents	$ 2,304	$ -	$ 2,304
Securities available for sale	1,959	-	1,959
Restricted securities, at cost	278	-	278
Loans, net	42,824	(34)	42,790
Premises and equipment	1,070	450	1,520
Other real estate owned	237	(61)	176
Core deposit intangibles	-	440	440
Other assets	1,055	(116)	939
Total assets	$ 49,727	$ 679	$ 50,406
Identifiable liabilities assumed:			
Deposits	$ 43,754	$ 246	$ 44,000
Other liabilities	324	-	324
Total liabilities	$ 44,078	$ 246	$ 44,324
Net assets acquired			$ 6,082
Goodwill			$ 1,029

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. Purchased intangible assets subject to amortization, such as the core deposit intangible asset, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The acquired loans were recorded at fair value at the acquisition date without carryover of Citizens' allowance for loan losses. The fair value of the loans was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then applying a market-based discount rate to those cash flows. In this regard, the acquired loans were segregated into pools based on call code with other key inputs identified such as payment structure, rate type, remaining maturity, and credit risk characteristics including risk rating groups (pass rated loans and adversely classified loans), and past due status.

The acquired loans were divided into loans with evidence of credit quality deterioration which are accounted for under ASC 310-30, *Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality*, (purchased credit-impaired) and loans that do not meet these criteria, which are accounted for under ASC 310-20, *Receivables - Nonrefundable Fees and Other Costs*, (purchased performing). The fair values of the purchased performing loans were $42.1 million and the fair value of the purchased credit-impaired loans were $710 thousand.

The following table presents the purchased credit-impaired loans receivable at the acquisition date (dollars in thousands):

Contractually required principal and interest payments	$ 1,031
Nonaccretable difference	(211)
Cash flows expected to be collected	820
Accretable yield	(110)
Fair value of purchased credit-impaired loans	$ 710

The amortization and accretion of premiums and discounts associated with the Company's acquisition accounting adjustments related to the Citizens acquisition had the following impact on the Consolidated Statements of Operations

	Years ended December 31,	
	2019	2018
Purchased performing loans	$ 142	$ 181
Purchased credit-impaired loans	12	77
Certificate of deposit valuation	129	116
Amortization of core deposit intangible	(44)	(33)
Net impact to income before taxes	$ 239	$ 341

NOTE 3, Restrictions on Cash and Amounts Due from Banks

The Company is subject to reserve balance requirements determined by applying the reserve ratios specified in the FRB’s Regulation D. At December 31, 2019 and 2018, the Company had no balance requirements on any of its accounts. The Company had approximately $23.8 million and $5.1 million in deposits in financial institutions in excess of amounts insured by the FDIC at December 31, 2019 and December 31, 2018, respectively.

NOTE 4, Securities Portfolio

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

	December 31, 2019			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 6,925	$ 78	$ -	$ 7,003
Obligations of U.S. Government agencies	33,998	9	(403)	33,604
Obligations of state and policitcal subdivisions	24,525	442	(225)	24,742
Mortgage-backed securities	72,000	460	(552)	71,908
Money market investments	3,825	-	-	3,825
Corporate bonds and other securities	4,542	94	(3)	4,633
	$ 145,815	$ 1,083	$ (1,183)	$ 145,715

	December 31, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 12,323	$ 6	$ (1)	$ 12,328
Obligations of U.S. Government agencies	10,868	2	(156)	10,714
Obligations of state and policitcal subdivisions	49,194	155	(512)	48,837
Mortgage-backed securities	73,444	93	(2,346)	71,191
Money market investments	1,897	-	-	1,897
Corporate bonds and other securities	3,250	42	(12)	3,280
	$ 150,976	$ 298	$ (3,027)	$ 148,247

Securities with a fair value of $74.0 million and $59.9 million at December 31, 2019 and 2018, 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, 2019, 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.

(Dollars in thousands)	December 31, 2019 Amortized Cost	Fair Value
Due in one year or less	$ 1,655	$ 1,664
Due after one year through five years	15,702	15,758
Due after five through ten years	36,667	36,767
Due after ten years	87,966	87,701
Other securities, restricted	3,825	3,825
	$ 145,815	$ 145,715

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

(Dollars in thousands)	Year Ended December 31, 2019	2018
Securities Available-for-sale		
Realized gains on sales of securities	$ 575	$ 131
Realized losses on sales of securities	(261)	(11)
Net realized gain	$ 314	$ 120

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 did not record impairment charges on securities for the years ended December 31, 2019 and 2018.

The following tables show 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, 2019						
	Less than 12 months		12 months or more		Total		
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
Obligations of U.S. Government agencies	$ 349	$ 29,744	$ 54	$ 2,562	$ 403	$ 32,306	22
Obligations of state and policitcal subdivisions	225	10,112	-	-	225	10,112	7
Mortgage-backed securities	405	44,661	147	14,078	552	58,739	17
Corporate bonds and other securities	-	-	3	197	3	197	1
Total securities available-for-sale	$ 979	$ 84,517	$ 204	$ 16,837	$ 1,183	$ 101,354	47

	December 31, 2018						
	Less than 12 months		12 months or more		Total		
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
U.S. Treasury securities	$ 1	$ 2,484	$ -	$ -	$ 1	$ 2,484	1
Obligations of U.S. Government agencies	47	6,014	109	3,206	156	9,220	15
Obligations of state and policitcal subdivisions	10	5,829	502	23,727	512	29,556	45
Mortgage-backed securities	-	-	2,346	63,930	2,346	63,930	24
Corporate bonds and other securities	1	100	11	389	12	489	3
Total securities available-for-sale	$ 59	$ 14,427	$ 2,968	$ 91,252	$ 3,027	$ 105,679	88

Certain investments within the Company's portfolio had unrealized losses at December 31, 2019 and December 31, 2018, as shown in the tables above. The unrealized losses were primarily driven by changes in market interest rates. The Company purchases only highly-rated securities, including U.S. government agencies and mortgage-backed securities guaranteed by government-sponsored entities. The municipal and corporate securities portfolios are reviewed regularly to ensure that ratings of individual securities have not deteriorated below the threshold established by the Company's policy.

Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2019 or December 31, 2018.

As of December 31, 2019, there were 10 individual available-for-sale securities with a fair value totaling $16.8 million that had been in a continuous loss position for more than 12 months. These securities had an unrealized loss of $204 thousand and consisted of government agency obligations, mortgage-backed securities, and other securities. As of December 31, 2018, there were 65 individual available-for-sale securities with a total fair value of $91.3 million that had been in a continuous loss position for more than 12 months. These securities had an unrealized loss of $3.0 million and consisted of municipal obligations, mortgage-backed securities, and other securities. The Company has determined that these securities are temporarily impaired at December 31, 2019 and 2018 for the reasons set out below:

Mortgage-backed securities. This category's unrealized losses are primarily the result of interest rate fluctuations. Because the decline in market value is attributable to changes in interest rates and not credit quality, the Company does not intend to sell the investments, and it is not likely 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 those investments to be other-than-temporarily impaired. Also, the majority of the Company's mortgage-backed securities are agency-backed securities, which have a government guarantee.

Obligations of state and political subdivisions. This category's unrealized losses are primarily the result of interest rate fluctuations and also a certain few ratings downgrades brought about by the impact of the credit crisis on states and political subdivisions. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the cost basis of each investment. Because the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Corporate bonds. The Company's unrealized losses in corporate debt securities are related to both interest rate fluctuations and ratings downgrades for a limited number of securities. The majority of the securities remain investment grade and the Company's analysis did not indicate the existence of a credit loss. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the cost basis of each investment. Because the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Restricted Stock

The restricted stock category is comprised of FHLB, Federal Reserve Bank, and CBB 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, these investments are 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 5, Loans and 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:

(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Mortgage loans on real estate:		
Residential 1-4 family	$ 118,561	$ 110,009
Commercial - owner occupied	141,743	155,245
Commercial - non-owner occupied	135,798	131,287
Multifamily	25,865	28,954
Construction	40,716	32,383
Second mortgages	13,941	17,297
Equity lines of credit	52,286	57,649
Total mortgage loans on real estate	528,910	532,824
Commercial and industrial loans	75,383	63,398
Consumer automobile loans	97,294	120,796
Other consumer loans	39,713	48,342
Other (1)	6,565	8,649
Total loans, net of deferred fees	747,865	774,009
Less: Allowance for loan losses	9,660	10,111
Loans, net of allowance and deferred fees (2)	$ 738,205	$ 763,898

(1) Overdrawn accounts are reclassified as loans and included in the Other catergory in the table above. Overdrawn deposit accounts, excluding internal use accounts, totaled $449 thousand and $628 thousand at December 31, 2019 and 2018, respectively.

(2) Net deferred loan costs totaled $557 thousand and $864 thousand at December 31, 2019 and 2018, respectively.

ACQUIRED LOANS

The outstanding principal balance and the carrying amount of total acquired loans included in the consolidated balance sheets are as follows:

(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Outstanding principal balance	$ 16,850	$ 31,940
Carrying amount	16,561	31,497

The outstanding principal balance and related carrying amount of acquired impaired loans, for which the Company applies FASB ASC 310-30 to account for interest earned are as follows:

(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Outstanding principal balance	$ 227	$ 246
Carrying amount	85	91

The following table presents changes in the accretable yield on acquired impaired loans, for which the Company applies FASB ASC 310-30:

(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Balance at January 1	$ 12	$ -
Additions from acquisition of Citizens	-	110
Accretion	(27)	(98)
Reclassification from nonaccretable difference	125	-
Other changes, net	(38)	-
Balance at end of period	$ 72	$ 12

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 identified for charge-off because they are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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

Credit Quality Information
As of December 31, 2019

(dollars in thousands)	Pass	OAEM	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 116,380	$ -	$ 2,181	$ -	$ 118,561
Commercial - owner occupied	134,570	1,618	5,555	-	141,743
Commercial - non-owner occupied	132,851	1,622	1,325	-	135,798
Multifamily	25,865	-	-	-	25,865
Construction	40,716	-	-	-	40,716
Second mortgages	13,837	-	104	-	13,941
Equity lines of credit	52,286	-	-	-	52,286
Total mortgage loans on real estate	$ 516,505	$ 3,240	$ 9,165	$ -	$ 528,910
Commercial and industrial loans	74,963	66	354	-	75,383
Consumer automobile loans	96,907	-	387	-	97,294
Other consumer loans	39,713	-	-	-	39,713
Other	6,565	-	-	-	6,565
Total	$ 734,653	$ 3,306	$ 9,906	$ -	$ 747,865

Credit Quality Information
As of December 31, 2018

(dollars in thousands)	Pass	OAEM	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 108,274	$ -	$ 1,735	$ -	$ 110,009
Commercial - owner occupied	140,664	4,067	10,514	-	155,245
Commercial - non-owner occupied	121,523	3,937	5,827	-	131,287
Multifamily	28,954	-	-	-	28,954
Construction	31,896	71	416	-	32,383
Second mortgages	17,007	-	290	-	17,297
Equity lines of credit	56,893	-	756	-	57,649
Total mortgage loans on real estate	$ 505,211	$ 8,075	$ 19,538	$ -	$ 532,824
Commercial and industrial loans	60,967	1,987	444	-	63,398
Consumer automobile loans	120,365	-	431	-	120,796
Other consumer loans	48,298	-	44	-	48,342
Other	8,649	-	-	-	8,649
Total	$ 743,490	$ 10,062	$ 20,457	$ -	$ 774,009

As of December 31, 2019 and 2018 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.

Age Analysis of Past Due Loans as of December 31, 2019

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due and still Accruing	PCI	Nonaccrual (1)	Total Current Loans	Total Loans
Mortgage loans on real estate:							
Residential 1-4 family	$ 891	$ -	$ -	$ -	$ 1,459	$ 116,211	$ 118,561
Commercial - owner occupied	-	319	-	85	2,795	138,544	141,743
Commercial - non-owner occupied	-	-	-	-	1,422	134,376	135,798
Multifamily	-	-	-	-	-	25,865	25,865
Construction	100	-	-	-	-	40,616	40,716
Second mortgages	49	-	-	-	104	13,788	13,941
Equity lines of credit	25	-	-	-	-	52,261	52,286
Total mortgage loans on real estate	$ 1,065	$ 319	$ -	$ 85	$ 5,780	$ 521,661	$ 528,910
Commercial and industrial loans	211	-	-	-	257	74,915	75,383
Consumer automobile loans	1,115	299	203	-	-	95,677	97,294
Other consumer loans	1,032	891	888	-	-	36,902	39,713
Other	81	9	-	-	-	6,475	6,565
Total	$ 3,504	$ 1,518	$ 1,091	$ 85	$ 6,037	$ 735,630	$ 747,865

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

In the table above, the past due totals include student and small business loans with principal and interest amounts that are 97 - 100% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $1.8 million at December 31, 2019.

Age Analysis of Past Due Loans as of December 31, 2018

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due and still Accruing	PCI	Nonaccrual (1)	Total Current Loans	Total Loans
Mortgage loans on real estate:							
Residential 1-4 family	$ 1,165	$ 553	$ 180	$ -	$ 1,386	$ 106,725	$ 110,009
Commercial - owner occupied	1,059	83	-	91	5,283	148,729	155,245
Commercial - non-owner occupied	-	-	-	-	4,371	126,916	131,287
Multifamily	-	-	-	-	-	28,954	28,954
Construction	-	-	205	-	417	31,761	32,383
Second mortgages	17	-	135	-	155	16,990	17,297
Equity lines of credit	60	-	-	-	231	57,358	57,649
Total mortgage loans on real estate	$ 2,301	$ 636	$ 520	$ 91	$ 11,843	$ 517,433	$ 532,824
Commercial and industrial loans	1,595	-	-	-	298	61,505	63,398
Consumer automobile loans	1,645	291	114	-	-	118,746	120,796
Other consumer loans	1,333	621	1,851	-	-	44,537	48,342
Other	133	8	12	-	-	8,496	8,649
Total	$ 7,007	$ 1,556	$ 2,497	$ 91	$ 12,141	$ 750,717	$ 774,009

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

In the table above, the past due totals include student and small business loans with principal and interest amounts that are 97 - 100% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.0 million at December 31, 2018.

NONACCRUAL LOANS

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

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

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

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

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

Nonaccrual Loans by Class

(dollars in thousands)	December 31, 2019	December 31, 2018
Mortgage loans on real estate:		
Residential 1-4 family	$ 1,459	$ 1,386
Commercial - owner occupied	2,795	5,283
Commercial - non-owner occupied	1,422	4,371
Construction	-	417
Second mortgages	104	155
Equity lines of credit	-	231
Total mortgage loans on real estate	$ 5,780	$ 11,843
Commercial and industrial loans	257	298
Total	$ 6,037	$ 12,141

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,	
(dollars in thousand)	2019	2018
Interest income that would have been recorded under original loan terms	$ 283	$ 533
Actual interest income recorded for the period	115	336
Reduction in interest income on nonaccrual loans	$ 168	$ 197

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 below under Impaired Loans.

The following tables present TDRs during the periods indicated, by class of loan:

(dollars in thousand)	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2019
Mortgage loans on real estate:				
Residential 1-4 family	2	$ 512	$ 512	$ 506
Commercial and industrial	1	75	75	75
Total	3	$ 587	$ 587	$ 581

(dollars in thousand)	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2018
Mortgage loans on real estate:				
Residential 1-4 family	1	$ 296	$ 187	$ 188
Equity lines of credit	1	248	231	231
Total mortgage loans on real estate	2	544	418	419
Commercial and industrial	1	146	138	139
Total	3	$ 690	$ 556	$ 558

In 2019, the loans restructured were granted terms that the Company would not otherwise extend to borrowers with similar risk characteristics. Of the loans restructured in 2018, one was given a below-market rate for debt with similar risk characteristics and two were granted terms that the Company would not otherwise extend to borrowers with similar risk characteristics.

At December 31, 2019 and 2018, the Company had no outstanding commitments to disburse additional funds on any TDR. At December 31, 2019, the Company had $272 thousand in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure. There were no loans secured by residential 1 - 4 family real estate that were in the process of foreclosure at December 31, 2018.

In the years ended December 31, 2019 and 2018 there were no defaulting TDRs where the default occurred within twelve months of restructuring. The Company considers a TDR in default when any of the following occurs: the loan, as restructured, becomes 90 days or more past due; the loan is moved to nonaccrual status following the restructure; the loan is restructured again under terms that would qualify it as a TDR if it were not already so classified; or any portion of the loan is charged off.

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

IMPAIRED LOANS

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

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

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

Impaired Loans by Class

	As of December 31, 2019				**For the Year Ended December 31, 2019**	
(Dollars in thousands)	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	$ 1,542	$ 1,519	$ 89	$ 39	$ 1,416	$ 11
Commercial	9,333	4,538	1,611	317	6,822	123
Construction	89	-	88	14	88	4
Second mortgages	247	-	245	111	246	6
Total mortgage loans on real estate	11,211	6,057	2,033	481	8,572	144
Commercial and industrial loans	362	354	-	-	273	4
Other consumer loans	22	-	-	-	21	1
Total	$ 11,595	$ 6,411	$ 2,033	$ 481	$ 8,866	$ 149

Impaired Loans by Class

(Dollars in thousands)	As of December 31, 2018 Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	For the Year Ended December 31, 2018 Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 2,057	$ 1,686	$ 239	$ 51	$ 2,073	$ 66
Commercial	15,254	12,721	-	-	14,232	455
Construction	509	417	92	18	665	7
Second mortgages	496	347	148	33	508	15
Equity lines of credit	232	-	232	3	301	1
Total mortgage loans on real estate	18,548	15,171	711	105	17,779	544
Commercial and industrial loans	384	78	220	11	446	5
Other consumer loans	38	-	-	-	43	-
Total	$ 18,970	$ 15,249	$ 931	$ 116	$ 18,268	$ 549

ALLOWANCE FOR LOAN LOSSES

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

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

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

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The 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

For the Year ended December 31, 2019

(Dollars in thousands)	Commercial and Industrial	Real Estate Construction	Real Estate - Mortgage (1)	Consumer (2)	Other	Total
Allowance for loan losses:						
Balance, beginning	$ 2,340	$ 156	$ 5,956	$ 1,354	$ 305	$ 10,111
Charge-offs	-	-	(197)	(776)	(425)	(1,398)
Recoveries	10	-	200	351	68	629
Provision for loan losses	(1,106)	102	209	765	348	318
Ending Balance	$ 1,244	$ 258	$ 6,168	$ 1,694	$ 296	$ 9,660
Individually evaluated for impairment	$ -	$ 14	$ 467	$ -	$ -	$ 481
Collectively evaluated for impairment	1,244	244	5,701	1,694	296	9,179
Purchased credit-impaired loans	-	-	-	-	-	-
Ending Balance	$ 1,244	$ 258	$ 6,168	$ 1,694	$ 296	$ 9,660
Loans Balances:						
Individually evaluated for impairment	354	88	8,002	-	-	8,444
Collectively evaluated for impairment	74,944	40,628	480,192	137,007	6,565	739,336
Purchased credit-impaired loans	85	-	-	-	-	85
Ending Balance	$ 75,383	$ 40,716	$ 488,194	$ 137,007	$ 6,565	$ 747,865

For the Year ended December 31, 2018

(Dollars in thousands)	Commercial and Industrial	Real Estate Construction	Real Estate - Mortgage (1)	Consumer (2)	Other	Total
Allowance for loan losses:						
Balance, beginning	$ 1,889	$ 541	$ 5,217	$ 1,644	$ 157	$ 9,448
Charge-offs	(81)	-	(1,625)	(769)	(367)	(2,842)
Recoveries	140	-	158	262	84	644
Provision for loan losses	392	(385)	2,206	217	431	2,861
Ending Balance	$ 2,340	$ 156	$ 5,956	$ 1,354	$ 305	$ 10,111
Individually evaluated for impairment	$ 11	$ 18	$ 87	$ -	$ -	$ 116
Collectively evaluated for impairment	2,329	138	5,869	1,354	305	9,995
Purchased credit-impaired loans	-	-	-	-	-	-
Ending Balance	$ 2,340	$ 156	$ 5,956	$ 1,354	$ 305	$ 10,111
Loans Balances:						
Individually evaluated for impairment	298	509	15,373	-	-	16,180
Collectively evaluated for impairment	63,009	31,874	485,068	169,138	8,649	757,738
Purchased credit-impaired loans	91	-	-	-	-	91
Ending Balance	$ 63,398	$ 32,383	$ 500,441	$ 169,138	$ 8,649	$ 774,009

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

(2) The consumer segment includes consumer automobile loans.

NOTE 6, 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,	
(dollars in thousands)	**2019**	**2018**
Balance at beginning of year	$ 83	$ -
Transfers to OREO due to foreclosure	-	203
Other additions to foreclosed properties	-	176
Properties sold	(83)	(296)
Balance at end of year	$ -	$ 83

Other additions to foreclosed properties in the table above are for properties acquired from Citizens.

OREO is presented net of a valuation allowance for losses. As the fair values of OREO 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 OREO is as follows:

Expenses applicable to OREO include the following:

	Years Ended December 31,	
(dollars in thousands)	**2019**	**2018**
Net gain (loss) on sales of real estate	$ 2	$ (86)
Operating expenses, net of income (1)	(2)	(1)
Total Expenses	$ -	$ (87)

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

NOTE 7, Premises and Equipment

Premises and equipment consisted of the following at December 31:

	Years Ended December 31,	
(dollars in thousands)	**2019**	**2018**
Land	$ 8,001	$ 8,098
Buildings	37,900	39,132
Construction in process	958	161
Leashold improvements	861	861
Furniture, fixtures and equipment	19,748	18,904
	67,468	67,156
Less accumulated depreciation and amortization	32,156	30,418
Balance at end of year	$ 35,312	$ 36,738

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to $2.2 million and $2.5 million, respectively.

NOTE 8. Leases

On January 1, 2019, the Company adopted ASU No. 2016-02 “Leases (Topic 842)” and all subsequent ASUs that modified Topic 842. The Company elected the optional transition method provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. As stated in the Company’s 2018 Form 10-K, the implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of $751 thousand at the date of adoption, which is related to the Company’s lease of premises used in operations. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the consolidated balance sheets.

Lease liabilities represent the Company’s obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company’s incremental borrowing rate in effect at the commencement date of the lease if the rate implicit in the lease is unattainable. Right-of-use assets represent the Company’s right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

(dollars in thousands)	**December 31, 2019**
Lease liabilities	$ 437
Right-of-use assets	$ 432
Weighted average remaining lease term	2.17 years
Weighted average discount rate	2.77%

Lease cost (in thousands)	**Year Ended December 31, 2019**
Operating lease cost	$ 336
Total lease cost	$ 336
Cash paid for amounts included in the measurement of lease liabilities	$ 331

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Lease payments due (in thousands)	**As of December 31, 2019**
Twelve months ending December 31, 2020	$ 253
Twelve months ending December 31, 2021	112
Twelve months ending December 31, 2022	83
Total undiscounted cash flows	$ 448
Discount	(11)
Lease liabilities	$ 437

The aggregate rental expense of premises and equipment was $361 thousand and $349 thousand for years ended December 31, 2019 and 2018, respectively.

NOTE 9, Low-Income Housing Tax Credits

The Company was invested in four separate housing equity funds at both December 31, 2019 and December 31, 2018. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and preserve and protect project assets.

The investments in these funds were recorded as other assets on the consolidated balance sheets and were $3.0 million and $3.2 million at December 31, 2019 and December 31, 2018, respectively. The expected terms of these investments and the related tax benefits run through 2033. Additional committed capital calls expected for the funds totaled $50 thousand and $248 thousand at December 31, 2019 and December 31, 2018, respectively, and are recorded in accrued expenses and other liabilities on the corresponding consolidated balance sheets. During the years ended December 31, 2019 and 2018, the Company recognized amortization expense of $216 thousand and $320 thousand, respectively, which was included within noninterest expense on the Consolidated Statements of Income.

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

	Years Ended December 31,	
	2019	**2018**
Tax credits and other benefits		
Amortization of operating losses	$ 216	$ 320
Tax benefit of operating losses*	45	67
Tax credits	441	496
Total tax benefits	$ 486	$ 563

* Computed using a 21% tax rate.

NOTE 10, Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2019 and 2018 was $45.3 million and $43.4 million, respectively. As of December 31, 2019, no single customer relationship exceeded 5 percent of total deposits.

At December 31, 2019 the scheduled maturities of time deposits (in thousands) are as follows:

(dollars in thousands)	
2020	$ 123,911
2021	52,025
2022	21,776
2023	21,817
2024	8,389
Balance at end of year	$ 227,918

NOTE 11, Borrowings

Short-Term Borrowings

The Company classifies all borrowings that will mature within a year from the date on which the Company enters into them as short-term borrowings. Short-term borrowings sources consist of federal funds purchased, overnight repurchase agreements (which are secured transactions with customers that generally mature within one to four days), and advances from the FHLB.

The Company maintains federal funds lines with several correspondent banks to address short-term borrowing needs. At December 31, 2019 and 2018 the remaining credit available from these lines totaled $55.0 million. The Company has a collateral dependent line of credit with the FHLB with remaining credit availability of $276.3 million and $245.9 million as of December 31, 2019 and December 31, 2018, respectively.

The following table presents total short-term borrowings as of the dates indicated (dollars in thousands):

(dollar in thousands)	**December 31, 2019**	**December 31, 2018**
Overnight repurchase agreements	$ 11,452	$ 25,775
Federal Home Loan Bank advances	-	13,000
Total short-term borrowings	$ 11,452	$ 38,775
Maximum month-end outstanding balance	$ 38,138	$ 99,898
Average outstanding balance during the period	$ 27,382	$ 62,887
Average interest rate (year-to-date)	0.71%	1.11%
Average interest rate at end of period	0.10%	0.93%

Long-Term Borrowings

At December 31, 2019, the Company had the following long-term FHLB advances outstanding (dollars in thousands).

Long-term Type	Interest Rate	Maturity Date	Advance Amount
Fixed Rate Hybrid	2.92%	4/17/2020	$ 10,000
Fixed Rate Hybrid	2.77%	6/19/2020	10,000
Fixed Rate Hybrid	2.79%	8/29/2020	3,500
Fixed Rate Hybrid	2.63%	2/26/2021	5,000
Fixed Rate Hybrid	2.37%	5/21/2021	5,000
Fixed Rate Hybrid	2.89%	8/27/2021	3,500
			$ 37,000

At December 31, 2018, the Company had the following long-term FHLB advances outstanding (dollars in thousands).

Long-term Type	Interest Rate	Maturity Date	Advance Amount
Fixed Rate Hybrid	1.54%	2/28/2019	$ 10,000
Fixed Rate Hybrid	1.90%	11/15/2019	10,000
Fixed Rate Hybrid	2.92%	4/17/2020	10,000
Fixed Rate Hybrid	2.77%	6/19/2020	10,000
Fixed Rate Hybrid	2.79%	8/29/2020	3,500
Fixed Rate Hybrid	2.89%	8/27/2021	3,500
			$ 47,000

The Company also obtained a loan maturing on April 1, 2023 from a correspondent bank during the second quarter of 2018 to provide partial funding for the Citizens acquisition. The terms of the loan include a LIBOR based interest rate that adjusts monthly and quarterly principal curtailments. At December 31, 2019 the outstanding balance was $2.0 million, and the then-current interest rate was 4.20%. At December 31, 2018, the outstanding balance was $2.6 million, and the then-current interest rate was 4.85%.

The loan agreement with the lender contains financial covenants including minimum return on average asset ratio and Bank capital leverage ratio, maintenance of a well-capitalized position as defined by regulatory guidance and a maximum level of non-performing assets as a percentage of capital plus the allowance for loan losses. The Company was in compliance with each covenant at December 31, 2019.

NOTE 12, Share-Based Compensation

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

The 2016 Incentive Stock Plan (the Incentive Stock Plan) permits the issuance of up to 300,000 shares of common stock for awards to key employees and non-employee directors of the Company and its subsidiaries in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards and performance units. As of December 31, 2019, only restricted stock has been granted under the Incentive Stock Plan.

Restricted stock activity for the year ended December 31, 2019 is summarized below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested, January 1, 2019	13,689	$ 27.51
Issued	16,661	21.68
Vested	(5,839)	27.97
Forfeited	(4,578)	26.63
Nonvested, Deceember 31, 2019	19,933	$ 22.70

The weighted average period over which nonvested awards are expected to be recognized in compensation expense is 1.40 years.

The fair value of restricted stock granted during the year ended December 31, 2019 and 2018 was $361 thousand and $301 thousand, respectively.

The remaining unrecognized compensation expense for the shares granted during the year ended December 31, 2019 totaled $194 thousand as of December 31, 2019. For shares granted during the year ended December 31, 2018, the remaining compensation expense totaled $30 thousand as of December 31, 2019.

Stock-based compensation expense was $224 thousand and $160 thousand for the years ended December 31, 2019 and 2018, respectively.

Under the Company's Employee Stock Purchase Plan (ESPP), substantially all employees of the Company and its subsidiaries can authorize a specific payroll deduction from their base compensation for the periodic purchase of the Company's common stock. Shares of stock are issued quarterly at a discount to the market price of the Company's stock on the day of purchase, which can range from 0-15% and for 2019 and 2018 was set at 5%.

Total stock purchases under the ESPP amounted to 3,666 shares during 2019 and 3,517 shares during 2018. At December 31, 2019, the Company had 238,270 remaining shares reserved for issuance under this plan.

NOTE 13, 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:

(dollars in thousands)	**Years Ended December 31, 2019**	**2018**	**Affected Line Item on Consolidated Statement of Income**
Available-for-sale securities			
Realized gains on sales of securities	$ 314	$ 120	Gain on sale of available-for-sale securities, net
Tax effect	66	25	Income tax expense
	$ 248	$ 95	

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

(dollars in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Accumulated Other Comprehensive Loss
Year Ended December 31, 2019		
Balance at beginning of period	$ (2,156)	$ (2,156)
Net other comprehensive income	2,077	2,077
Balance at end of period	$ (79)	$ (79)
Year Ended December 31, 2018		
Balance at beginning of period	$ (707)	$ (707)
Net other comprehensive loss	(1,233)	(1,233)
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from AOCI	(139)	(139)
Reclassification of net unrealized gains on equity securities from AOCI per ASU 2016-01	(77)	(77)
Balance at end of period	$ (2,156)	$ (2,156)

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

	Year Ended December 31, 2019		
(dollars in thousands)	Pretax	Tax	Net-of-Tax
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 2,943	$ 618	$ 2,325
Reclassification adjustment for gains recognized in income	(314)	(66)	(248)
Total change in accumulated other comprehensive income, net	$ 2,629	$ 552	$ 2,077

	Year Ended December 31, 2018		
(dollars in thousands)	Pretax	Tax	Net-of-Tax
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$ (1,440)	$ (302)	$ (1,138)
Reclassification adjustment for gains recognized in income	(120)	(25)	(95)
Total change in accumulated other comprehensive loss, net	$ (1,560)	$ (327)	$ (1,233)

EARNINGS PER COMMON SHARE

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

The following is a reconciliation of the denominators of the basic and diluted EPS computations for the years ended December 31, 2019 and 2018:

(dollars in thousands except per share data)	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Year ended December 31, 2019			
Net income, basic	$ 7,860	5,197	$ 1.51
Potentially dilutive common shares - employee stock purchase program	-	-	-
Diluted	**$ 7,860**	**5,197**	**$ 1.51**
Year ended December 31, 2018			
Net income, basic	$ 4,919	5,141	$ 0.96
Potentially dilutive common shares - employee stock purchase program	-	-	-
Diluted	**$ 4,919**	**5,141**	**$ 0.96**

The Company had no antidilutive shares in 2019 or 2018. Non-vested restricted common shares, which carry all rights and privileges of a common share with respect to the stock, including the right to vote, were included in the basic and diluted per common share calculations.

NOTE 14, 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, 2019.

Annual activity consisted of the following:

(dollars in thousands)	2019	2018
Balance, beginning of year	$ 4,012	$ 4,287
Additions	297	25
Reductions	(399)	(300)
Balance, end of year	$ 3,910	$ 4,012

Deposits from related parties held by the Company at December 31, 2019 and 2018 amounted to $18.2 million and $12.5 million, respectively.

NOTE 15, Income Taxes

On December 22, 2017, the Tax Act was signed into law. Among other things, the Tax Act permanently reduced the corporate income tax rate to 21% from the prior maximum rate of 35%, effective for tax years including or commencing January 1, 2018.

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

(dollars in thousands)	**2019**	**2018**
Current income tax expense	$ 728	$ 443
Deferred income tax expense (benefit)	352	(164)
Reported income tax expense	$ 1,080	$ 279

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,	
(dollars in thousands)	**2019**	**2018**
Expected tax expense	$ 1,877	$ 1,092
Interest expense on tax-exempt assets	7	18
Low-income housing tax credit	(440)	(496)
Tax-exempt interest, net	(201)	(303)
Bank-owned life insurance	(164)	(164)
Other, net	1	132
Reported tax expense	$ 1,080	$ 279

The effective tax rates for 2019 and 2018 were 12.1% and 5.4%, respectively.

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

(dollars in thousands)	**2019**	**2018**
Deferred tax assets:		
Allowance for loan losses	$ 2,029	$ 2,123
Nonaccrual loans	17	112
Acquistion accounting	61	120
Other real estate owned	-	21
Net operating losses	677	712
Investments in pass-through entities	122	113
Bank owned life insurance benefit	64	59
Securities available-for-sale	21	573
Stock awards	67	55
Alternative minimum tax	0	292
Deferred compensation	347	236
Other	59	63
	$ 3,464	$ 4,479
Deferred tax liabilities:		
Premises and equipment	$ 345	$ 389
Acquistion accounting	76	86
Deferred loan fees and costs	117	181
	538	656
Net deferred tax assets	$ 2,926	$ 3,823

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 2016.

NOTE 16, 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,	
(dollars in thousands)	**2019**	**2018**
Commitments to extend credit:		
Home equity lines of credit	$ 62,267	$ 61,014
Commercial real estate, construction and development loans committed but not funded	15,637	12,165
Other lines of credit (principally commercial)	62,321	74,058
Total	$ 140,225	$ 147,237
Letters of credit	$ 7,724	$ 8,230

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 two letters of credit which expire in 2023. 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 17, 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, and FASB ASU 2016-01, 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 (an exit price) in the principal or most advantageous market for the asset or 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 the principal or most advantageous market for the asset or liability 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. The second source is a third party vendor the Company utilizes to provide fair value exit pricing for loans and interest bearing deposits in accordance with guidance.

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 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, 2019 Using		
(dollars in thousands)	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	$ 7,003	$ -	$ 7,003	$ -
Obligations of U.S. Government agencies	33,604	-	33,604	-
Obligations of state and political subdivisions	24,742	-	24,742	-
Mortgage-backed securities	71,908	-	71,908	-
Money market investments	3,825	-	3,825	-
Corporate bonds and other securities	4,633	-	4,633	-
Total available-for-sale securities	$ 145,715	$ -	$ 145,715	$ -

		Fair Value Measurements at December 31, 2018 Using		
(dollars in thousands)	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	$ 12,328	$ -	$ 12,328	$ -
Obligations of U.S. Government agencies	10,714	-	10,714	-
Obligations of state and political subdivisions	48,837	-	48,837	-
Mortgage-backed securities	71,191	-	71,191	-
Money market investments	1,897	-	1,897	-
Corporate bonds and other securities	3,280	-	3,280	-
Total available-for-sale securities	$ 148,247	$ -	$ 148,247	$ -

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

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

Impaired loans

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

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

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

Other Real Estate Owned (OREO)

Loans are transferred to OREO when the collateral securing them is foreclosed on. The measurement of loss associated with OREO 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 OREO below the original book value are recorded in the period incurred and expensed against current earnings.

Loans Held For Sale

Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). Gains and losses on the sale of loans are reported on a separate line item on the Company's Consolidated Statements of Operations.

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

		Carrying Value at December 31, 2019		
(dollars 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	$ 74	$ -	$ -	$ 74
Commercial	1,294	-	-	1,294
Construction	74	-	-	74
Total mortgage loans on real estate	$ 1,442	$ -	$ -	$ 1,442
Commercial loans	-	-	-	-
Total	$ 1,442	$ -	$ -	$ 1,442
Loans				
Loans held for sale	$ 590	$ -	$ 590	$ -

(dollars in thousands)	Fair Value	Carrying Value at December 31, 2018 Using		
		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	$ 188	$ -	$ -	$ 188
Construction	74	-	-	74
Equity lines of credit	229	-	-	229
Total mortgage loans on real estate	491	-	-	491
Total	$ 491	$ -	$ -	$ 491
Loans				
Loans held for sale	$ 479	$ -	$ 479	$ -
Other real estate owned				
Construction	$ 83	$ -	$ -	$ 83
Total	$ 83	$ -	$ -	$ 83

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

(dollars in thousands)	Fair Value at December 31, 2019	Quantitative Information About Level 3 Fair Value Measurements		
		Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans				
Residential 1-4 family real estate	$ 74	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%
Commercial real estate	$ 1,294	Market comparables	Selling costs	6.00%
			Liquidation discount	35.00%
Construction	$ 74	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%

(dollars in thousands)	Fair Value at December 31, 2018	Quantitative Information About Level 3 Fair Value Measurements		
		Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans				
Residential 1-4 family real estate	$ 188	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%
Construction	$ 74	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%
Equity lines of credit	$ 229	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%
Other real estate owned				
Construction	$ 83	Market comparables	Selling costs	7.25%
			Liquidation discount	4.00%

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 presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2019 and December 31, 2018. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government-supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity. Fair values for December 31, 2019 and 2018 are estimated under the exit price notion in accordance with the prospective adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

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, 2019 Using		
(dollars 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	$ 89,865	$ 89,865	$ -	$ -
Securities available-for-sale	145,715	-	145,715	-
Restricted securities	2,926	-	2,926	-
Loans held for sale	590	-	590	-
Loans, net of allowances for loan losses	738,205	-	-	734,932
Bank owned life insurance	27,547	-	27,547	-
Accrued interest receivable	2,762	-	2,762	-
Liabilities				
Deposits	$ 889,496	$ -	$ 893,584	$ -
Overnight repurchase agreements	11,452	-	11,452	-
Federal Home Loan Bank advances	37,000	-	36,747	-
Other borrowings	1,950	-	2,250	-
Accrued interest payable	620	-	620	-

		Fair Value Measurements at December 31, 2018 Using		
(dollars 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	$ 42,217	$ 42,217	$ -	$ -
Securities available-for-sale	148,247	-	148,247	-
Restricted securities	3,853	-	3,853	-
Loans held for sale	479	-	479	-
Loans, net of allowances for loan losses	763,898	-	-	749,848
Bank owned life insurance	26,763	-	26,763	-
Accrued interest receivable	3,095	-	3,095	-
Liabilities				
Deposits	$ 843,144	$ -	$ 843,818	$ -
Overnight repurchase agreements	25,775	-	25,775	-
Federal Home Loan Bank advances	60,000	-	59,975	-
Other borrowings	2,550	-	2,550	-
Accrued interest payable	594	-	594	-

NOTE 18, Regulatory Matters

The Bank is 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 Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 of total, Tier 1, and common equity tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The terms Tier 1 and common equity tier 1 capital, risk-weighted assets and average assets, as used in this note, are as defined in the applicable regulations. Management believes, as of December 31, 2019 and 2018, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital (CET1) ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). The Basel III Capital Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7%. The Basel III Capital Rules also establish risk weighting that applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Capital Rules became effective January 1, 2015 and the Basel III Capital Rules capital conservation buffer became fully phased-in as of January 1, 2019.

As fully phased in, the Basel III Capital 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, 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, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (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, effectively resulting in a minimum total capital ratio of 10.5%) 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).

In August 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (the Statement), in compliance with The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA). The Statement, among other things, exempts bank holding companies that fall below a certain asset threshold from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. The interim final rule expands the exemption to bank holding companies with consolidated total assets of less than $3 billion. Prior to August 2018, the statement exempted bank holding companies with consolidated assets of less than $1 billion. As a result of the interim final rule, which was effective upon issuance, the Company expects that it will be treated as a small bank holding company and will no longer be subject to regulatory capital requirements on a consolidated basis. At December 31, 2019, the Company’s capital ratios exceed all minimum capital requirements that would apply to the Company if it were not a small bank holding company.

As of December 31, 2019, the most recent notification from the Comptroller categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank’s actual capital amounts and ratios as of December 31, 2019 and 2018 are presented in the table below.

	2019 Regulatory Minimums	December 31, 2019	2018 Regulatory Minimums	December 31, 2018
Common Equity Tier 1 Capital to Risk-Weighted Assets	4.500%	11.73%	4.500%	10.90%
Tier 1 Capital to Risk-Weighted Assets	6.000%	11.73%	6.000%	10.90%
Tier 1 Leverage to Average Assets	4.000%	9.73%	4.000%	9.34%
Total Capital to Risk-Weighted Assets	8.000%	12.86%	8.000%	12.06%
Capital Conservation Buffer	2.500%	4.86%	1.875%	4.06%
Risk-Weighted Assets (in thousands)		$ 863,905		$ 884,444

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 2020, without approval of the Comptroller, $8.6 million plus an additional amount equal to the Bank's and Trust’s retained net profits for 2020 up to the date of any dividend declaration.

NOTE 19, 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 and asset management fees. 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:

	Year Ended December 31, 2019				
(dollars in thousands)	**Bank**	**Trust**	**Unconsolidated Parent**	**Eliminations**	**Consolidated**
Revenues					
Interest and dividend income	$ 40,121	$ 120	$ 8,446	$ (8,446)	$ 40,241
Income from fiduciary activities	-	3,850	-	-	3,850
Other income	9,260	1,028	200	(261)	10,227
Total operating income	49,381	4,998	8,646	(8,707)	54,318
Expenses					
Interest expense	6,310	-	112	-	6,422
Provision for loan losses	318	-	-	-	318
Salaries and employee benefits	20,405	3,142	477	-	24,024
Other expenses	13,508	1,015	352	(261)	14,614
Total operating expenses	40,541	4,157	941	(261)	45,378
Income before taxes	8,840	841	7,705	(8,446)	8,940
Income tax expense (benefit)	1,054	181	(155)	-	1,080
Net income	$ 7,786	$ 660	$ 7,860	$ (8,446)	$ 7,860
Capital expenditures	$ 1,756	$ 26	$ -	$ -	$ 1,782
Total assets	$ 1,048,158	$ 6,695	$ 111,764	$ (112,129)	$ 1,054,488

(dollars in thousands)	Year Ended December 31, 2018 Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
Revenues					
Interest and dividend income	$ 38,122	$ 95	$ 6,116	$ (6,114)	$ 38,219
Income from fiduciary activities	-	3,726	-	-	3,726
Other income	8,589	1,026	230	(262)	9,583
Total operating income	46,711	4,847	6,346	(6,376)	51,528
Expenses					
Interest expense	4,870	-	99	-	4,969
Provision for loan losses	2,861	-	-	-	2,861
Salaries and employee benefits	19,150	2,977	453	-	22,580
Other expenses	14,078	1,086	1,018	(262)	15,920
Total operating expenses	40,959	4,063	1,570	(262)	46,330
Income before taxes	5,752	784	4,776	(6,114)	5,198
Income tax expense (benefit)	256	166	(143)	-	279
Net income	$ 5,496	$ 618	$ 4,919	$ (6,114)	$ 4,919
Capital expenditures	$ 478	$ -	$ -	$ -	$ 478
Total assets	$ 1,032,676	$ 6,226	$ 104,592	$ (105,311)	$ 1,038,183

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 20, Condensed Financial Statements of Parent Company

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

Balance Sheets (dollars in thousands)	December 31, 2019	2018
Assets		
Cash and cash equivalents	$ 1,399	$ 1,352
Securities available-for-sale	-	-
Investment in common stock of subsidiaries	110,057	103,035
Other assets	308	205
Total assets	$ 111,764	$ 104,592
Liabilities and Stockholders' Equity		
Other borrowings	$ 1,950	$ 2,550
Other liability	58	36
Common stock	25,901	25,853
Additional paid-in capital	20,959	20,698
Retained earnings	62,975	57,611
Accumulated other comprehensive loss	(79)	(2,156)
Total liabilities and stockholders' equity	$ 111,764	$ 104,592

Statements of Income *(dollars in thousands)*	**Years Ended December 31, 2019**	**2018**
Income:		
Dividends from subsidiary	$ 3,500	$ 2,500
Interest on investments	-	-
Other income	200	233
Total income	3,700	2,733
Expenses:		
Salary and benefits	477	453
Legal expenses	101	143
Service fees	200	166
Merger expenses	-	655
Other operating expenses	163	153
Total expenses	941	1,570
Income before income taxes and equity in undistributed net income of subsidiaries	2,759	1,163
Income tax benefit	(155)	(143)
	2,914	1,306
Equity in undistributed net income of subsidiaries	4,946	3,613
Net income	$ 7,860	$ 4,919

Statements of Cash Flows *(dollars in thousands)*	**Years Ended December 31, 2019**	**2018**
Cash flows from operating activities:		
Net income	$ 7,860	$ 4,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(4,946)	(3,613)
Gain on sale of securities, net	-	(30)
Stock compensation expense	12	11
Increase in other assets	110	(13)
Increase in other liabilities	22	18
Net cash provided by operating activities	3,058	1,292
Cash flows from investing activities:		
Proceeds from sale of investment securities	-	227
Cash paid in acquisition	-	(3,164)
Cash acquired in acquisition		2,304
Cash distributed to subsidiary	-	(2,304)
Net cash used in investing activities	-	(2,937)
Cash flows from financing activities:		
Proceeds from sale of stock	85	87
Proceeds from borrowings	-	3,000
Repayment of borrowings	(600)	(450)
Cash dividends paid on common stock	(2,496)	(2,262)
Net cash (used in) provided by financing activities	(3,011)	375
Net increase (decrease) in cash and cash equivalents	47	(1,270)
Cash and cash equivalents at beginning of year	1,352	2,622
Cash and cash equivalents at end of year	$ 1,399	$ 1,352

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

None.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

The Company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rule l 3a- l 5(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

The Company maintains disclosure controls and procedures that are designed 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company did not, as of December 31, 2019, maintain effective disclosure controls and procedures due to a material weakness in the Company's internal control over financial reporting as described below.

Notwithstanding management's conclusion regarding the effectiveness of the Company's disclosure controls and procedures and the material weakness discussed below, the Company's management, including the Chief Executive Officer and Chief Financial Officer, has concluded that the Company's financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in accordance with U.S. generally accepted accounting principles.

b) Report of Management's Assessment of lnternal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule l 3a- l 5(f) under the Exchange Act. Our internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall 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.

With the supervision and participation of its Chief Executive Officer and its Chief Financial Officer, management evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, using the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013).*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As of December 31, 2019, a control deficiency existed related to the controls surrounding the Company's primary correspondent bank account reconciliation that did not allow for the timely identification of stale-dated and other reconciling items that began with the Company's conversion to an outsourced core provider platform on December 9, 2019, resulting in a material weakness.

Completion of the primary correspondent bank account reconciliation covering the period has not revealed any material adverse adjustment to the Consolidated Statements of Income or the value of growth in earning assets and customer deposit balances and, as such, did not result in any material misstatements in our consolidated financial statements.

This control deficiency; however, creates reasonable possibility that a material misstatement of the consolidated financial statements would not be prevented or detected on a timely basis. Management has concluded that the control deficiency represents a material weakens in internal control over financial reporting. Therefore, the Company's internal control over financial reporting was not effective as of December 31, 2019.

Yount, Hyde & Barbour, P.C., our independent registered public accounting firm, has issued an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, which is included herein.

(c) Remediation Plan

As a result of our conversion to an outsourced core provider platform, certain transactions were processed inconsistently with the manner in which they were previously processed. This change created reconciliation issues in our correspondent bank account. Management has determined the root cause and is working with the outsourced vendor to convert processing of these transactions to a consistent and efficient manner. In addition, Management has engaged an independent third party to assist with tracing outstanding reconciling items and with subsequent reconciliations in order to develop a streamlined process. Remediation is expected to be completed as of June 30, 2020.

(d) Changes in Internal Control over Financial Reporting

Other than the remediation discussed above, there have not been any changes to the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are 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 2020 Annual Meeting of Stockholders (the 2020 Proxy Statement) to be held on May 26, 2020.

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 2020 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 "Delinquent Section 16(a) Reports" in the 2020 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 "Information about Our Executive Officers."

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 2020 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 2020 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 2020 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2020 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 2020 Proxy Statement is incorporated herein by reference.

The information regarding director independence set forth under the caption "Board Committees and Attendance" in the 2020 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 2020 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, 2019 and 2018
Consolidated Statements of Income – Years Ended December 31, 2019 and 2018
Consolidated Statements of Comprehensive Income – Years Ended December 31, 2019 and 2018
Consolidated Statements of Changes in Stockholders' Equity – Years Ended December 31, 2019 and 2018
Consolidated Statements of Cash Flows – Years Ended December 31, 2019 and 2018
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
2.1	Agreement and Plan of Reorganization, dated as of October 27, 2017, by and among Old Point Financial Corporation, The Old Point National Bank of Phoebus, and Citizens National Bank (incorporated by reference to Exhibit 2.1 to Form 8-K filed November 2, 2017)
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed on March 12, 2009)
3.1.1	Articles of Amendment to Articles of Incorporation of Old Point Financial Corporation, effective May 26, 2016 (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed May 31, 2016)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated August 9, 2016 (incorporated by reference to Exhibit 3.2 to Form 10-Q filed August 10, 2016)
4.0	Description of the Company’s Common Stock
10.4*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with The Northwestern Mutual Life Insurance Company entered into with each of Robert F. Shuford, Sr., Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 30, 2005)
10.5*	Directors' Compensation
10.7*	Summary of Old Point Financial Corporation Incentive Plan (incorporated by reference to Exhibit 10.7 to Form 10-K filed March 30, 2015)
10.8*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with each of Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 14, 2008)
10.9	Memorandum of Understanding between The Old Point National Bank of Phoebus and Tidewater Mortgage Services, Inc., dated September 10, 2007 (incorporated by reference to Exhibit 10.8 to Form 10-Q filed November 9, 2007)
10.10*	Form of 162 Insurance Plan (incorporated by reference to Exhibit 10.10 to Form 10-K filed March 12, 2009)
10.11*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with Joseph R. Witt (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 12, 2010)
10.12*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with New York Life Insurance and Annuity Corporation entered into with Eugene M. Jordan, II, Robert F. Shuford, Jr., and Joseph R. Witt (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 30, 2012)
10.14	Settlement Agreement dated March 16, 2016 among Old Point Financial Corporation, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., PL Capital/Focused Fund, L.P., PL Capital, LLC, PL Capital Advisors, LLC, Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Mr. John W. Palmer and Mr. Richard J. Lashley, as Managing Members of PL Capital, LLC, PL Capital Advisors, LLC and Goodbody/PL Capital, LLC and Mr. William F. Keefe (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 17, 2016)
10.15*	Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.15 to Form 8-K filed May 31, 2016)
10.16	Membership Interest Purchase Agreement dated January 13, 2017 between Tidewater Mortgage Services, Inc. and The Old Point National Bank of Phoebus (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 20, 2017)

10.22*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and The Old Point National Bank of Phoebus and Robert F. Shuford, Jr. (incorporated by reference to Exhibit 10.22 to Form 8-K filed February 28, 2018)
10.24*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and The Old Point National Bank of Phoebus and Joseph R. Witt (incorporated by reference to Exhibit 10.24 to Form 8-K filed February 28, 2018)
10.25*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and Old Point Trust & Financial Services, N.A. and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.25 to Form 8-K filed February 28, 2018)
10.26*	Change of Control Severance Agreement, dated as of February 22, 2018, by and between The Old Point National Bank of Phoebus and Donald S. Buckless (incorporated by reference to Exhibit 10.26 to Form 10-K filed March 16, 2018)
10.27*	Form of Time-Based Restricted Stock Agreement (installment vesting) (approved March 29, 2018) for awards to certain employees under the Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.27 to Form 8-K filed April 3, 2018)
10.28*	Form of Time-Based Restricted Stock Agreement (cliff vesting) (approved March 29, 2018) for awards to certain employees under the Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.28 to Form 8-K filed April 3, 2018)
10.29*	Form of Time-Based Restricted Stock Agreement (cliff vesting) (approved March 29, 2018) for awards to certain non-employee directors under the Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.29 to Form 8-K filed April 3, 2018)
10.30	Change of Control Severance Agreement, dated as of October 30, 2019, by and between The Old Point National Bank of Phoebus and Elizabeth T. Beale
10.31	Change of Control Severance Agreement, dated as of October 30, 2019, by and between The Old Point National Bank of Phoebus and Thomas Hotchkiss
10.32	Change of Control Severance Agreement, dated as of December 31, 2019, by and between The Old Point National Bank of Phoebus and Susan R. Ralston
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.
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, 2019, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

*Denotes management contract.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

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

OLD POINT FINANCIAL CORPORATION

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

Date: March 16, 2020

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.

Signature	Title
/s/Robert F. Shuford, Jr. Robert F. Shuford, Jr. Date: March 16, 2020	Chairman, President & Chief Executive Officer and Director Principal Executive Officer
/s/Elizabeth T. Beale Elizabeth T. Beale Date: March 16, 2020	Chief Financial Officer & Senior Vice President/Finance Principal Financial & Accounting Officer
/s/Stephen C. Adams Stephen C. Adams Date: March 16, 2020	Director
/s/James Reade Chisman James Reade Chisman Date: March 16, 2020	Director
/s/Russell S. Evans, Jr. Russell S. Evans, Jr. Date: March 16, 2020	Director
/s/Michael A. Glasser Michael A. Glasser Date: March 16, 2020	Director
/s/Dr. Arthur D. Greene Dr. Arthur D. Greene Date: March 16, 2020	Director

/s/John Cabot Ishon John Cabot Ishon Date: March 16, 2020	Director
/s/William F. Keefe William F. Keefe Date: March 16, 2020	Director
/s/Tom B. Langley Tom B. Langley Date: March 16, 2020	Director
/s/Robert F. Shuford, Sr. Robert F. Shuford, Sr. Date: March 16, 2020	Director
/s/Ellen Clark Thacker Ellen Clark Thacker Date: March 16, 2020	Director
/s/Joseph R. Witt Joseph R. Witt Date: March 16, 2020	Director

Exhibit 4.0

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The description of the material features of the common stock, $5.00 par value per share (the "common stock"), of Old Point Financial Corporation (the "Company") does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to, the applicable provisions of Virginia law and by our Articles of Incorporation, as amended June 22, 2000 and further amended May 26, 2016 (the "Articles"), and our Bylaws, as amended and restated August 9, 2016 (the "Bylaws"). Our Articles and our Bylaws are included as exhibits to the Annual Report on Form 10-K of which this exhibit is a part.

General

Each share of the Company's common stock has the same relative rights as, and is identical in all respects to, each other share of Company common stock. The Company's common stock is traded on the NASDAQ Capital Market under the symbol "OPOF." The authorized capital stock of the Company consists of 10,000,000 shares of common stock.

Dividends

The Company's stockholders are entitled to receive dividends or distributions that its Board of Directors may declare out of funds legally available for those payments. The payment of distributions by the Company is subject to the restrictions of Virginia law applicable to the declaration of distributions by a corporation. A Virginia corporation generally may not authorize and make distributions if, after giving effect to the distribution, it would be unable to meet its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were dissolved at that time, to satisfy the preferential rights of stockholders whose rights are superior to the rights of those receiving the distribution.

As a bank holding company, the Company's ability to pay dividends is affected by the ability of Old Point National Bank and Old Point Trust, its subsidiaries that are chartered by the OCC, to pay dividends to the holding company. The ability of Old Point National Bank and Old Point Trust, as well as the Company, to pay dividends in the future is, and could be further, influenced by bank regulatory requirements and capital guidelines.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, the holders of shares of its common stock will be entitled to receive, after payment of all debts and liabilities of the Company, all remaining assets of the Company available for distribution in cash or in kind.

Voting Rights

The Company's stockholders are entitled to one vote per share and, in general, a majority of votes cast with respect to a matter is sufficient to authorize action upon a routine matter.

In an uncontested director election, each director will be elected by the affirmative vote of a majority of the votes cast with respect to the director's election. An "uncontested director election" means an election in which the number of nominees does not exceed the number of directors to be elected. In a contested director election, directors are elected by a plurality of the votes cast. Holders of Company common stock are not entitled to cumulative voting rights in the election of directors.

Directors and Classes of Directors

In an uncontested director election, each Company director will be elected by the affirmative vote of a majority of the votes cast with respect to the director's election. An "uncontested director election" means an election in which the number of nominees does not exceed the number of directors to be elected. In a contested director election, directors of the Company are elected by a plurality of the votes cast. The Company's stockholders are not entitled to cumulative voting rights in the election of directors. The Company has only one class of directors.

No Preemptive Rights; Redemption and Assessment

Holders of shares of the Company's common stock will not be entitled to preemptive rights with respect to any shares that may be issued. The Company's common stock is not subject to redemption or any sinking fund and the outstanding shares are fully paid and nonassessable.

Certain Anti-Takeover Provisions of Our Articles and Bylaws and Virginia Law

General. Our Articles and Bylaws and the Virginia Stock Corporation Act (the "VSCC") contain certain provisions designed to enhance the ability of our Board of Directors to deal with attempts to acquire control of the company. These provisions, and the ability to set the voting rights, preferences and other terms of any series of preferred stock that may be issued, may be deemed to have an anti-takeover effect and may discourage takeovers (which certain stockholders may deem to be in their best interest). To the extent that such takeover attempts are discouraged, temporary fluctuations in the market price of our common stock resulting from actual or rumored takeover attempts may be inhibited. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even though such transaction may be favorable to the interests of stockholders, and could potentially adversely affect the market price of our common stock.

The following briefly summarizes protective provisions that are contained in our Articles and Bylaws and provided by the VSCC. This summary is necessarily general and is not intended to be a complete description of all the features and consequences of those provisions, and is qualified in its entirety by reference to our Articles and Bylaws and the statutory provisions contained in the VSCC.

State Anti-Takeover Statutes. Virginia has two anti-takeover statutes in force, the Affiliated Transactions Statute and the Control Share Acquisitions Statute.

The Affiliated Transaction Statute of the VSCC contains provisions governing "affiliated transactions." These include various transactions such as mergers, share exchanges, sales, leases, or other dispositions of material assets, issuances of securities, dissolutions, and similar transactions with an "interested stockholder." An interested stockholder is generally the beneficial owner of more than 10% of any class of a corporation's outstanding voting shares. During the three years following the date a stockholder becomes an interested stockholder, any affiliated transaction with the interested stockholder must be approved by both a majority (but not less than two) of the "disinterested directors" (those directors who were directors before the interested stockholder became an interested stockholder or who were recommended for election by a majority of the disinterested directors) and by the affirmative vote of the holders of two-thirds of the corporation's voting shares other than shares beneficially owned by the interested stockholder. These requirements do not apply to affiliated transactions if, among other things, a majority of the disinterested directors approve the interested stockholder's acquisition of voting shares making such a person an interested stockholder before such acquisition. Beginning three years after the stockholder becomes an interested stockholder, the corporation may engage in an affiliated transaction with the interested stockholder if:

- the transaction is approved by the holders of two-thirds of the corporation's voting shares, other than shares beneficially owned by the interested stockholder;

- the affiliated transaction has been approved by a majority of the disinterested directors; or

- subject to certain additional requirements, in the affiliated transaction the holders of each class or series of voting shares will receive consideration meeting specified fair price and other requirements designed to ensure that all stockholders receive fair and equivalent consideration, regardless of when they tendered their shares.

Under the VSCC's Control Share Acquisitions Statute, voting rights of shares of stock of a Virginia corporation acquired by an acquiring person or other entity at ownership levels of 20%, 33 1/3%, and 50% of the outstanding shares may, under certain circumstances, be denied. The voting rights may be denied:

- unless conferred by a special stockholder vote of a majority of the outstanding shares entitled to vote for directors, other than shares held by the acquiring person and officers and directors of the corporation; or

- among other exceptions, such acquisition of shares is made pursuant to a merger agreement with the corporation or the corporation's articles of incorporation or bylaws permit the acquisition of such shares before the acquiring person's acquisition thereof.

If authorized in the corporation's articles of incorporation or bylaws, the statute also permits the corporation to redeem the acquired shares at the average per share price paid for such shares if the voting rights are not approved or if the acquiring person does not file a "control share acquisition statement" with the corporation within 60 days of the last acquisition of such shares. If voting rights are approved for control shares comprising more than 50% of the corporation's outstanding stock, objecting stockholders may have the right to have their shares repurchased by the corporation for "fair value."

Corporations may provide in their articles of incorporation or bylaws to opt-out of the Affiliated Transactions Statute or the Control Share Acquisitions Statute. The Company has not opted-out of the Affiliated Transactions Statute or the Control Share Acquisitions Statute and, therefore, such statutes do apply to the Company. Neither the Company's Articles of Incorporation or Bylaws authorize the Company to redeem shares of its common stock which have been the subject of a "control share acquisition" as defined in the Control Share Acquisitions Statute.

Supermajority Provision. The Company's articles of incorporation provide that the affirmative vote of the holders of not less than 75% of the outstanding shares of common stock of the Company shall be required for the approval or authorization of any business combination (as defined below), unless such business combination has been approved by the affirmative vote of at least 80% of the entire Board of Directors.

A “business combination” means (i) any merger or consolidation of the Company or a subsidiary with or into, or the exchange of shares of the Company for cash or property of, an acquiring person, (ii) any sale, lease, exchange or other disposition of all or substantially all of the assets of the Company or a subsidiary to or with an acquiring person, (iii) any reclassification of securities (including any reverse stock split), recapitalization or other transaction that would have the effect of increasing the voting power of an acquiring person, or (iv) any plan or proposal for the liquidation or dissolution of the Company proposed by or on behalf of an acquiring person. An “acquiring person” means any individual, firm, corporation, trust or any other entity which: (i) beneficially owns, together with its affiliates and associated persons, 5% or more of the outstanding shares of common stock of the Company; or (ii) though owning less than 5% of such shares, proposes or undertakes to obtain control or exercise a controlling influence over the Company as determined by the Board of Directors.

Advance Notification Requirements. The Company’s Bylaws provide that a stockholder of record who is entitled to vote at an annual meeting of the Company’s stockholders may nominate a person for election to the Company’s Board of Directors by delivering notice of such nomination to the Secretary of the Company not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year’s annual meeting (or, if the annual meeting is more than 30 days before or more than 70 days after such anniversary, then not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the public announcement of the annual meeting date). Such notice must set forth certain information specified by the Bylaws.

The Bylaws also provide that a stockholder may propose business to be considered by stockholders at an annual meeting of stockholders, subject to the same timeliness requirements as apply to stockholder nomination of directors for election at an annual meeting.

The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Company of such stockholder’s intention to present a proposal at an annual meeting and such stockholder’s proposal has been included in a proxy statement that has been prepared by the Company for such annual meeting.

Exculpation and Indemnification of Officers and Directors. Virginia law permits a Virginia corporation to indemnify directors and officers against liability incurred in a proceeding if he conducted himself in good faith and believed that, with regard to conduct in his official capacity, the conduct was in the corporation’s best interest and, with regard to all other conduct, that the conduct was not opposed to the corporation’s best interests.

The Company’s Articles provide that, to the full extent permitted by Virginia law, a director or officer of the Company shall not be liable to the Company or its stockholders for monetary damages. The Articles provide that, to the fullest extent permitted by Virginia law, the Company shall indemnify a director or officer who is a party to any proceeding because he or she was a director or officer of the Company against liability incurred in the proceeding.

Amendments to our Articles of Incorporation. Virginia law generally requires that in order for an amendment to the articles of incorporation to be adopted it must be approved by each voting group entitled to vote on the proposed amendment by more than two-thirds of all the votes entitled to be cast by that voting group, unless Virginia law otherwise requires a greater vote, or the articles of incorporation provide for a greater or lesser vote, or a vote by separate voting groups. However, under Virginia law, no amendment to the articles of incorporation may be approved by a vote that is less than a majority of all the votes cast on the amendment by each voting group entitled to vote at a meeting at which a quorum of the voting group exists.

Other than as set forth immediately below, the Company’s Articles are silent on amendment of the articles of incorporation, so an amendment to the Articles require an affirmative vote of more than two-thirds of the votes entitled to be cast on the matter.

The Company’s Articles of Incorporation require an affirmative vote of (i) at least 75% of the votes entitled to be cast, or (ii) 80% of the entire Board of Directors and at least two-thirds of the votes entitled to be cast, to amend or repeal the provisions of the articles of incorporation regarding certain business combinations, as described immediately below.

Under Virginia law, unless another process is set forth in the articles of incorporation or bylaws, a majority of the directors (except to the extent authority to amend the bylaws is reserved by Virginia law), or, if a quorum exists at a meeting of stockholders, a majority of the stockholders present and entitled to vote may adopt, amend or repeal the bylaws,

EXHIBIT 10.5

Directors' Compensation

All non-employee directors of The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services, N.A. (the Trust Company) receive $1,000 and $400, respectively, for each board meeting they attend. The non-employee directors on the Peninsula Regional Board and Southside Regional Board receive $150 for each Regional Board meeting they attend. The non-employee directors of the Bank and Trust Company receive $400 for each committee meeting they attend except for the Trust's Investment Committee and Marketing Committee meetings, for which members receive $250 for attendance.

In addition, non-employee directors of the Bank and Trust Company receive an annual retainer fee of $12,000 and $4,000, respectively. The non-employee directors on the Peninsula Regional Board and Southside Regional Board each receive an annual retainer of $1,000. In addition, the Chairman of the Audit Committee, the Chairman of the Compensation and Benefits Committee, and the Chairman of the Nominating and Corporate Governance Committee receives an additional $5,000 annual retainer, the Chairman of the Trust Company Board receives an additional $2,000 annual retainer, the Lead Director of the Bank Board receives an additional $10,000 annual retainer, the Chairman of the Directors Loan Committee receives an additional $4,000 annual retainer, and the Chairman of the Board Risk Committee and the Chairman of the Capital Management Committee receives an additional $2,000 retainer.

All directors of Old Point Financial Corporation (the Company) have been elected as directors of the Bank, but there is no assurance that this practice will continue. However, not all Company directors serve as directors of the Trust Company. There are no additional fees paid for being a Company director.

The Company reimburses travel, lodging and meal expense for all directors living outside of Virginia to attend board and committee meetings. The Company also pays for all directors and their spouses to attend regular director seminars.

Non-employee directors are eligible to receive equity compensation awards under the Company's 2016 Incentive Stock Plan.

CHANGE OF CONTROL SEVERANCE AGREEMENT

THIS CHANGE OF CONTROL SEVERANCE AGREEMENT (the "Agreement"), effective this 17th day of September, 2019, by and between The Old Point National Bank of Phoebus (the "Bank") and Elizabeth T. Beale ("Employee").

W I T N E S S E T H:

WHEREAS, Employee is a valuable employee of the Bank;

WHEREAS, the Bank wishes to encourage Employee to continue Employee's career and services with the Bank and to remain with the Bank during any potential change of control of the Bank; and

WHEREAS, the Bank and Employee have agreed to enter into this Agreement to set forth the terms on which Employee may be entitled to severance pay from the Bank following a Change of Control (as defined below).

NOW, THEREFORE, it is hereby agreed by and between the parties hereto as follows:

1. Definitions.

(a) "Cause" shall mean:

(i) Employee's misconduct in connection with the performance of Employee's duties;

(ii) Employee's misappropriation or embezzlement of funds or property of the Bank or any affiliate;

(iii) Employee's fraud or dishonesty with respect to the Bank or any affiliate;

(iv) Employee's conviction of, indictment for (or the procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any misdemeanor involving moral turpitude; or

(v) Employee's breach of a material term of this Agreement, failure to perform the material duties and responsibilities of Employee's position or violation in any material respect of any policy, code or standard of behavior generally applicable to officers or employees of the Bank, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by the Bank) to remedy such breach or violation (if such breach or violation is deemed by the Bank to be capable of being remedied) which period shall be not less than thirty (30) days;

(vi) Employee's material breach of any fiduciary duty owed to the Bank; or

(vii) Employee’s engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would be or is reasonably likely to result, in the good faith judgment of the Bank, in injury to the Bank, monetarily or otherwise.

(b) “Change of Control” shall mean the date any one of the following events occurs after the effective date of this Agreement:

(i) any one person, or more than one person acting as a group, acquires ownership of stock of Old Point Financial Corporation (“Old Point”) that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point. However, if any one person or group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point, the acquisition of additional stock by the same person or group is not considered to cause a Change of Control. An increase in the percentage of stock owned by any one person or group, as a result of a transaction in which Old Point acquires its stock in exchange for property will be treated as an acquisition of stock. This applies only when there is a transfer of stock of Old Point (or issuance of stock of Old Point) and stock in Old Point remains outstanding after the transaction.

(ii) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of Old Point possessing thirty percent (30%) or more of the total voting power of the stock of Old Point.

(iii) a majority of members of Old Point’s Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of Old Point’s Board of Directors prior to the date of the appointment or election.

(iv) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) assets from Old Point that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Old Point immediately prior to such acquisition or acquisitions. For this purpose, “gross fair market value” shall mean the value of the assets of Old Point, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by Old Point shall not be treated as a Change of Control if the assets are transferred to: (A) a shareholder of Old Point (immediately before the asset transfer) in exchange for or with respect to its stock; (B) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by Old Point; (C) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Old Point; or (D) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 1(b)(iv)(C) above. A person’s status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which Old Point has no ownership interest before the transaction, but which is a majority-owned subsidiary of Old Point after the transaction is not treated as a Change of Control.

For purposes of Section 1(b)(ii) and (iii) above, if any one person or more than one person acting as a group is considered to effectively control Old Point (within the meaning of Section 1(b)(ii) or (iii) above), the acquisition of additional control of Old Point by the same person or group is not considered to cause a Change of Control. For purposes of this Section 1, "more than one person acting as a group" shall include the owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock or assets, or similar business transaction with Old Point. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a group solely because they (I) purchase or own stock of the same corporation at the same time, or as a result of the same public offering, or (II) purchase assets of the same corporation at the same time.

(c) "Good Reason" shall mean within twenty-four (24) months after a Change of Control:

(i) a material diminution in Employee's authority, duties or responsibilities; or

(ii) the relocation of Employee to any other primary place of employment more than fifty (50) miles from the Bank headquarters in Hampton, Virginia, without Employee's express written consent to such relocation; or

(iii) a material breach of this Agreement by the Bank involving Employee's base salary.

Employee is required to provide notice to the Bank of the existence of a condition described in Section 1(c) above within a sixty (60) day period of the initial existence of the condition, and the Bank shall have thirty (30) days after notice to remedy the condition without liability. If not remedied by the Bank, Employee shall have thirty (30) days after the end of such remedy period to terminate employment for Good Reason.

(d) "Incapacity" shall mean Employee is suffering a physical or mental impairment that renders the Executive unable to perform the essential functions of the Position, and such impairment exists for six months within any twelve-month period, as determined by the Bank and in compliance with the requirements of the Americans with Disabilities Act.

2. Severance Payments and Other Matters Related to Termination within Two (2) Years After a Change of Control.

(a) Without Cause or for Good Reason. If Employee's employment is involuntarily terminated without Cause (and other than due to Employee's death or Incapacity) within two (2) years after a Change of Control shall have occurred or if Employee resigns for Good Reason within two (2) years after a Change of Control shall have occurred, then the Bank shall pay to Employee (subject to any applicable payroll or other taxes required to be withheld), (i) (A) any unpaid base salary for time worked through the date of termination payable in a lump sum as soon as administratively feasible following termination, but not later than thirty (30) days thereafter; (B) any annual incentive compensation earned during the calendar year preceding the calendar year of termination, but not yet paid as of the date of termination, payable on the earlier of the thirtieth (30th) day after the date of termination, or when otherwise due; and (C) any benefits or awards vested, due and owing pursuant to the terms of any other plans, policies or programs, payable when otherwise due (hereinafter subsections (a)(i)(A) – (C) collectively are referred to as the "Accrued Obligations") and (ii) subject to Employee's signing, delivering and not revoking the Release attached as Exhibit A, which Release must be signed, delivered and not revoked within the time period set forth therein, the following:

(A) An amount equal to 1.5 times Employee's base salary as in effect at the time of termination, payable over a period of twelve (12) months in accordance with the regular pay periods of Old Point (but not less frequently than monthly and in equal installments) beginning on the first payroll following the date of termination of employment, provided, however, that all payments otherwise due during the first sixty (60) days following termination of employment shall be accumulated and, if the Release requirements have been met, paid on the sixtieth (60th) day following termination of employment.

(B) An amount equal to 1.5 times the average annual bonus payable for the five years preceding the calendar year in which the termination occurs (or the average for the number of years the Agreement has been in effect if less than five (5) years.) If the Agreement was in effect and no bonus was paid for a calendar year, then the amount to be used for that year in computing the average shall be zero. The bonus amount shall be payable over a period of twelve (12) months in accordance with the regular pay periods of the Bank (but not less frequently than monthly and in equal installments), payable in the same manner and at the same time as the payments in Section 2(a)(A).

(C) An amount equal to the product of Eighteen (18) times the monthly rate of the Bank's subsidy for coverage in its medical, dental and vision plans for active employees (including any applicable coverage for spouses and dependents) in effect on the date of termination, payable in a lump sum on the sixtieth (60th) day following termination of employment.

(b) Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Employee and Old Point or a subsidiary following a transaction that constitutes a change in the ownership or effective control of Old Point or in the ownership of a substantial portion of the assets of Old Point such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 280G") or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(i) In the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by Old Point or a subsidiary under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Employee and Old Point or a subsidiary will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 2(b)(i) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(ii) Notwithstanding the foregoing Section 2(b)(i), in the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that the net economic benefit to Employee after payment of all income and excise taxes is greater without giving effect to Section 2(b)(i) than Employee's net economic benefit after a reduction by reason of the application of Section 2(b)(i), then Section 2(b)(i) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 2(b)(i) shall be made by the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point), shall be made at Old Point's expense and shall be binding on the parties.

(c) Other Terminations. If Employee's employment is terminated for Cause or due to Employee's death or Incapacity or if Employee voluntarily terminates his employment other than for Good Reason, within two (2) years after a Change of Control shall have occurred, this Agreement shall terminate without any further obligation of the Bank to Employee other than the payment to Employee of any unpaid base salary for the time worked through the date of termination as soon as administratively feasible after termination but not later than thirty (30) days thereafter and the payment of any benefits vested, due and owing pursuant to the terms of any plans, policies or programs, payable when otherwise due.

3. Covenants.

(a) Non-Competition. Notwithstanding the foregoing, all such payments and benefits otherwise due under Section 2(a) shall cease to be paid, and the Bank shall have no further obligation due with respect thereto, in the event Employee engages in any conduct prohibited in this Section 3. In exchange for this Agreement and other valuable consideration, Employee agrees that Employee will not engage in Competition for a period of twelve (12) months after Employee's employment with the Bank ceases for any reason, regardless of whether any benefits are due under Section 2(a). For purposes hereof, "Competition" means Employee's performing duties that are the same as or substantially similar to those duties performed by Employee for the Bank during the last twelve (12) months of Employee's employment, as an officer, a director, an employee, a partner or in any other capacity, within twenty-five (25) miles of the headquarters of the Bank (or any Virginia headquarters of any successor) or any branch office of the Bank (or any successor (as to its Virginia branches only) as they are located as of the date Employee's employment ceases, if those duties are performed for a bank of other financial institution that provides products or services that are the same as or substantially similar to, and competitive with, any of the products or services provided by the Bank at the time Employee's employment ceases.

(b) Non-Piracy. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after Employee's employment ceases for any reason, Employee will not, directly or indirectly, solicit, divert from the Bank or Old Point or do business with any "Customer" of the Bank with whom Employee had "Material Contact" during the last twelve (12) months of Employee's employment or about whom Employee obtained information while acting within the scope of his or her employment during the last twelve (12) months of employment, if the purpose of such solicitation, diversion or transaction is to provide products or services that are the same as or substantially similar to those offered by the Bank at the time Employee's employment ceases. "Material Contact" means that Employee personally communicated with the Customer, either orally or in writing, for the purpose of providing, offering to provide or assisting in providing products or services of the Bank. "Customer" means any person or entity with whom the Bank had a depository or other contractual relationship, pursuant to which the Bank provided products or services during the last twelve (12) months of Employee's employment.

(c) Non-Solicitation. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after employment ceases, for any reason, Employee will not, directly or indirectly, hire or solicit for hire or induce any person to terminate his or her employment with the Bank, if the purpose is to compete with the Bank.

(d) Confidentiality. As an employee of the Bank, Employee will have access to and may participate in the origination of non-public, proprietary and confidential information relating to the Bank and/or its affiliates, and Employee acknowledges a fiduciary duty owed to the Bank and its affiliates not to disclose impermissibly any such information. Confidential information may include, but is not limited to, trade secrets, customer lists and information, internal corporate planning, methods of marketing and operation, and other data or information of or concerning the Bank or its customers that is not generally known to the public or generally in the banking industry. Employee agrees that during employment and for a period of five (5) years following the cessation of employment, Employee will not use or disclose to any third party any such confidential information, either directly or indirectly, except as may be authorized in writing specifically by the Bank; provided, however that to the extent the information covered by this Section 8 is otherwise protected by the law, such as "trade secrets," as defined by the Virginia Uniform Trade Secrets Act, or customer information protected by banking privacy laws, that information shall not be disclosed or used for however long the legal protections applicable to such information remain in effect.

Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee from performing any duty or obligation that shall arise as a matter of law or limit Employee's right to communicate with a government agency, as provided for, protected under or warranted by applicable law. Specifically, Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. In the event Employee is requested to disclose confidential information by subpoena or other legal process or lawful exercise of authority, Employee shall promptly provide the Bank with notice of the same and cooperate with the Bank in the Bank's effort, at its sole expense, to avoid disclosure.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or

- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

(e) Remedies. Employee acknowledges that the covenants set forth in Section 3 of this Agreement are just, reasonable, and necessary to protect the legitimate business interests of the Bank. Employee further acknowledges that if Employee breaches or threatens to breach any provision of Section 3, the Bank's remedies at law will be inadequate, and the Bank will be irreparably harmed. Accordingly, the Bank shall be entitled to its attorney's fees, costs and an injunction, both preliminary and permanent, restraining Employee from such breach or threatened breach, such injunctive relief not to preclude the Bank from pursuing all available legal and equitable remedies.

4. Documents. All documents, records, tapes and other media of any kind or description relating to the business of the Bank or any of its affiliates (the "Documents"), whether or not prepared by Employee, shall be the sole and exclusive property of the Bank. The Documents (and any copies) shall be returned to the Bank upon Employee's termination of employment for any reason or at such earlier time or times as the Board of Directors of the Bank or its designee may specify.

5. Severability. If any provision of this Agreement, or part thereof, is determined to be unenforceable for any reason whatsoever, it shall be severable from the remainder of this Agreement and shall not invalidate or affect the other provisions of this Agreement, which shall remain in full force and effect and shall be enforceable according to their terms. No covenant shall be dependent upon any other covenant or provision herein, each of which stands independently.

6. Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia. The parties further agree that venue in the event of any dispute shall be exclusively in the Circuit Court of the City of Hampton, Virginia, or the Norfolk federal court, at the sole option of the Bank, and Employee agrees not to object to venue.

7. Notices. All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

8. Amendment. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

9. Binding Effect. This Agreement shall be binding upon Employee and on the Bank, its successors and assigns, effective on the date first above written subject to the approval by the Boards of Directors of the Bank. The Bank will require any successor to all or substantially all of the business and/or assets of the Bank to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. This Agreement shall be freely assignable by the Bank.

10. No Construction Against Any Party. This Agreement is the product of informed negotiations between Employee and the Bank. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. Employee and the Bank agree that neither party was in a superior bargaining position regarding the substantive terms of this Agreement.

11. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder (“Code Section 409A”) or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) Neither Employee nor the Bank shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a "termination" or "termination of employment" or like references shall mean separation from service. A "separation from service" shall not occur under Code Section 409A unless such Employee has completely severed Employee's relationship with the Bank or Employee has permanently decreased Employee's services to twenty percent (20%) or less of the average level of bona fide services over the immediately preceding thirty-six (36) month period (or the full period if Employee has been providing services for less than thirty-six (36) months). A leave of absence shall only trigger a termination of employment that constitutes a separation from service at the time required under Code Section 409A. If Employee is deemed on the date of separation from service with the Bank to be a "specified employee", within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by the Bank from time to time, or if none, the default methodology, then with regard to any payment or benefit that is required to be delayed in compliance with Code Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of Employee's separation from service or (ii) the date of Employee's death. In the case of benefits required to be delayed under Code Section 409A, however, Employee may pay the cost of benefit coverage, and thereby obtain benefits, during such six-month delay period and then be reimbursed by the Bank thereafter when delayed payments are made pursuant to the next sentence. On the first day of the seventh month following the date of Employee's separation from service or, if earlier, on the date of Employee's death, all payments delayed pursuant to this Section 11(c) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Employee in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. If any cash payment is delayed under this Section 11(c), then interest shall be paid on the amount delayed calculated at the prime rate reported in The Wall Street Journal for the date of Employee's termination to the date of payment.

(d) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Bank's reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.

(e) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(f) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Bank.

(g) Notwithstanding any of the provisions of this Agreement, the Bank shall not be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

12. Regulatory Limitation. Notwithstanding any other provision of this Agreement, neither the Bank nor any affiliate shall be obligated to make, and Employee shall have no right to receive, any payment, benefit or amount under this Agreement that would violate any law, regulation or regulatory order applicable to the Bank or the affiliate at the time such payment is due, including without limitation, any regulation or order of the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency.

13. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, Employee shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or the Bank for any cessation of employment occurring while this Agreement is in effect.

14. Survivability. The provisions of Section 3 shall survive the termination of this Agreement other than due to the expiration or non-renewal of this Agreement.

15. Title. The titles and sub-headings of each Section and Sub-Section in the Agreement are for convenience only and should not be considered part of the Agreement to aid in interpretation or construction.

IN WITNESS WHEREOF, the Bank has caused this Agreement to be executed by an officer thereunto duly authorized, and Employee has signed this Agreement, all effective as of the date first above written.

THE OLD POINT NATIONAL BANK OF PHOEBUS

By ______________________________

Title ______________________________

OLD POINT FINANCIAL CORPORATION

By ______________________________

Title ______________________________

Elizabeth T. Beale

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EXHIBIT A

RELEASE

For good and valuable consideration, the receipt of which is hereby acknowledged, Elizabeth T. Beale ("Employee"), hereby irrevocably and unconditionally releases, acquits, and forever discharges Old Point Financial Corporation and The Old Point National Bank of Phoebus (collectively, "the Bank") and each of its agents, directors, members, affiliated entities, officers, employees, former employees, attorneys, successors, predecessors, parents, subsidiaries and all persons acting by, through, under or in concert with any of them (collectively "Releasees") from any and all charges, complaints, claims, liabilities, grievances, obligations, promises, agreements, controversies, damages, policies, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights arising out of alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Bank right to terminate employees, or any federal, state or other governmental statute, regulation, law or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991; (2) the Americans with Disabilities Act; (3) 42 U.S.C. § 1981; (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; (7) the Family and Medical Leave Act; and (8) the Employee Retirement Income Security Act ("ERISA") ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the date of the execution of this Release.

Employee hereby acknowledges and agrees that the execution of this Release and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the federal Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth above shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

a. The Release given by Employee is given solely in exchange for the consideration set forth in Section 2 of the Change of Control Severance Agreement by and between the Bank and Employee to which this Release was initially attached and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Release;

b. By entering into this Release, Employee does not waive rights or claims that may arise after the date this Release is executed;

c. Employee has been advised to consult an attorney prior to entering into this Release, and this provision of the Release satisfies the requirements of the Older Workers Benefit Protection Act that Employee be so advised in writing;

d. Employee has been offered twenty-one (21) days [or forty-five (45) days, as applicable] from receipt of this Release within which to consider whether to sign this Release; and

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e. For a period of seven (7) days following Employee's execution of this Release, Employee may revoke this Release and it shall not become effective or enforceable until such seven (7) day period has expired.

This Release shall be binding upon the heirs and personal representatives of Employee and shall inure to the benefit of the successors and assigns of the Bank.

Date Employee

Exhibit 10.31

CHANGE OF CONTROL SEVERANCE AGREEMENT

THIS CHANGE OF CONTROL SEVERANCE AGREEMENT (the “Agreement”), effective this 17 day of September, 2019, by and between The Old Point National Bank of Phoebus (the “Bank”) and Thomas Hotchkiss (“Employee”).

W I T N E S S E T H:

WHEREAS, Employee is a valuable employee of the Bank;

WHEREAS, the Bank wishes to encourage Employee to continue Employee’s career and services with the Bank and to remain with the Bank during any potential change of control of the Bank; and

WHEREAS, the Bank and Employee have agreed to enter into this Agreement to set forth the terms on which Employee may be entitled to severance pay from the Bank following a Change of Control (as defined below).

NOW, THEREFORE, it is hereby agreed by and between the parties hereto as follows:

1. Definitions.

(a) “Cause” shall mean:

(i) Employee’s misconduct in connection with the performance of Employee’s duties;

(ii) Employee’s misappropriation or embezzlement of funds or property of the Bank or any affiliate;

(iii) Employee’s fraud or dishonesty with respect to the Bank or any affiliate;

(iv) Employee’s conviction of, indictment for (or the procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any misdemeanor involving moral turpitude; or

(v) Employee’s breach of a material term of this Agreement, failure to perform the material duties and responsibilities of Employee's position or violation in any material respect of any policy, code or standard of behavior generally applicable to officers or employees of the Bank, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by the Bank) to remedy such breach or violation (if such breach or violation is deemed by the Bank to be capable of being remedied) which period shall be not less than thirty (30) days;

(vi) Employee’s material breach of any fiduciary duty owed to the Bank; or

(vii) Employee's engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would be or is reasonably likely to result, in the good faith judgment of the Bank, in injury to the Bank, monetarily or otherwise.

(b) "Change of Control" shall mean the date any one of the following events occurs after the effective date of this Agreement:

(i) any one person, or more than one person acting as a group, acquires ownership of stock of Old Point Financial Corporation ("Old Point") that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point. However, if any one person or group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point, the acquisition of additional stock by the same person or group is not considered to cause a Change of Control. An increase in the percentage of stock owned by any one person or group, as a result of a transaction in which Old Point acquires its stock in exchange for property will be treated as an acquisition of stock. This applies only when there is a transfer of stock of Old Point (or issuance of stock of Old Point) and stock in Old Point remains outstanding after the transaction.

(ii) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of Old Point possessing thirty percent (30%) or more of the total voting power of the stock of Old Point.

(iii) a majority of members of Old Point's Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of Old Point's Board of Directors prior to the date of the appointment or election.

(iv) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) assets from Old Point that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Old Point immediately prior to such acquisition or acquisitions. For this purpose, "gross fair market value" shall mean the value of the assets of Old Point, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by Old Point shall not be treated as a Change of Control if the assets are transferred to: (A) a shareholder of Old Point (immediately before the asset transfer) in exchange for or with respect to its stock; (B) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by Old Point; (C) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Old Point; or (D) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 1(b)(iv)(C) above. A person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which Old Point has no ownership interest before the transaction, but which is a majority-owned subsidiary of Old Point after the transaction is not treated as a Change of Control.

For purposes of Section 1(b)(ii) and (iii) above, if any one person or more than one person acting as a group is considered to effectively control Old Point (within the meaning of Section 1(b)(ii) or (iii) above), the acquisition of additional control of Old Point by the same person or group is not considered to cause a Change of Control. For purposes of this Section 1, "more than one person acting as a group" shall include the owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock or assets, or similar business transaction with Old Point. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a group solely because they (I) purchase or own stock of the same corporation at the same time, or as a result of the same public offering, or (II) purchase assets of the same corporation at the same time.

(c) "Good Reason" shall mean within twenty-four (24) months after a Change of Control:

(i) a material diminution in Employee's authority, duties or responsibilities; or

(ii) the relocation of Employee to any other primary place of employment more than fifty (50) miles from the Bank headquarters in Hampton, Virginia, without Employee's express written consent to such relocation; or

(iii) a material breach of this Agreement by the Bank involving Employee's base salary.

Employee is required to provide notice to the Bank of the existence of a condition described in Section 1(c) above within a sixty (60) day period of the initial existence of the condition, and the Bank shall have thirty (30) days after notice to remedy the condition without liability. If not remedied by the Bank, Employee shall have thirty (30) days after the end of such remedy period to terminate employment for Good Reason.

(d) "Incapacity" shall mean Employee is suffering a physical or mental impairment that renders the Executive unable to perform the essential functions of the Position, and such impairment exists for six months within any twelve-month period, as determined by the Bank and in compliance with the requirements of the Americans with Disabilities Act.

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2. Severance Payments and Other Matters Related to Termination within Two (2) Years After a Change of Control.

(a) Without Cause or for Good Reason. If Employee's employment is involuntarily terminated without Cause (and other than due to Employee's death or Incapacity) within two (2) years after a Change of Control shall have occurred or if Employee resigns for Good Reason within two (2) years after a Change of Control shall have occurred, then the Bank shall pay to Employee (subject to any applicable payroll or other taxes required to be withheld), (i) (A) any unpaid base salary for time worked through the date of termination payable in a lump sum as soon as administratively feasible following termination, but not later than thirty (30) days thereafter; (B) any annual incentive compensation earned during the calendar year preceding the calendar year of termination, but not yet paid as of the date of termination, payable on the earlier of the thirtieth (30th) day after the date of termination, or when otherwise due; and (C) any benefits or awards vested, due and owing pursuant to the terms of any other plans, policies or programs, payable when otherwise due (hereinafter subsections (a)(i)(A) – (C) collectively are referred to as the "Accrued Obligations") and (ii) subject to Employee's signing, delivering and not revoking the Release attached as Exhibit A, which Release must be signed, delivered and not revoked within the time period set forth therein, the following:

(A) An amount equal to 1.00 times Employee's base salary as in effect at the time of termination, payable over a period of twelve (12) months in accordance with the regular pay periods of Old Point (but not less frequently than monthly and in equal installments) beginning on the first payroll following the date of termination of employment, provided, however, that all payments otherwise due during the first sixty (60) days following termination of employment shall be accumulated and, if the Release requirements have been met, paid on the sixtieth (60th) day following termination of employment.

(B) An amount equal to 1.00 times the average annual bonus payable for the five years preceding the calendar year in which the termination occurs (or the average for the number of years the Agreement has been in effect if less than five (5) years.) If the Agreement was in effect and no bonus was paid for a calendar year, then the amount to be used for that year in computing the average shall be zero. The bonus amount shall be payable over a period of twelve (12) months in accordance with the regular pay periods of the Bank (but not less frequently than monthly and in equal installments), payable in the same manner and at the same time as the payments in Section 2(a)(A).

(C) An amount equal to the product of twelve (12) times the monthly rate of the Bank's subsidy for coverage in its medical, dental and vision plans for active employees (including any applicable coverage for spouses and dependents) in effect on the date of termination, payable in a lump sum on the sixtieth (60th) day following termination of employment.

(b) Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Employee and Old Point or a subsidiary following a transaction that constitutes a change in the ownership or effective control of Old Point or in the ownership of a substantial portion of the assets of Old Point such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 280G") or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(i) In the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by Old Point or a subsidiary under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Employee and Old Point or a subsidiary will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 2(b)(i) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(ii) Notwithstanding the foregoing Section 2(b)(i), in the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that the net economic benefit to Employee after payment of all income and excise taxes is greater without giving effect to Section 2(b)(i) than Employee’s net economic benefit after a reduction by reason of the application of Section 2(b)(i), then Section 2(b)(i) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 2(b)(i) shall be made by the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point), shall be made at Old Point’s expense and shall be binding on the parties.

(c) Other Terminations. If Employee’s employment is terminated for Cause or due to Employee's death or Incapacity or if Employee voluntarily terminates his employment other than for Good Reason, within two (2) years after a Change of Control shall have occurred, this Agreement shall terminate without any further obligation of the Bank to Employee other than the payment to Employee of any unpaid base salary for the time worked through the date of termination as soon as administratively feasible after termination but not later than thirty (30) days thereafter and the payment of any benefits vested, due and owing pursuant to the terms of any plans, policies or programs, payable when otherwise due.

3. Covenants.

(a) Non-Competition. Notwithstanding the foregoing, all such payments and benefits otherwise due under Section 2(a) shall cease to be paid, and the Bank shall have no further obligation due with respect thereto, in the event Employee engages in any conduct prohibited in this Section 3. In exchange for this Agreement and other valuable consideration, Employee agrees that Employee will not engage in Competition for a period of twelve (12) months after Employee’s employment with the Bank ceases for any reason, regardless of whether any benefits are due under Section 2(a). For purposes hereof, “Competition” means Employee’s performing duties that are the same as or substantially similar to those duties performed by Employee for the Bank during the last twelve (12) months of Employee’s employment, as an officer, a director, an employee, a partner or in any other capacity, within twenty-five (25) miles of the headquarters of the Bank (or any Virginia headquarters of any successor) or any branch office of the Bank (or any successor (as to its Virginia branches only) as they are located as of the date Employee’s employment ceases, if those duties are performed for a bank of other financial institution that provides products or services that are the same as or substantially similar to, and competitive with, any of the products or services provided by the Bank at the time Employee’s employment ceases.

(b) Non-Piracy. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after Employee's employment ceases for any reason, Employee will not, directly or indirectly, solicit, divert from the Bank or Old Point or do business with any "Customer" of the Bank with whom Employee had "Material Contact" during the last twelve (12) months of Employee's employment or about whom Employee obtained information while acting within the scope of his or her employment during the last twelve (12) months of employment, if the purpose of such solicitation, diversion or transaction is to provide products or services that are the same as or substantially similar to those offered by the Bank at the time Employee's employment ceases. "Material Contact" means that Employee personally communicated with the Customer, either orally or in writing, for the purpose of providing, offering to provide or assisting in providing products or services of the Bank. "Customer" means any person or entity with whom the Bank had a depository or other contractual relationship, pursuant to which the Bank provided products or services during the last twelve (12) months of Employee's employment.

(c) Non-Solicitation. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after employment ceases, for any reason, Employee will not, directly or indirectly, hire or solicit for hire or induce any person to terminate his or her employment with the Bank, if the purpose is to compete with the Bank.

(d) Confidentiality. As an employee of the Bank, Employee will have access to and may participate in the origination of non-public, proprietary and confidential information relating to the Bank and/or its affiliates, and Employee acknowledges a fiduciary duty owed to the Bank and its affiliates not to disclose impermissibly any such information. Confidential information may include, but is not limited to, trade secrets, customer lists and information, internal corporate planning, methods of marketing and operation, and other data or information of or concerning the Bank or its customers that is not generally known to the public or generally in the banking industry. Employee agrees that during employment and for a period of five (5) years following the cessation of employment, Employee will not use or disclose to any third party any such confidential information, either directly or indirectly, except as may be authorized in writing specifically by the Bank; provided, however that to the extent the information covered by this Section 8 is otherwise protected by the law, such as "trade secrets," as defined by the Virginia Uniform Trade Secrets Act, or customer information protected by banking privacy laws, that information shall not be disclosed or used for however long the legal protections applicable to such information remain in effect.

Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee from performing any duty or obligation that shall arise as a matter of law or limit Employee's right to communicate with a government agency, as provided for, protected under or warranted by applicable law. Specifically, Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. In the event Employee is requested to disclose confidential information by subpoena or other legal process or lawful exercise of authority, Employee shall promptly provide the Bank with notice of the same and cooperate with the Bank in the Bank's effort, at its sole expense, to avoid disclosure.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or

- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

(e) Remedies. Employee acknowledges that the covenants set forth in Section 3 of this Agreement are just, reasonable, and necessary to protect the legitimate business interests of the Bank. Employee further acknowledges that if Employee breaches or threatens to breach any provision of Section 3, the Bank's remedies at law will be inadequate, and the Bank will be irreparably harmed. Accordingly, the Bank shall be entitled to its attorney's fees, costs and an injunction, both preliminary and permanent, restraining Employee from such breach or threatened breach, such injunctive relief not to preclude the Bank from pursuing all available legal and equitable remedies.

4. Documents. All documents, records, tapes and other media of any kind or description relating to the business of the Bank or any of its affiliates (the "Documents"), whether or not prepared by Employee, shall be the sole and exclusive property of the Bank. The Documents (and any copies) shall be returned to the Bank upon Employee's termination of employment for any reason or at such earlier time or times as the Board of Directors of the Bank or its designee may specify.

5. Severability. If any provision of this Agreement, or part thereof, is determined to be unenforceable for any reason whatsoever, it shall be severable from the remainder of this Agreement and shall not invalidate or affect the other provisions of this Agreement, which shall remain in full force and effect and shall be enforceable according to their terms. No covenant shall be dependent upon any other covenant or provision herein, each of which stands independently.

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6. Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia. The parties further agree that venue in the event of any dispute shall be exclusively in the Circuit Court of the City of Hampton, Virginia, or the Norfolk federal court, at the sole option of the Bank, and Employee agrees not to object to venue.

7. Notices. All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

8. Amendment. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

9. Binding Effect. This Agreement shall be binding upon Employee and on the Bank, its successors and assigns, effective on the date first above written subject to the approval by the Boards of Directors of the Bank. The Bank will require any successor to all or substantially all of the business and/or assets of the Bank to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. This Agreement shall be freely assignable by the Bank.

10. No Construction Against Any Party. This Agreement is the product of informed negotiations between Employee and the Bank. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. Employee and the Bank agree that neither party was in a superior bargaining position regarding the substantive terms of this Agreement.

11. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder (“Code Section 409A”) or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) Neither Employee nor the Bank shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a "termination" or "termination of employment" or like references shall mean separation from service. A "separation from service" shall not occur under Code Section 409A unless such Employee has completely severed Employee's relationship with the Bank or Employee has permanently decreased Employee's services to twenty percent (20%) or less of the average level of bona fide services over the immediately preceding thirty-six (36) month period (or the full period if Employee has been providing services for less than thirty-six (36) months). A leave of absence shall only trigger a termination of employment that constitutes a separation from service at the time required under Code Section 409A. If Employee is deemed on the date of separation from service with the Bank to be a "specified employee", within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by the Bank from time to time, or if none, the default methodology, then with regard to any payment or benefit that is required to be delayed in compliance with Code Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of Employee's separation from service or (ii) the date of Employee's death. In the case of benefits required to be delayed under Code Section 409A, however, Employee may pay the cost of benefit coverage, and thereby obtain benefits, during such six-month delay period and then be reimbursed by the Bank thereafter when delayed payments are made pursuant to the next sentence. On the first day of the seventh month following the date of Employee's separation from service or, if earlier, on the date of Employee's death, all payments delayed pursuant to this Section 11(c) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Employee in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. If any cash payment is delayed under this Section 11(c), then interest shall be paid on the amount delayed calculated at the prime rate reported in The Wall Street Journal for the date of Employee's termination to the date of payment.

(d) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Bank's reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.

(e) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(f) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Bank.

(g) Notwithstanding any of the provisions of this Agreement, the Bank shall not be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

12. Regulatory Limitation. Notwithstanding any other provision of this Agreement, neither the Bank nor any affiliate shall be obligated to make, and Employee shall have no right to receive, any payment, benefit or amount under this Agreement that would violate any law, regulation or regulatory order applicable to the Bank or the affiliate at the time such payment is due, including without limitation, any regulation or order of the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency.

13. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, Employee shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or the Bank for any cessation of employment occurring while this Agreement is in effect.

14. Survivability. The provisions of Section 3 shall survive the termination of this Agreement other than due to the expiration or non-renewal of this Agreement.

15. Title. The titles and sub-headings of each Section and Sub-Section in the Agreement are for convenience only and should not be considered part of the Agreement to aid in interpretation or construction.

IN WITNESS WHEREOF, the Bank has caused this Agreement to be executed by an officer thereunto duly authorized, and Employee has signed this Agreement, all effective as of the date first above written.

THE OLD POINT NATIONAL BANK OF PHOEBUS	**Thomas Hotchkiss**
By ____________________	____________________
Title ____________________	
By ____________________	
Title ____________________	

EXHIBIT A

RELEASE

For good and valuable consideration, the receipt of which is hereby acknowledged, Thomas Hotchkiss ("Employee"), hereby irrevocably and unconditionally releases, acquits, and forever discharges Old Point Financial Corporation and The Old Point National Bank of Phoebus (collectively, "the Bank") and each of its agents, directors, members, affiliated entities, officers, employees, former employees, attorneys, successors, predecessors, parents, subsidiaries and all persons acting by, through, under or in concert with any of them (collectively "Releasees") from any and all charges, complaints, claims, liabilities, grievances, obligations, promises, agreements, controversies, damages, policies, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights arising out of alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Bank right to terminate employees, or any federal, state or other governmental statute, regulation, law or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991; (2) the Americans with Disabilities Act; (3) 42 U.S.C. § 1981; (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; (7) the Family and Medical Leave Act; and (8) the Employee Retirement Income Security Act ("ERISA") ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the date of the execution of this Release.

Employee hereby acknowledges and agrees that the execution of this Release and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the federal Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth above shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

a. The Release given by Employee is given solely in exchange for the consideration set forth in Section 2 of the Change of Control Severance Agreement by and between the Bank and Employee to which this Release was initially attached and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Release;

b. By entering into this Release, Employee does not waive rights or claims that may arise after the date this Release is executed;

c. Employee has been advised to consult an attorney prior to entering into this Release, and this provision of the Release satisfies the requirements of the Older Workers Benefit Protection Act that Employee be so advised in writing;

d. Employee has been offered twenty-one (21) days [or forty-five (45) days, as applicable] from receipt of this Release within which to consider whether to sign this Release; and

e. For a period of seven (7) days following Employee's execution of this Release, Employee may revoke this Release and it shall not become effective or enforceable until such seven (7) day period has expired.

This Release shall be binding upon the heirs and personal representatives of Employee and shall inure to the benefit of the successors and assigns of the Bank.

______________________	______________________
Date	Employee

Exhibit 10.32

CHANGE OF CONTROL SEVERANCE AGREEMENT

THIS CHANGE OF CONTROL SEVERANCE AGREEMENT (the “Agreement”), effective this 10th day of December, 2019, by and between The Old Point National Bank of Phoebus (the “Bank”) and Susan R. Ralston (“Employee”).

W I T N E S S E T H:

WHEREAS, Employee is a valuable employee of the Bank;

WHEREAS, the Bank wishes to encourage Employee to continue Employee’s career and services with the Bank and to remain with the Bank during any potential change of control of the Bank; and

WHEREAS, the Bank and Employee have agreed to enter into this Agreement to set forth the terms on which Employee may be entitled to severance pay from the Bank following a Change of Control (as defined below).

NOW, THEREFORE, it is hereby agreed by and between the parties hereto as follows:

1. Definitions.

(a) “Cause” shall mean:

(i) Employee’s misconduct in connection with the performance of Employee’s duties;

(ii) Employee’s misappropriation or embezzlement of funds or property of the Bank or any affiliate;

(iii) Employee’s fraud or dishonesty with respect to the Bank or any affiliate;

(iv) Employee’s conviction of, indictment for (or the procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any misdemeanor involving moral turpitude; or

(v) Employee’s breach of a material term of this Agreement, failure to perform the material duties and responsibilities of Employee's position or violation in any material respect of any policy, code or standard of behavior generally applicable to officers or employees of the Bank, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by the Bank) to remedy such breach or violation (if such breach or violation is deemed by the Bank to be capable of being remedied) which period shall be not less than thirty (30) days;

(vi) Employee’s material breach of any fiduciary duty owed to the Bank; or

(vii) Employee's engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would be or is reasonably likely to result, in the good faith judgment of the Bank, in injury to the Bank, monetarily or otherwise.

(b) "Change of Control" shall mean the date any one of the following events occurs after the effective date of this Agreement:

(i) any one person, or more than one person acting as a group, acquires ownership of stock of Old Point Financial Corporation ("Old Point") that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point. However, if any one person or group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of Old Point, the acquisition of additional stock by the same person or group is not considered to cause a Change of Control. An increase in the percentage of stock owned by any one person or group, as a result of a transaction in which Old Point acquires its stock in exchange for property will be treated as an acquisition of stock. This applies only when there is a transfer of stock of Old Point (or issuance of stock of Old Point) and stock in Old Point remains outstanding after the transaction.

(ii) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of Old Point possessing thirty percent (30%) or more of the total voting power of the stock of Old Point.

(iii) a majority of members of Old Point's Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of Old Point's Board of Directors prior to the date of the appointment or election.

(iv) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) assets from Old Point that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Old Point immediately prior to such acquisition or acquisitions. For this purpose, "gross fair market value" shall mean the value of the assets of Old Point, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by Old Point shall not be treated as a Change of Control if the assets are transferred to: (A) a shareholder of Old Point (immediately before the asset transfer) in exchange for or with respect to its stock; (B) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by Old Point; (C) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Old Point; or (D) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 1(b)(iv)(C) above. A person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which Old Point has no ownership interest before the transaction, but which is a majority-owned subsidiary of Old Point after the transaction is not treated as a Change of Control.

For purposes of Section 1(b)(ii) and (iii) above, if any one person or more than one person acting as a group is considered to effectively control Old Point (within the meaning of Section 1(b)(ii) or (iii) above), the acquisition of additional control of Old Point by the same person or group is not considered to cause a Change of Control. For purposes of this Section 1, "more than one person acting as a group" shall include the owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock or assets, or similar business transaction with Old Point. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a group solely because they (I) purchase or own stock of the same corporation at the same time, or as a result of the same public offering, or (II) purchase assets of the same corporation at the same time.

(c) “Good Reason” shall mean within twenty-four (24) months after a Change of Control:

(i) a material diminution in Employee’s authority, duties or responsibilities; or

(ii) the relocation of Employee to any other primary place of employment more than fifty (50) miles from the Bank headquarters in Hampton, Virginia, without Employee’s express written consent to such relocation; or

(iii) a material breach of this Agreement by the Bank involving Employee’s base salary.

Employee is required to provide notice to the Bank of the existence of a condition described in Section 1(c) above within a sixty (60) day period of the initial existence of the condition, and the Bank shall have thirty (30) days after notice to remedy the condition without liability. If not remedied by the Bank, Employee shall have thirty (30) days after the end of such remedy period to terminate employment for Good Reason.

(d) “Incapacity” shall mean Employee is suffering a physical or mental impairment that renders the Executive unable to perform the essential functions of the Position, and such impairment exists for six months within any twelve-month period, as determined by the Bank and in compliance with the requirements of the Americans with Disabilities Act.

2. Severance Payments and Other Matters Related to Termination within Two (2) Years After a Change of Control.

(a) Without Cause or for Good Reason. If Employee’s employment is involuntarily terminated without Cause (and other than due to Employee's death or Incapacity) within two (2) years after a Change of Control shall have occurred or if Employee resigns for Good Reason within two (2) years after a Change of Control shall have occurred, then the Bank shall pay to Employee (subject to any applicable payroll or other taxes required to be withheld), (i) (A) any unpaid base salary for time worked through the date of termination payable in a lump sum as soon as administratively feasible following termination, but not later than thirty (30) days thereafter; (B) any annual incentive compensation earned during the calendar year preceding the calendar year of termination, but not yet paid as of the date of termination, payable on the earlier of the thirtieth (30th) day after the date of termination, or when otherwise due; and (C) any benefits or awards vested, due and owing pursuant to the terms of any other plans, policies or programs, payable when otherwise due (hereinafter subsections (a)(i)(A) – (C) collectively are referred to as the “Accrued Obligations”) and (ii) subject to Employee’s signing, delivering and not revoking the Release attached as Exhibit A, which Release must be signed, delivered and not revoked within the time period set forth therein, the following:

(A) An amount equal to 1.00 times Employee’s base salary as in effect at the time of termination, payable over a period of twelve (12) months in accordance with the regular pay periods of Old Point (but not less frequently than monthly and in equal installments) beginning on the first payroll following the date of termination of employment, provided, however, that all payments otherwise due during the first sixty (60) days following termination of employment shall be accumulated and, if the Release requirements have been met, paid on the sixtieth (60th) day following termination of employment.

(B) An amount equal to 1.00 times the average annual bonus payable for the five years preceding the calendar year in which the termination occurs (or the average for the number of years the Agreement has been in effect if less than five (5) years.) If the Agreement was in effect and no bonus was paid for a calendar year, then the amount to be used for that year in computing the average shall be zero. The bonus amount shall be payable over a period of twelve (12) months in accordance with the regular pay periods of the Bank (but not less frequently than monthly and in equal installments), payable in the same manner and at the same time as the payments in Section 2(a)(A).

(C) An amount equal to the product of twelve (12) times the monthly rate of the Bank’s subsidy for coverage in its medical, dental and vision plans for active employees (including any applicable coverage for spouses and dependents) in effect on the date of termination, payable in a lump sum on the sixtieth (60th) day following termination of employment.

(b) Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Employee and Old Point or a subsidiary following a transaction that constitutes a change in the ownership or effective control of Old Point or in the ownership of a substantial portion of the assets of Old Point such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder (“Code Section 280G”) or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(i) In the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by Old Point or a subsidiary under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Employee and Old Point or a subsidiary will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 2(b)(i) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(ii) Notwithstanding the foregoing Section 2(b)(i), in the event the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point) determine that the net economic benefit to Employee after payment of all income and excise taxes is greater without giving effect to Section 2(b)(i) than Employee’s net economic benefit after a reduction by reason of the application of Section 2(b)(i), then Section 2(b)(i) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 2(b)(i) shall be made by the independent accountants serving as auditors for Old Point on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by Old Point), shall be made at Old Point’s expense and shall be binding on the parties.

(c) Other Terminations. If Employee’s employment is terminated for Cause or due to Employee's death or Incapacity or if Employee voluntarily terminates his employment other than for Good Reason, within two (2) years after a Change of Control shall have occurred, this Agreement shall terminate without any further obligation of the Bank to Employee other than the payment to Employee of any unpaid base salary for the time worked through the date of termination as soon as administratively feasible after termination but not later than thirty (30) days thereafter and the payment of any benefits vested, due and owing pursuant to the terms of any plans, policies or programs, payable when otherwise due.

3. Covenants.

(a) Non-Competition. Notwithstanding the foregoing, all such payments and benefits otherwise due under Section 2(a) shall cease to be paid, and the Bank shall have no further obligation due with respect thereto, in the event Employee engages in any conduct prohibited in this Section 3. In exchange for this Agreement and other valuable consideration, Employee agrees that Employee will not engage in Competition for a period of twelve (12) months after Employee’s employment with the Bank ceases for any reason, regardless of whether any benefits are due under Section 2(a). For purposes hereof, “Competition” means Employee’s performing duties that are the same as or substantially similar to those duties performed by Employee for the Bank during the last twelve (12) months of Employee’s employment, as an officer, a director, an employee, a partner or in any other capacity, within twenty-five (25) miles of the headquarters of the Bank (or any Virginia headquarters of any successor) or any branch office of the Bank (or any successor (as to its Virginia branches only) as they are located as of the date Employee’s employment ceases, if those duties are performed for a bank of other financial institution that provides products or services that are the same as or substantially similar to, and competitive with, any of the products or services provided by the Bank at the time Employee’s employment ceases.

(b) Non-Piracy. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after Employee's employment ceases for any reason, Employee will not, directly or indirectly, solicit, divert from the Bank or Old Point or do business with any "Customer" of the Bank with whom Employee had "Material Contact" during the last twelve (12) months of Employee's employment or about whom Employee obtained information while acting within the scope of his or her employment during the last twelve (12) months of employment, if the purpose of such solicitation, diversion or transaction is to provide products or services that are the same as or substantially similar to those offered by the Bank at the time Employee's employment ceases. "Material Contact" means that Employee personally communicated with the Customer, either orally or in writing, for the purpose of providing, offering to provide or assisting in providing products or services of the Bank. "Customer" means any person or entity with whom the Bank had a depository or other contractual relationship, pursuant to which the Bank provided products or services during the last twelve (12) months of Employee's employment.

(c) Non-Solicitation. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after employment ceases, for any reason, Employee will not, directly or indirectly, hire or solicit for hire or induce any person to terminate his or her employment with the Bank, if the purpose is to compete with the Bank.

(d) Confidentiality. As an employee of the Bank, Employee will have access to and may participate in the origination of non-public, proprietary and confidential information relating to the Bank and/or its affiliates, and Employee acknowledges a fiduciary duty owed to the Bank and its affiliates not to disclose impermissibly any such information. Confidential information may include, but is not limited to, trade secrets, customer lists and information, internal corporate planning, methods of marketing and operation, and other data or information of or concerning the Bank or its customers that is not generally known to the public or generally in the banking industry. Employee agrees that during employment and for a period of five (5) years following the cessation of employment, Employee will not use or disclose to any third party any such confidential information, either directly or indirectly, except as may be authorized in writing specifically by the Bank; provided, however that to the extent the information covered by this Section 8 is otherwise protected by the law, such as "trade secrets," as defined by the Virginia Uniform Trade Secrets Act, or customer information protected by banking privacy laws, that information shall not be disclosed or used for however long the legal protections applicable to such information remain in effect.

Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee from performing any duty or obligation that shall arise as a matter of law or limit Employee's right to communicate with a government agency, as provided for, protected under or warranted by applicable law. Specifically, Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. In the event Employee is requested to disclose confidential information by subpoena or other legal process or lawful exercise of authority, Employee shall promptly provide the Bank with notice of the same and cooperate with the Bank in the Bank's effort, at its sole expense, to avoid disclosure.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or

- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

(e) Remedies. Employee acknowledges that the covenants set forth in Section 3 of this Agreement are just, reasonable, and necessary to protect the legitimate business interests of the Bank. Employee further acknowledges that if Employee breaches or threatens to breach any provision of Section 3, the Bank's remedies at law will be inadequate, and the Bank will be irreparably harmed. Accordingly, the Bank shall be entitled to its attorney's fees, costs and an injunction, both preliminary and permanent, restraining Employee from such breach or threatened breach, such injunctive relief not to preclude the Bank from pursuing all available legal and equitable remedies.

4. Documents. All documents, records, tapes and other media of any kind or description relating to the business of the Bank or any of its affiliates (the "Documents"), whether or not prepared by Employee, shall be the sole and exclusive property of the Bank. The Documents (and any copies) shall be returned to the Bank upon Employee's termination of employment for any reason or at such earlier time or times as the Board of Directors of the Bank or its designee may specify.

5. Severability. If any provision of this Agreement, or part thereof, is determined to be unenforceable for any reason whatsoever, it shall be severable from the remainder of this Agreement and shall not invalidate or affect the other provisions of this Agreement, which shall remain in full force and effect and shall be enforceable according to their terms. No covenant shall be dependent upon any other covenant or provision herein, each of which stands independently.

6. Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia. The parties further agree that venue in the event of any dispute shall be exclusively in the Circuit Court of the City of Hampton, Virginia, or the Norfolk federal court, at the sole option of the Bank, and Employee agrees not to object to venue.

7. Notices. All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

8. Amendment. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

9. Binding Effect. This Agreement shall be binding upon Employee and on the Bank, its successors and assigns, effective on the date first above written subject to the approval by the Boards of Directors of the Bank. The Bank will require any successor to all or substantially all of the business and/or assets of the Bank to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. This Agreement shall be freely assignable by the Bank.

10. No Construction Against Any Party. This Agreement is the product of informed negotiations between Employee and the Bank. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. Employee and the Bank agree that neither party was in a superior bargaining position regarding the substantive terms of this Agreement.

11. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder ("Code Section 409A") or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) Neither Employee nor the Bank shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits upon or following a termination of employment unless such termination is also a “separation from service” (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a “termination” or “termination of employment” or like references shall mean separation from service. A “separation from service” shall not occur under Code Section 409A unless such Employee has completely severed Employee’s relationship with the Bank or Employee has permanently decreased Employee’s services to twenty percent (20%) or less of the average level of bona fide services over the immediately preceding thirty-six (36) month period (or the full period if Employee has been providing services for less than thirty-six (36) months). A leave of absence shall only trigger a termination of employment that constitutes a separation from service at the time required under Code Section 409A. If Employee is deemed on the date of separation from service with the Bank to be a “specified employee”, within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by the Bank from time to time, or if none, the default methodology, then with regard to any payment or benefit that is required to be delayed in compliance with Code Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of Employee’s separation from service or (ii) the date of Employee’s death. In the case of benefits required to be delayed under Code Section 409A, however, Employee may pay the cost of benefit coverage, and thereby obtain benefits, during such six-month delay period and then be reimbursed by the Bank thereafter when delayed payments are made pursuant to the next sentence. On the first day of the seventh month following the date of Employee’s separation from service or, if earlier, on the date of Employee’s death, all payments delayed pursuant to this Section 11(c) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Employee in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. If any cash payment is delayed under this Section 11(c), then interest shall be paid on the amount delayed calculated at the prime rate reported in The Wall Street Journal for the date of Employee’s termination to the date of payment.

(d) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Bank’s reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.

(e) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(f) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Bank.

(g) Notwithstanding any of the provisions of this Agreement, the Bank shall not be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

12. Regulatory Limitation. Notwithstanding any other provision of this Agreement, neither the Bank nor any affiliate shall be obligated to make, and Employee shall have no right to receive, any payment, benefit or amount under this Agreement that would violate any law, regulation or regulatory order applicable to the Bank or the affiliate at the time such payment is due, including without limitation, any regulation or order of the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency.

13. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, Employee shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or the Bank for any cessation of employment occurring while this Agreement is in effect.

14. Survivability. The provisions of Section 3 shall survive the termination of this Agreement other than due to the expiration or non-renewal of this Agreement.

15. Title. The titles and sub-headings of each Section and Sub-Section in the Agreement are for convenience only and should not be considered part of the Agreement to aid in interpretation or construction.

IN WITNESS WHEREOF, the Bank has caused this Agreement to be executed by an officer thereunto duly authorized, and Employee has signed this Agreement, all effective as of the date first above written.

THE OLD POINT NATIONAL BANK OF PHOEBUS

By ____

Title _______________________________________

OLD POINT FINANCIAL CORPORATION

By ____

Title _______________________________________

Susan R. Ralston

____

EXHIBIT A

RELEASE

For good and valuable consideration, the receipt of which is hereby acknowledged, Laura F. Calvert ("Employee"), hereby irrevocably and unconditionally releases, acquits, and forever discharges Old Point Financial Corporation and The Old Point National Bank of Phoebus (collectively, "the Bank") and each of its agents, directors, members, affiliated entities, officers, employees, former employees, attorneys, successors, predecessors, parents, subsidiaries and all persons acting by, through, under or in concert with any of them (collectively "Releasees") from any and all charges, complaints, claims, liabilities, grievances, obligations, promises, agreements, controversies, damages, policies, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights arising out of alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Bank right to terminate employees, or any federal, state or other governmental statute, regulation, law or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991; (2) the Americans with Disabilities Act; (3) 42 U.S.C. § 1981; (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; (7) the Family and Medical Leave Act; and (8) the Employee Retirement Income Security Act ("ERISA") ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the date of the execution of this Release.

Employee hereby acknowledges and agrees that the execution of this Release and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the federal Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth above shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

a. The Release given by Employee is given solely in exchange for the consideration set forth in Section 2 of the Change of Control Severance Agreement by and between the Bank and Employee to which this Release was initially attached and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Release;

b. By entering into this Release, Employee does not waive rights or claims that may arise after the date this Release is executed;

c. Employee has been advised to consult an attorney prior to entering into this Release, and this provision of the Release satisfies the requirements of the Older Workers Benefit Protection Act that Employee be so advised in writing;

d. Employee has been offered twenty-one (21) days [or forty-five (45) days, as applicable] from receipt of this Release within which to consider whether to sign this Release; and

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e. For a period of seven (7) days following Employee's execution of this Release, Employee may revoke this Release and it shall not become effective or enforceable until such seven (7) day period has expired.

This Release shall be binding upon the heirs and personal representatives of Employee and shall inure to the benefit of the successors and assigns of the Bank.

Date Employee

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (No. 333-211800, 333-211799, 333-65684, 333-83175 and 333-07109) on Form S-8 of Old Point Financial Corporation and Subsidiaries of our reports dated March 16, 2020, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Old Point Financial Corporation and Subsidiaries, appearing in this Annual Report on Form 10-K of Old Point Financial Corporation and Subsidiaries for the year ended December 31, 2019.

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

Winchester, Virginia
March 16, 2020

Exhibit 31.1

CERTIFICATIONS

I, Robert F. Shuford, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Old Point Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/s/Robert F. Shuford, Jr.

Robert F. Shuford, Jr.
Chairman, President & Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Elizabeth T. Beale, certify that:

1. I have reviewed this annual report on Form 10-K of Old Point Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/s/Elizabeth T. Beale

Elizabeth T. Beale
Chief Financial Officer & Senior Vice President/Finance

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Old Point Financial Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

March 16, 2020

/s/Elizabeth T. Beale
Elizabeth T. Beale
Chief Financial Officer & Senior Vice President/Finance

March 16, 2020