OLD POINT FINANCIAL CORP
Form 10-Q
May 10, 2013

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

FORM 10-Q

(Mark One)
xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

or

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

For the transition period from _____________ to ___________

Commission File Number: 000-12896

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

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

4,959,009 shares of common stock ($5.00 par value) outstanding as of April 30, 2013

OLD POINT FINANCIAL CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Cash and due from banks	$14,572,691	$15,982,070
Interest-bearing due from banks	29,152,940	24,732,329
Federal funds sold	1,229,308	1,602,847
Cash and cash equivalents	44,954,939	42,317,246
Securities available-for-sale, at fair value	321,644,564	329,455,812
Securities held-to-maturity (fair value approximates $573,271 and $573,500)	570,000	570,000
Restricted securities	2,378,100	2,561,900
Loans, net of allowance for loan losses of $7,259,337 and $7,324,310	450,251,305	463,808,457
Premises and equipment, net	34,059,110	32,528,350
Bank-owned life insurance	22,039,504	21,824,197
Foreclosed assets, net of valuation allowance of $1,755,615 and $1,870,285	6,021,003	6,573,398
Other assets	8,920,253	7,859,344
Total assets	$890,838,778	$907,498,704
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$176,862,350	$176,740,312
Savings deposits	272,963,549	268,252,782
Time deposits	297,414,596	308,822,642
Total deposits	747,240,495	753,815,736
Overnight repurchase agreements	26,339,287	35,945,800
Term repurchase agreements	1,281,372	1,279,574
Federal Home Loan Bank advances	25,000,000	25,000,000
Accrued expenses and other liabilities	2,750,768	2,157,558
Total liabilities	802,611,922	818,198,668
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,959,009 and 4,959,009 shares issued and outstanding	24,795,045	24,795,045
Additional paid-in capital	16,391,845	16,391,845
Retained earnings	48,957,976	48,304,609
Accumulated other comprehensive loss, net	(1,918,010)	(191,463)
Total stockholders' equity	88,226,856	89,300,036
Total liabilities and stockholders' equity	$890,838,778	$907,498,704

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Three Months Ended March 31,	
	2013	2012
	(unaudited)	
Interest and Dividend Income:		
Interest and fees on loans	$6,007,693	$7,068,777
Interest on due from banks	14,025	16,272
Interest on federal funds sold	460	303
Interest on securities:		
Taxable	1,324,050	1,221,486
Tax-exempt	264,593	93,977
Dividends and interest on all other securities	18,095	21,377
Total interest and dividend income	7,628,916	8,422,192
Interest Expense:		
Interest on savings deposits	87,186	94,055
Interest on time deposits	862,026	975,429
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	3,432	16,396
Interest on Federal Home Loan Bank advances	301,875	425,046
Total interest expense	1,254,519	1,510,926
Net interest income	6,374,397	6,911,266
Provision for loan losses	200,000	200,000
Net interest income, after provision for loan losses	6,174,397	6,711,266
Noninterest Income:		
Income from fiduciary activities	899,805	826,646
Service charges on deposit accounts	996,600	1,030,305
Other service charges, commissions and fees	858,971	797,029
Income from bank-owned life insurance	215,307	223,680
Gain on sale of available-for-sale securities, net	0	314,395
Other operating income	142,586	75,830
Total noninterest income	3,113,269	3,267,885
Noninterest Expense:		
Salaries and employee benefits	4,920,926	4,960,277
Occupancy and equipment	1,112,199	1,093,753
Data processing	421,576	382,527
FDIC insurance	183,061	280,838
Customer development	206,106	203,896
Legal and audit expense	111,124	183,930
Other outside service fees	96,378	152,386
Employee professional development	131,414	142,341
Postage and courier expense	122,865	124,327
Advertising	123,050	145,018
Stationery and supplies	120,309	104,535
Loss on write-down/sale of foreclosed assets	126,453	256,584

Other operating expense	550,341	519,026
Total noninterest expense	8,225,802	8,549,438
Income before income taxes	1,061,864	1,429,713
Income tax expense	160,547	351,412
Net income	$901,317	$1,078,301
Basic Earnings per Share:		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.18	$0.22
Diluted Earnings per Share:		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.18	$0.22

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation
Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended March 31,	
	2013	2012
	(unaudited)	
Net income	$901,317	$1,078,301
Other comprehensive loss, net of tax		
Unrealized losses on securities		
Unrealized holding losses arising during the period	(2,615,980)	(828,974)
Less reclassification adjustment for gains recognized in income	0	(314,395)
Less tax benefit	889,433	388,745
Net unrealized losses on securities	(1,726,547)	(754,624)
Comprehensive income (loss)	$(825,230)	$323,677

See Notes to Consolidated Financial Statements.

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

(unaudited)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
THREE MONTHS ENDED MARCH 31, 2013						
Balance at beginning of period	4,959,009	$24,795,045	$16,391,845	$48,304,609	$ (191,463)	$89,300,036
Net income	0	0	0	901,317	0	901,317
Other comprehensive loss, net of tax	0	0	0	0	(1,726,547)	(1,726,547)
Cash dividends ($0.05 per share)	0	0	0	(247,950)	0	(247,950)
Balance at end of period	4,959,009	$24,795,045	$16,391,845	$48,957,976	$ (1,918,010)	$88,226,856
THREE MONTHS ENDED MARCH 31, 2012						
Balance at beginning of period	4,959,009	$24,795,045	$16,309,983	$45,109,268	$ (349,581)	$85,864,715
Net income	0	0	0	1,078,301	0	1,078,301
Other comprehensive loss, net of tax	0	0	0	0	(754,624)	(754,624)
Stock compensation expense	0	0	27,837	0	0	27,837
Cash dividends ($0.05 per share)	0	0	0	(247,951)	0	(247,951)
Balance at end of period	4,959,009	$24,795,045	$16,337,820	$45,939,618	$ (1,104,205)	$85,968,278

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2013	2012
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$901,317	$1,078,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	491,214	468,626
Provision for loan losses	200,000	200,000
Net gain on sale of available-for-sale securities	0	(314,395)
Net amortization of securities	673,161	208,011
Net loss on disposal of premises and equipment	0	52
Net loss on write-down/sale of foreclosed assets	126,453	256,584
Income from bank owned life insurance	(215,307)	(223,680)
Stock compensation expense	0	27,837
Deferred tax benefit	(2,704)	0
(Increase) decrease in other assets	(102,827)	48,619
Increase in other liabilities	593,210	739,879
Net cash provided by operating activities	2,664,517	2,489,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(7,164,550)	(68,215,929)
Proceeds from sales of restricted securities	183,800	0
Proceeds from maturities and calls of securities	10,651,658	15,088,270
Proceeds from sales of available-for-sale securities	1,035,000	20,609,131
Decrease in loans made to customers	12,818,201	29,587,544
Proceeds from sales of foreclosed assets	898,947	1,694,276
Purchases of premises and equipment	(2,021,974)	(377,520)
Net cash provided by (used in) investing activities	16,401,082	(1,614,228)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	122,038	2,343,969
Increase in savings deposits	4,710,767	9,487,471
Increase (decrease) in time deposits	(11,408,046)	4,150,765
Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings	(9,604,715)	3,253,126
Cash dividends paid on common stock	(247,950)	(247,951)
Net cash provided by (used in) financing activities	(16,427,906)	18,987,380
Net increase in cash and cash equivalents	2,637,693	19,862,986
Cash and cash equivalents at beginning of period	42,317,246	24,854,656
Cash and cash equivalents at end of period	$44,954,939	$44,717,642
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$1,293,520	$1,517,249

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized loss on securities available-for-sale	$(2,615,979)	$(1,143,371)
Loans transferred to foreclosed assets	$538,951	$0

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at March 31, 2013 and December 31, 2012 and the results of operations, statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the three months ended March 31, 2013 and 2012. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2012 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

AVAILABLE INFORMATION

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

SUBSEQUENT EVENTS

In accordance with ASC 855-10, "Subsequent Events," the Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

The Company is expanding the building of a current branch office. The Company signed a contract with a general contractor on April 19, 2012. The contract entitles the contractor to $2.1 million for Phase I of the construction, which includes site work and construction of the building shell. The Company signed an amendment to the contract with the general contractor on October 16, 2012 for the remainder of the construction. The revised contract entitles the contractor to $12.2 million for the construction of the building. As of the writing of this quarterly report on Form 10-Q, $4.5 million had been disbursed to the contractor. The Company anticipates that the total project will likely cost between $13.0 million and $15.0 million and be completed in the next twelve months.

On February 22, 2013, the Company completed the consolidation of two of its branches located in Williamsburg, Virginia. Because of their proximity, the branches were serving a customer base that could be more efficiently served by one branch. The value of furniture and equipment from the closed branch that has not been depreciated and needs to be redeployed or disposed of is less than $30 thousand.

Other than those discussed above, the Company did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the financial statements.

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Note 2. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2013				
Obligations of U.S. Government agencies	$ 570	$ 3	$ 0	$ 573
December 31, 2012				
Obligations of U.S. Government agencies	$ 570	$ 4	$ 0	$ 574

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2013				
Obligations of U.S. Government agencies	$ 35,377	$ 1,113	$ (74)	$ 36,416
Obligations of state and political subdivisions	48,663	413	(814)	48,262
Mortgage-backed securities	235,505	1,165	(1,396)	235,274
Money market investments	697	0	0	697
Corporate bonds	1,000	0	(4)	996
Total	$ 321,242	$ 2,691	$ (2,288)	$ 321,645
December 31, 2012				
Obligations of U.S. Government agencies	$ 35,787	$ 1,314	$ (13)	$ 37,088
Obligations of state and political subdivisions	43,276	712	(214)	43,774
Mortgage-backed securities	246,132	1,966	(743)	247,355
Money market investments	541	0	0	541
Corporate bonds	700	0	(2)	698
Total	$ 326,436	$ 3,992	$ (972)	$ 329,456

OTHER-THAN-TEMPORARILY IMPAIRED SECURITIES

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

present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

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

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

The Company has not recorded impairment charges through income on securities for the quarter ended March 31, 2013 or the year ended December 31, 2012.

TEMPORARILY IMPAIRED SECURITIES

The following table shows 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. The Company had no held-to-maturity securities with unrealized losses at March 31, 2013 or December 31, 2012.

	March 31, 2013						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(in thousands)						
Securities Available-for-Sale Debt securities:							
Obligations of U.S. Government agencies	$ 74	$ 4,935	$ 0	$ 0	$ 74	$ 4,935	1
Obligations of state and political subdivisions	814	29,063	0	0	814	29,063	46
Mortgage-backed securities	1,396	140,147	0	0	1,396	140,147	13
Corporate bonds and other securities	4	696	0	0	4	696	7
Total securities available-for-sale	$ 2,288	$ 174,841	$ 0	$ 0	$ 2,288	$ 174,841	67

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	December 31, 2012						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(in thousands)						
Securities Available-for-Sale Debt securities:							
Obligations of U. S. Government agencies	$ 13	$ 5,103	$ 0	$ 0	$ 13	$ 5,103	1
Obligations of state and political subdivisions	214	9,535	0	0	214	9,535	24
Mortgage-backed securities	743	104,066	0	0	743	104,066	9
Corporate bonds and other securities	2	700	0	0	2	700	2
Total securities available-for-sale	$ 972	$ 119,404	$ 0	$ 0	$ 972	$ 119,404	36

Certain investments within the Company's portfolio had unrealized losses at March 31, 2013 and December 31, 2012, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at March 31, 2013 or December 31, 2012.

Restricted Securities

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

Note 3. Loans and the Allowance for Loan Losses

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 76,650	$ 77,267
Commercial	271,246	274,613
Construction	11,953	12,005

Second mortgages		13,799		14,315
Equity lines of credit		32,173		32,327
Total mortgage loans on real estate		405,821		410,527
Commercial loans		27,464		25,341
Consumer loans		11,955		13,146
Other		12,270		22,119
Total loans		457,510		471,133
Less: Allowance for loan losses		(7,259)		(7,324)
Loans, net of allowance and deferred fees	$	450,251	$	463,809

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Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $661 thousand and $1.6 million at March 31, 2013 and December 31, 2012, respectively.

CREDIT QUALITY INFORMATION

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

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

- Pass: Loans are of acceptable risk.
- Other Assets Especially Mentioned (OAEM): Loans have potential weaknesses that deserve management's close attention.
- Substandard: Loans reflect significant deficiencies due to several adverse trends of a financial, economic or managerial nature.
- Doubtful: Loans have all the weaknesses inherent in a substandard loan with added characteristics that make collection or liquidation in full based on currently existing facts, conditions and values highly questionable or improbable.
- Loss: Loans have been charged off because they are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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

Credit Quality Information
As of March 31, 2013
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$ 69,579	$ 1,643	$ 5,428	$ 76,650
Commercial	254,519	4,212	12,515	271,246
Construction	8,791	177	2,985	11,953
Second mortgages	12,289	1,178	332	13,799
Equity lines of credit	31,597	192	384	32,173
Total mortgage loans on real estate	376,775	7,402	21,644	405,821
Commercial loans	26,092	148	1,224	27,464
Consumer loans	11,875	0	80	11,955
Other	12,270	0	0	12,270
Total	$ 427,012	$ 7,550	$ 22,948	$ 457,510

Credit Quality Information
As of December 31, 2012
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$ 70,961	$ 1,711	$ 4,595	$ 77,267
Commercial	258,195	6,781	9,637	274,613
Construction	8,651	254	3,100	12,005
Second mortgages	13,488	242	585	14,315

Equity lines of credit	31,704	239	384	32,327
Total mortgage loans on real estate	382,999	9,227	18,301	410,527
Commercial loans	23,997	209	1,135	25,341
Consumer loans	13,042	0	104	13,146
Other	22,119	0	0	22,119
Total	$ 442,157	$ 9,436	$ 19,540	$ 471,133

As of March 31, 2013 and December 31, 2012 the Company did not have any loans internally classified as Loss or Doubtful.

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AGE ANALYSIS OF PAST DUE LOANS BY CLASS

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

Age Analysis of Past Due Loans as of March 31, 2013

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
				(in thousands)			
Mortgage loans on real estate:							
Residential 1-4 family	$ 497	$ 108	$ 3,551	$ 4,156	$ 72,494	$ 76,650	$ 88
Commercial	1,948	0	721	2,669	268,577	271,246	0
Construction	35	0	2,880	2,915	9,038	11,953	0
Second mortgages	25	0	210	235	13,564	13,799	38
Equity lines of credit	89	0	287	376	31,797	32,173	0
Total mortgage loans on real estate	2,594	108	7,649	10,351	395,470	405,821	126
Commercial loans	10	48	0	58	27,406	27,464	0
Consumer loans	110	24	0	134	11,821	11,955	0
Other	41	7	4	52	12,218	12,270	4
Total	$ 2,755	$ 187	$ 7,653	$ 10,595	$ 446,915	$ 457,510	$ 130

Age Analysis of Past Due Loans as of December 31, 2012

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
				(in thousands)			
Mortgage loans on real estate:							
Residential 1-4 family	$ 1,115	$ 0	$ 3,783	$ 4,898	$ 72,369	$ 77,267	$ 348

Commercial	207	0	724	931	273,682	274,613	0
Construction	140	0	2,925	3,065	8,940	12,005	0
Second mortgages	113	0	544	657	13,658	14,315	60
Equity lines of credit	90	0	287	377	31,950	32,327	0
Total mortgage loans on real estate	1,665	0	8,263	9,928	400,599	410,527	408
Commercial loans	275	13	122	410	24,931	25,341	25
Consumer loans	85	22	11	118	13,028	13,146	11
Other	54	7	3	64	22,055	22,119	3
Total	$ 2,079	$ 42	$ 8,399	$ 10,520	$ 460,613	$ 471,133	$ 447

NONACCRUAL LOANS

The Company generally places non-consumer loans in nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loan reaches 90 days past due, 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 loans secured by 1-4 family residential properties are not required to be placed in nonaccrual status. Although consumer loans and loans secured by 1-4 family residential property are not required to be placed in nonaccrual status, the Company may place a consumer loan or loan secured by 1-4 family residential property in nonaccrual status, if necessary to avoid a material overstatement of interest income.

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Generally, consumer loans not secured by real estate are placed in nonaccrual status only when part of the principal has been charged off. These loans are charged off or written down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors, or when they are past due based on loan product, industry practice, terms and other factors.

When management places a loan in nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted for by the cash or cost recovery method, until it qualifies for return to accrual status or is charged off. Generally, management returns a loan to accrual status if (a) all delinquent interest and principal payments become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

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

Nonaccrual Loans by Class

	March 31, 2013	December 31, 2012
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 3,635	$ 3,663
Commercial	2,989	3,037
Construction	2,880	3,065
Second mortgages	172	484
Equity lines of credit	287	286
Total mortgage loans on real estate	9,963	10,535
Commercial loans	21	97
Consumer loans	4	0
Total	$ 9,988	$ 10,632

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:

	Quarter Ended March 31,	
	2013	2012
	(in thousands)	
Interest income that would have been recorded under original loan terms	$ 140	$ 275
Actual interest income recorded for the period	20	32
Reduction in interest income on nonaccrual loans	$ 120	$ 243

TROUBLED DEBT RESTRUCTURINGS

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), 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 30 days or more past due at the report date.

When the Company modifies a loan, management evaluates any possible impairment as stated in the impaired loan section below.

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

Troubled Debt Restructurings by Class
For the Three Months Ended March 31, 2013
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on March 31, 2013
Mortgage loans on real estate:				
Residential 1-4 family	1	$ 391	$ 391	$ 391
Commercial	1	207	207	207
Total	2	$ 598	$ 598	$ 598

Troubled Debt Restructurings by Class
For the Three Months Ended March 31, 2012
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on March 31, 2012
Mortgage loans on real estate:				
Residential 1-4 family	1	$ 93	$ 60	$ 57
Commercial	1	539	506	474
Second mortgages	4	689	498	474
Total	6	$ 1,321	$ 1,064	$ 1,005

The two loans restructured in the first quarter of 2013 were both given below-market rates for debt with similar risk characteristics. The restructurings during the first quarter of 2012 were given principal reductions.

The following tables presents TDRs for which there was a payment default where the default occurred within twelve months of restructuring, as of the dates indicated:

Restructurings that Subsequently Defaulted
As of March 31, 2013
(in thousands)

	Recorded Investment in Defaulting Loans
Mortgage loans on real estate:	
Commercial	$ 1,855

Restructurings that Subsequently Defaulted
As of March 31, 2012
(in thousands)

Recorded

	Investment in Defaulting Loans
Mortgage loans on real estate:	
Residential 1-4 family	$ 57
Second mortgages	474
Total mortgage loans on real estate	531
Total	$ 531

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

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IMPAIRED LOANS

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

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

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

Impaired Loans by Class
(in thousands)

	As of March 31, 2013				For the three months ended March 31, 2013	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 5,396	$ 1,952	$ 3,166	$ 200	$ 5,186	$ 14
Commercial	13,770	4,820	6,022	910	10,954	148
Construction	3,639	2,880	0	0	2,898	0
Second mortgages	1,358	269	1,024	53	1,303	14
Equity lines of credit	449	287	50	50	336	1
Total mortgage loans on real estate	$ 24,612	$ 10,208	$ 10,262	$ 1,213	$ 20,677	$ 177
Commercial loans	21	21	0	0	25	0
Consumer loans	20	20	0	0	20	1
Total	$ 24,653	$ 10,249	$ 10,262	$ 1,213	$ 20,722	$ 178

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Impaired Loans by Class
(in thousands)

	As of December 31, 2012				For the year ended December 31, 2012	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 4,100	$ 681	$ 3,235	$ 226	$ 2,354	$ 136
Commercial	12,459	3,741	5,817	180	10,151	242
Construction	3,782	3,064	0	0	3,320	(9)
Second mortgages	695	583	47	5	542	12
Equity lines of credit	370	286	0	0	391	(2)
Total mortgage loans on real estate	$ 21,406	$ 8,355	$ 9,099	$ 411	$ 16,758	$ 379
Commercial loans	117	0	97	33	104	(14)
Consumer loans	17	17	0	0	26	1
Total	$ 21,540	$ 8,372	$ 9,196	$ 444	$ 16,888	$ 366

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

ALLOWANCE FOR LOAN LOSSES
Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, real estate-construction, real estate-mortgage, consumer and other loans. The Company also sub-segments the real estate-mortgage segment into four classes: residential 1-4 family, commercial real estate, second mortgages and equity lines of credit. The Company uses an internally developed risk evaluation model in the estimation of the credit risk process. The model and assumptions used to determine the allowance are independently validated and reviewed to ensure that the theoretical foundation, assumptions, data integrity, computational processes and reporting practices are appropriate and properly documented.

Each portfolio segment has risk characteristics as follows:

- Commercial: Commercial loans carry risks associated with the successful operation of a business or project, in addition to other risks associated with the ownership of a business. The repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
-

Real estate-construction: Construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may at any point in time be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be the loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.

- Real estate-mortgage: Residential mortgage loans and equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Commercial real estate loans carry risks associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.
- Consumer loans: Consumer loans carry risks associated with the continued credit-worthiness of the borrowers and the value of the collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- Other loans: Other loans are loans to mortgage companies, loans for purchasing or carrying securities, and loans to insurance, investment and finance companies. These loans carry risks associated with the successful operation of a business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time, may depend on interest rates or may fluctuate in active trading markets.

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To determine the balance of the allowance account for each segment of the loan portfolio, management pools each segment by risk grade individually and applies a historical loss percentage. At March 31, 2013 and December 31, 2012, the historical loss percentage was based on losses sustained in each segment of the portfolio over the previous eight quarters.

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

Based on credit risk assessments and management's analysis of qualitative factors, additional loss factors are applied to loan balances. These additional qualitative factors include: 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.

THE COMPANY'S ESTIMATION PROCESS

The allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. Management's estimate is based on certain observable, historical data that management believes are most reflective of the underlying credit losses being estimated. In addition, impaired loans are separately identified for evaluation and are measured based on the present value of expected future cash flows, the observable market price of the loans or the fair value of the collateral. Also, various qualitative factors are applied to each segment of the loan portfolio.

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $7.3 million adequate to cover loan losses inherent in the loan portfolio at March 31, 2013.

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

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

(in thousands)

For the Three Months Ended March 31, 2013	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$677	$ 187	$6,179	$204	$77	$7,324
Charge-offs	(106)	(64)	(169)	(31)	(48)	(418)
Recoveries	29	3	84	21	16	153
Provision for loan losses	579	47	(393)	(14)	(19)	200
Ending balance	$1,179	$ 173	$5,701	$180	$26	$7,259
Ending balance individually evaluated for impairment	$0	$ 0	$1,213	$0	$0	$1,213
Ending balance collectively evaluated for impairment	1,179	173	4,488	180	26	6,046
Ending balance	$1,179	$ 173	$5,701	$180	$26	$7,259
Loan Balances:						
	$21	$ 2,880	$17,590	$20	$0	$20,511

Ending balance individually evaluated for impairment						
Ending balance collectively evaluated for impairment	27,443	9,073	376,278	11,935	12,270	436,999
Ending balance	$27,464	$ 11,953	$393,868	$11,955	$12,270	$457,510

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For the Year Ended December 31, 2012	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 1,011	$ 323	$ 6,735	$ 300	$ 129	$ 8,498
Charge-offs	(138)	(831)	(2,554)	(259)	(187)	(3,969)
Recoveries	67	30	162	70	66	395
Provision for loan losses	(263)	665	1,836	93	69	2,400
Ending balance	$ 677	$ 187	$ 6,179	$ 204	$ 77	$ 7,324
Ending balance individually evaluated for impairment	$ 33	$ 0	$ 411	$ 0	$ 0	$ 444
Ending balance collectively evaluated for impairment	644	187	5,768	204	77	6,880
Ending balance	$ 677	$ 187	$ 6,179	$ 204	$ 77	$ 7,324
Loan Balances:						
Ending balance individually evaluated for impairment	$ 97	$ 3,064	$ 14,390	$ 17	$ 0	$ 17,568
Ending balance collectively evaluated for impairment	25,244	8,941	384,132	13,129	22,119	453,565
Ending balance	$ 25,341	$ 12,005	$ 398,522	$ 13,146	$ 22,119	$ 471,133

CHANGES IN ACCOUNTING METHODOLOGY
There were no changes in the Company's accounting methodology for the allowance for loan losses in the first three months of 2013.

Note 4. Share-Based Compensation
Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Accounting standards require all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period.

There were no options granted in the first three months of 2013.

On March 9, 2008, the Company's 1998 Stock Option Plan expired. Options to purchase 154,460 shares of common stock were outstanding under the Company's 1998 Stock Option Plan at March 31, 2013. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and each option's maximum term is ten years.

Stock option activity for the three months ended March 31, 2013 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2013	156,960	$ 21.63		
Granted	0	0		
Exercised	0	0		

Canceled or expired	(2,500)	21.94			
Options outstanding, March 31, 2013	154,460	$21.63	3.21	$	0
Options exercisable, March 31, 2013	154,460	$21.63	3.21	$	0

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on March 31, 2013. This amount changes based on changes in the market value of the Company's common stock. As of March 31, 2013, the outstanding options had no intrinsic value because the exercise prices of all outstanding options were above the market value of a share of the Company's common stock.

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No options were exercised during the three months ended March 31, 2013.

As of March 31, 2013, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

Note 5. Pension Plan

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

Three months ended March 31,	2013	2012
	Pension Benefits	
Interest cost	$ 62,983	$ 71,750
Expected return on plan assets	(88,399)	(97,500)
Amortization of net loss	74,524	56,250
Net periodic pension plan cost	$ 49,108	$ 30,500

At March 31, 2013, management had not yet determined the amount, if any, that the Company will contribute to the plan in the year ending December 31, 2013.

Note 6. Stockholders' Equity and Earnings per Share

STOCKHOLDERS' EQUITY – OTHER COMPREHENSIVE INCOME

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

	Three Months Ended March 31, 2013	2012	Affected Line Item on Consolidated Statement of Income
Available-for-sale securities			
Realized gains on sales of securities	$0	$314	Gain on sale of available-for-sale securities, net
Tax effect	0	(107)	Income tax expense
	$0	$207	Net of tax

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

	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans (in thousands)	Accumulated Other Comprehensive Loss
THREE MONTHS ENDED MARCH 31, 2013			
Balance at beginning of period	$ 1,993	$ (2,184)	$ (191)
Net change for the quarter	(1,727)	0	(1,727)
Balance at end of period	$ 266	$ (2,184)	$ (1,918)

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 outstanding stock options.

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The Company did not include an average of 154 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for the first three months of 2013 because they were antidilutive.

Note 7. Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Public companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company has included the required disclosures from ASU 2013-02 in its consolidated financial statements.

Note 8. Fair Value Measurements

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

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

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

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

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

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

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

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

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS
Debt and equity securities with readily determinable fair values are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's 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 March 31, 2013 Using (in thousands)		
Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Obligations of U.S. Government agencies	$ 36,416	$ 0	$ 36,416	$ 0
Obligations of state and political subdivisions	48,262	0	48,262	0
Mortgage-backed securities	235,274	0	235,274	0
Money market investments	697	0	697	0
Corporate bonds	996	0	996	0
Total available-for-sale securities	$ 321,645	$ 0	$ 321,645	$ 0

		Fair Value Measurements at December 31, 2012 Using (in thousands)		
Description	Balance	Quoted Prices in	Significant Other	Significant Unobservable

		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Available-for-sale securities				
Obligations of U.S. Government agencies	37,088	0	37,088	0
Obligations of state and political subdivisions	43,774	0	43,774	0
Mortgage-backed securities	247,355	0	247,355	0
Money market investments	541	0	541	0
Corporate bonds	698	0	698	0
Total available-for-sale securities	$ 329,456	$ 0	$ 329,456	$ 0

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ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

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

Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of fair value and loss associated with impaired loans can be based on the observable market price of the loan, the fair value of the collateral securing the loan, or the present value of the loan's expected future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable, with the vast majority of the collateral in real estate.

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

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

Foreclosed assets

Loans are transferred to foreclosed assets when the collateral securing them is foreclosed on. The measurement of loss associated with foreclosed assets is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. If there is a contract for the sale of a property, and management reasonably believes the transaction will be consummated in accordance with the terms of the contract, fair value is based on the sale price in that contract (Level 1). 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 foreclosed assets are recorded in the period incurred and expensed against current earnings.

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

		Carrying Value at March 31, 2013 Using (in thousands)		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$2,966	$0	$ 0	$ 2,966
Commercial	2,876	0	0	2,876
Second mortgages	971	0	0	971
Total	$6,813	$0	$ 0	$ 6,813
Foreclosed assets				
Residential 1-4 family	$431	$0	$ 0	$ 431
Commercial	1,825	0	0	1,825
Construction	3,765	0	0	3,765
Total	$6,021	$0	$ 0	$ 6,021

		Carrying Value at December 31, 2012 Using (in thousands)		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$3,009	$0	$ 0	$ 3,009
Commercial	2,271	0	0	2,271
Second mortgages	42	0	0	42
Total mortgage loans on real estate	$5,322	$0	$ 0	$ 5,322
Commercial loans	64	0	0	64
Total	$5,386	$0	$ 0	$ 5,386

Foreclosed assets				
Residential 1-4 family	$676	$0	$ 0	$ 676
Commercial	2,094	0	0	2,094
Construction	3,804	0	0	3,804
Total	$6,574	$0	$ 0	$ 6,574

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The following table displays quantitative information about Level 3 Fair Value Measurements as of the date indicated (dollars in thousands):

		Quantitative Information About Level 3 Fair Value Measurements		
Description	Fair Value at March 31, 2013 (in thousands)	Valuation Techniques	Unobservable Input	Range (Average)
Impaired loans				
Residential 1-4 family real estate	2,966	Market comparables	Selling costs	6 %
Commercial real estate	2,876	Market comparables	Selling costs	6% - 20%(10%)
			Age of appraisal	46 %
Second mortgages	971	Market comparables	Selling costs	6 %
Foreclosed assets				
Residential 1-4 family	431	Market comparables	Selling costs	6% - 10% (6%)
Commercial	1,825	Market comparables	Selling costs	6% - 10% (6%)
Construction	3,765	Market comparables	Selling costs	6% - 10% (6%)

		Quantitative Information About Level 3 Fair Value Measurements		
Description	Fair Value at December 31, 2012 (in thousands)	Valuation Techniques	Unobservable Input	Range (Average)
Impaired loans				
Residential 1-4 family real estate	3,009	Market comparables	Differences in comparables	0% - 5% (5%)
			Selling costs	4.75% - 6% (6%)
Commercial real estate	2,271	Market comparables	Selling costs	0% - 6% (4%)
Second mortgages	42	Market comparables	Selling costs	6 %
Commercial loans	64	Market comparables	Differences in comparables	25 %
Foreclosed assets				
Residential 1-4 family	676	Market comparables	Selling costs	6% - 10% (6%)

Commercial	2,094	Market comparables	Selling costs	6% - 10% (6%)
Construction	3,804	Market comparables	Selling costs	6% - 10% (6%)

ASC 825, “Financial Instruments,” requires disclosure about fair value of financial instruments for interim periods 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.

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

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

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

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

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

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

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

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

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

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

estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At March 31, 2013 and December 31, 2012, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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

		Fair Value Measurements at March 31, 2013 Using (in thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 44,955	$ 44,955	$ 0	$ 0
Securities available-for-sale	321,645	0	321,645	0
Securities held-to-maturity	570	0	573	0
Restricted securities	2,378	0	2,378	0
Loans, net of allowances for loan losses	450,251	0	0	457,364
Bank owned life insurance	22,040	0	22,040	0
Accrued interest receivable	2,484	0	2,484	0
Liabilities				
Deposits	$ 747,240	$ 0	$ 751,902	$ 0
Overnight repurchase agreements	26,339	0	26,339	0
Term repurchase agreements	1,281	0	1,282	0
Federal Home Loan Bank advances	25,000	0	28,417	0
Accrued interest payable	400	0	400	0

		Fair Value Measurements at December 31, 2012 Using (in thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 42,317	$ 42,317	$ 0	$ 0
Securities available-for-sale	329,456	0	329,456	0
Securities held-to-maturity	570	0	574	0
Restricted securities	2,562	0	2,562	0
Loans, net of allowances for loan losses	463,809	0	0	466,492
Bank owned life insurance	21,824	0	21,824	0
Accrued interest receivable	2,420	0	2,420	0

Liabilities				
Deposits	$ 753,816	$ 0	$ 757,923	$ 0
Overnight repurchase agreements	35,946	0	35,946	0
Term repurchase agreements	1,280	0	1,282	0
Federal Home Loan Bank advances	25,000	0	28,681	0
Accrued interest payable	439	0	439	0

Note 9. Segment Reporting

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

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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 three months ended March 31, 2013 and 2012 follows:

	Three Months Ended March 31, 2013				
	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
Revenues					
Interest and dividend income	$7,620,028	$9,277	$ 961,562	$(961,951)	$7,628,916
Income from fiduciary activities	0	899,805	0	0	899,805
Other income	2,118,122	110,768	50,100	(65,526)	2,213,464
Total operating income	9,738,150	1,019,850	1,011,662	(1,027,477)	10,742,185
Expenses					
Interest expense	1,254,908	0	0	(389)	1,254,519
Provision for loan losses	200,000	0	0	0	200,000
Salaries and employee benefits	4,293,922	516,050	110,954	0	4,920,926
Other expenses	3,122,462	217,519	30,421	(65,526)	3,304,876
Total operating expenses	8,871,292	733,569	141,375	(65,915)	9,680,321
Income before taxes	866,858	286,281	870,287	(961,562)	1,061,864
Income tax expense (benefit)	94,408	97,169	(31,030)	0	160,547
Net income	$772,450	$189,112	$ 901,317	$(961,562)	$901,317
Total assets	$886,584,818	$5,491,165	$ 88,229,091	$(89,466,296)	$890,838,778

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	Three Months Ended March 31, 2012				
			Unconsolidated		
	Bank	Trust	Parent	Eliminations	Consolidated
Revenues					
Interest and dividend income	$8,412,294	$9,584	$ 1,092,404	$(1,092,090)	$8,422,192
Income from fiduciary activities	0	826,646	0	0	826,646
Other income	2,352,677	104,338	165,000	(180,776)	2,441,239
Total operating income	10,764,971	940,568	1,257,404	(1,272,866)	11,690,077
Expenses					
Interest expense	1,511,220	0	1,567	(1,861)	1,510,926
Provision for loan losses	200,000	0	0	0	200,000
Salaries and employee benefits	4,288,536	537,013	134,728	0	4,960,277
Other expenses	3,486,413	245,316	38,208	(180,776)	3,589,161
Total operating expenses	9,486,169	782,329	174,503	(182,637)	10,260,364
Income before taxes	1,278,802	158,239	1,082,901	(1,090,229)	1,429,713
Income tax expense (benefit)	293,179	53,633	4,600	0	351,412
Net income	$985,623	$104,606	$ 1,078,301	$(1,090,229)	$1,078,301
Total assets	$865,301,605	$5,147,172	$ 86,099,666	$(86,966,075)	$869,582,368

The accounting policies of the segments are the same as those described in the summary of significant accounting policies reported in the Company’s 2012 annual report on Form 10-K. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains or losses.

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.

Note 10. Commitments and Contingencies

There have been no material changes in the Company’s commitments and contingencies from those disclosed in the Company’s 2012 annual report on Form 10-K. For a discussion of the Company’s branch office expansion, see Note 1 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q.

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

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

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, the net interest margin, strategies for managing the net interest margin and the expected impact of such efforts, liquidity, the loan

portfolio and expected trends in the quality of the loan portfolio, the allowance and provision for loan losses, the securities portfolio, interest rate sensitivity, asset quality, levels of net loan charge-offs and nonperforming assets, noninterest expense (and components of noninterest expense), lease expense, the cost of expanding a current office building, noninterest income (and components of noninterest income), 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, expected effects of the federal government's automatic spending cuts (commonly known as sequestration), 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," "a "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.

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There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to, changes in interest rates, general economic conditions, the effects of the sequestration on the Company's service area and the allowance for loan losses, the quality or composition of the loan or investment portfolios, the effects of management's investment strategy, the adequacy of the Company's credit quality review processes, the level of nonperforming assets and charge-offs, the local real estate market, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, FDIC premiums and/or assessments, demand for loan products, levels of noninterest income and expense, deposit flows, competition, adequacy of the allowance for loan losses and changes in accounting principles, policies and guidelines. The Company could also be adversely affected by monetary and fiscal policies of the U.S. Government, as well as any regulations or programs implemented pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) or other legislation and policies of the Office of the Comptroller of the Currency, U.S. Treasury and the Federal Reserve Board.

The Company has experienced reduced earnings due to the recent recession and the stagnation of the current economic recovery. The current economic climate has led to a reduction in quality loan growth, which has led to a reduction in the loan portfolio and corresponding increase in the securities portfolio.

In July 2010, the President signed into law the Dodd-Frank Act, which implements far-reaching changes across the financial regulatory landscape. It is not clear what other impacts the Dodd-Frank Act, regulations promulgated thereunder and other regulatory initiatives of the Treasury and other bank regulatory agencies will have on the financial markets and the financial services industry.

These risks and uncertainties, in addition to the risks and uncertainties identified in the Company's 2012 annual report on Form 10-K, should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

General

The Company is the parent company of the Bank and Trust. The Bank is a locally managed community bank serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank currently has 20 branch offices. In the first quarter of 2013 the Bank completed its combination two of its branches located in Williamsburg. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of March 31, 2013, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2012 annual report on Form 10-K. That disclosure included a discussion of the accounting policy that requires management's most difficult, subjective or complex judgments: the allowance for loan losses. For a discussion of the Company's policies for calculating the allowance for loan losses, see Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q.

Earnings Summary

Net income for the first quarter of 2013 was $901 thousand or $0.18 per diluted share as compared to net income of $1.1 million or $0.22 per diluted share for the first quarter of 2012. Net income for the first quarter of 2013 was $177 thousand less than the first quarter of 2012. While interest and noninterest expense were lower in the first quarter of 2013 than in 2012, the reduction in expense was not sufficient to offset the lower levels of income in 2013 compared to 2012. Several categories of interest and noninterest income were lower in the first quarter of 2013 than in 2012,

including net gain on sale of securities, which was $314 thousand in the first quarter of 2012 as compared to no net gain in the first quarter of 2013. This difference was primarily attributable to a restructuring of the securities portfolio during 2012. In 2013, the Company is focusing on the liabilities side of the balance sheet to reduce high-cost deposits. Management expects to continue this strategy until loan demand increases.

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Net interest income after the provision for loan losses was $537 thousand less in the first quarter of 2013 as compared to 2012, mainly due to lower total interest income on loans. In contrast, noninterest expense was $324 thousand lower in the first quarter of 2013 as compared to the first quarter of 2012. The largest decreases in noninterest expense in the first quarter of 2013 as compared to the first quarter of 2012 were in losses on sale of foreclosed assets, FDIC insurance premiums, and legal and audit expenses.

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. Although both total interest and dividend income and total interest expense decreased during the three months ended March 31, 2013, as compared to the same period in 2012, total interest and dividend income decreased more than total interest expense, causing net interest income to decrease for the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Net interest income, on a fully tax-equivalent basis, was $6.5 million in the first quarter of 2013, a decrease of $462 thousand from the first quarter of 2012. The net interest margin was 3.19% in the first quarter of 2013, 40 basis points lower than the 3.59% net interest margin in the equivalent period in 2012. While the average rate on liabilities continues to decrease, the rate of change slowed over the last year as most longer-term deposits had already repriced. In addition, the average yield on loans decreased from 5.72% for the first quarter of 2012 to 5.20% for the first quarter of 2013, as higher-yielding loans paid off or were renewed at current, lower rates. More significantly, the composition of earning assets has shifted: as average total loans have decreased from a lack of quality loan demand, a larger percent of earning assets have been invested in lower-yielding investment securities. Because investment securities typically yield less than loans, this shift to lower-yielding investment securities continues to negatively impact the Company's net interest margin in 2013.

Tax-equivalent interest income decreased by $718 thousand in the first quarter of 2013 compared to the same period of 2012. Average earning assets for the first quarter of 2013 increased $40.2 million compared to the same period in 2012. Interest expense decreased $256 thousand for the first quarter of 2013 as compared to the first quarter of 2012. The decrease in interest expense is primarily a result of the 21 basis-point decrease in the average rate on interest-bearing liabilities for first three months of 2013 compared to the same period in 2012.

The yield on average earning assets and cost of average interest-bearing liabilities both decreased due to the Federal Open Market Committee (FOMC) lowering the Federal Funds Target Rate during 2008 from 4.25% to a range of 0.00% to 0.25%. The FOMC has kept the Federal Funds Target Rate unchanged through March 31, 2013. As higher-yielding earning assets and higher-cost interest-bearing liabilities that were opened prior to 2008 mature, they are being replaced with lower-yielding earning assets and lower-cost interest-bearing liabilities. Assuming that the FOMC keeps interest rates at current levels, management believes that the decrease of the average rate on interest-bearing liabilities will continue to slow as a high percentage of the Company's interest-bearing liabilities have already repriced. Management also believes that the average yield on loans will continue to decline due to increased competition for loans in the Company's markets, and as loans are renewed or refinanced at lower current market rates.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*
For the quarter ended March 31,

	2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**
	(dollars in thousands)					
ASSETS						
Loans*	$463,268	$6,017	5.20 %	$495,619	$7,090	5.72 %
Investment securities:						
Taxable	285,236	1,324	1.86 %	230,691	1,221	2.12 %
Tax-exempt*	40,086	401	4.00 %	13,928	143	4.11 %
Total investment securities	325,322	1,725	2.12 %	244,619	1,364	2.23 %
Interest-bearing due from banks	23,912	14	0.23 %	31,290	17	0.22 %
Federal funds sold	1,932	0	0.00 %	1,955	0	0.00 %
Other investments	3,574	18	2.01 %	4,373	21	1.92 %
Total earning assets	818,008	$7,774	3.80 %	777,856	$8,492	4.37 %
Allowance for loan losses	(7,412)			(8,595)		
Other nonearning assets	82,777			80,808		
Total assets	$893,373			$850,069		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Time and savings deposits:						
Interest-bearing transaction accounts	$11,037	$2	0.07 %	$11,163	$2	0.07 %
Money market deposit accounts	195,103	71	0.15 %	172,402	79	0.18 %
Savings accounts	58,018	14	0.10 %	51,096	13	0.10 %
Time deposits, $100,000 or more	135,786	396	1.17 %	125,393	415	1.32 %
Other time deposits	168,356	466	1.11 %	170,702	561	1.31 %
Total time and savings deposits	568,300	949	0.67 %	530,756	1,070	0.81 %
Federal funds purchased, repurchase agreements and other borrowings	32,405	4	0.05 %	32,763	16	0.20 %
Federal Home Loan Bank advances	25,000	302	4.83 %	35,000	425	4.86 %
Total interest-bearing liabilities	625,705	1,255	0.80 %	598,519	1,511	1.01 %
Demand deposits	176,249			163,293		
Other liabilities	2,889			1,899		
Stockholders' equity	88,530			86,358		
Total liabilities and stockholders' equity	$893,373			$850,069		
Net interest margin		$6,519	3.19 %		$6,981	3.59 %

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

**Annualized

Provision for Loan Losses

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

The provision for loan losses was $200 thousand in the first quarter of 2013 and 2012. Management concluded that the provision was appropriate based on its analysis of the adequacy of the allowance for loan losses. Due to its concerns regarding the possible negative consequences of sequestration on local economic conditions and on borrowers' ability to repay loans, management maintained the provision in the first quarter of 2013 at the same level as the first quarter of 2012. Management believed this was appropriate even though net charge-offs were $345 thousand lower and total loans were $13.6 million lower in the first quarter of 2013 as compared to the first quarter of 2012.

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Net loans charged off were $265 thousand for the first quarter of 2013 as compared to $611 thousand for the first quarter of 2012. On an annualized basis, net loan charge-offs were 0.23% of total loans for the first three months of 2013 compared with 0.50% for the same period in 2012. Net loans charged off for the first three months of 2013 were relatively low as compared to net charge-offs of the past few years. Management anticipates that net charge-offs for the second quarter of 2013 will be below the elevated level of net charge-offs that occurred in 2010 and 2011 due to stabilization of the economy and housing prices. If the sequestration has negative consequences that are more severe than those currently expected by management, borrowers may be less likely to repay loans, net charge-offs may increase, and higher contributions to the allowance for loan losses in the form of increased provisions may be necessary.

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, restructured loans that are accruing interest and not performing according to their modified terms, and foreclosed assets. See Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q for an explanation of these categories. Foreclosed assets consist of real estate from foreclosures on loan collateral. The majority of the loans 90 days or more past due but still accruing interest are classified as substandard. Substandard loans are a component of the allowance for loan losses. When a loan changes from “past due 90 days or more and accruing interest” status to “nonaccrual” status, the loan is reviewed for impairment. In most cases, if the loan is considered impaired, then the difference between the value of the collateral and the principal amount outstanding on the loan is charged off. If the Company is waiting on an appraisal to determine the collateral’s value or is in negotiations with the borrower or other parties that may affect the value of the collateral, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at that time. In the case of TDRs, the restructuring may be to modify to an unsecured loan (e.g., a short sale) that the borrower can afford to repay. In these circumstances, the entire balance of the loan would be specifically allocated for, unless the present value of expected future cash flows was more than the current balance on the loan. It would not be charged off if the loan documentation supports the borrower’s ability to repay the modified loan.

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The following table presents information on nonperforming assets, as of the dates indicated:

NONPERFORMING ASSETS

	March 31, 2013	December 31, 2012	Increase (Decrease)
		(in thousands)	
Nonaccrual loans			
Commercial	$21	$97	$(76)
Real estate-construction	2,880	3,065	(185)
Real estate-mortgage (1)	7,083	7,470	(387)
Consumer loans	4	0	4
Total nonaccrual loans	$9,988	$10,632	$(644)
Loans past due 90 days or more and accruing interest			
Commercial	$0	$25	$(25)
Real estate-mortgage (1)	126	408	(282)
Consumer loans	0	11	(11)
Other	4	3	1
Total loans past due 90 days or more and accruing interest	$130	$447	$(317)
Restructured loans			
Real estate-mortgage (1)	$9,350	$8,810	$540
Consumer loans	16	16	0
Total restructured loans	$9,366	$8,826	$540
Less nonaccrual restructured loans (included above)	1,855	1,908	(53)
Less restructured loans currently in compliance (2)	7,511	6,918	593
Net nonperforming, accruing restructured loans	$0	$0	$0
Foreclosed assets			
Construction, land development, and other land	$3,765	3,804	$(39)
1-4 family residential properties	431	676	(245)
Nonfarm nonresidential properties	1,825	2,094	(269)
	$6,021	$6,574	$(553)
Total nonperforming assets	$16,139	$17,653	$(1,514)

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) As of the dates presented, all of the Company's restructured accruing loans were performing in compliance with their modified terms.

Nonperforming assets as of March 31, 2013 were $16.1 million, $1.5 million lower than nonperforming assets as of December 31, 2012. The nonperforming assets category of nonaccrual loans decreased $644 thousand and foreclosed assets decreased by $553 thousand, when comparing the balances as of March 31, 2013 to December 31, 2012.

The majority of the balance of nonaccrual loans at March 31, 2013 was related to a few large credit relationships. Of the $10.0 million of nonaccrual loans at March 31, 2013, $8.2 million or approximately 82.31% was comprised of four credit relationships: $2.9 million, $2.8 million, $1.8 million, and $721 thousand. The loans that make up the nonaccrual balance have been written down to their net realizable value. As shown in the table above, the majority of the nonaccrual loans were collateralized by real estate at March 31, 2013 and December 31, 2012. The increase in

troubled debts restructured between December 31, 2012 and March 31, 2013 was due to the Company's efforts to modify problem credits to assist borrowers and return the loans to performing status.

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Management believes the Company has excellent credit quality review processes in place to identify problem loans quickly. The quality of the Company's loan portfolio has continued to improve over the past few years, with nonperforming assets generally stabilizing as troubled borrowers' finances have improved and troubled loans have been charged off or sold. Management remains cautious about the future and is well aware that if the economy does not continue to improve, nonperforming assets could increase in future periods. As was seen in prior years, the effect of a sustained increase in nonperforming assets would be lower earnings caused by larger contributions to the loan loss provision, which in turn would be driven by larger impairments in the loan portfolio and higher levels of loan charge-offs.

As of March 31, 2013, the allowance for loan losses was 44.98% of nonperforming assets and 71.74% of nonperforming loans. The allowance for loan losses as a percentage of nonperforming assets and nonperforming loans increased slightly between March 31, 2013 and December 31, 2012 due to management concerns about the possible negative consequences of sequestration on local economic conditions and on borrowers' ability to repay loans. These percentages could increase further if the effects of sequestration on the Company's loan portfolio require increases in the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is based on several components. Historical loss is one of these components. Historical loss is based on the Company's loss experience during the past eight quarters, which management believes reflects the risk related to each segment of loans in the current economic environment. The historical loss component of the allowance amounted to $4.4 million and $5.4 million as of March 31, 2013 and December 31, 2012, respectively. This decrease is primarily due to lower charge-offs for the first three months of 2013 as compared to the level of charge-offs in certain quarters included in past historical loss periods. The Company uses a rolling eight-quarter average to calculate the historical loss component of the allowance, so higher charge-offs in the first three months of 2011 are no longer included in the calculation as of March 31, 2013, which has caused the historical loss component to decrease.

In evaluating the adequacy of the allowance, each segment of the loan portfolio is divided into several pools of loans based on the Company's internally assigned risk grades and on whether the loans must be specifically identified for an impairment analysis:

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

Historical loss rates are applied to the above pools of loans for each segment of the loan portfolio, except for impaired loans which have losses specifically calculated on an individual loan basis. In the past, specific identification loans were always risk-rated substandard or doubtful. Recent guidance from the FASB emphasized that TDRs must be included in the impaired loans section (specific identification) of the Company's allowance. For example, a TDR that was rated substandard and was upgraded to a pass rating after sustained performance would still be included in the specific identification section of the allowance.

In addition, nonperforming loans and both performing and nonperforming TDRs are analyzed for impairment under U.S. GAAP and are allocated based on this analysis. The impairment amounts determined for the Company's TDRs and nonperforming loans are included in the specific identification pool above. Therefore, changes in TDRs and nonperforming loans affect the dollar amount of the allowance. Unless the TDR or nonperforming loan does not require a specific allocation (i.e. the present value of expected future cash flows or the collateral value is considered sufficient), increases in the impairment analysis for TDRs and nonperforming loans are reflected as an increase in the

allowance for loan losses.

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 March 31, 2013 and December 31, 2012, the impaired loan component of the allowance for loan losses amounted to $1.2 million and $444 thousand, respectively. As shown in the impaired loan tables in Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q, the recorded investment in impaired loans at March 31, 2013 was $20.5 million, compared to a recorded investment in impaired loans at December 31, 2012 of $17.6 million. As of March 31, 2013, the impaired loan component of the allowance increased by $756 thousand as compared to the component's balance as of December 31, 2012. The recorded investment in impaired loans increased, while at the same time, some of the loans added to the impairment calculation had loan balances that were in excess of the estimated appraised values. Therefore, the total amount of the impairment associated with those loans increased and a larger allocation was appropriate

The final 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. The qualitative component of the allowance amounted to $1.6 million and $1.5 million as of March 31, 2013 and December 31, 2012, respectively. The major reason for the increase in this component, even though there was a decrease in total loans, is management's concern about the possible negative consequences of sequestration.

As a result of management's analysis, the Company added, through the provision, $200 thousand to the allowance for loan losses in the three months ended March 31, 2013. Management believes that the allowance has been appropriately funded for additional losses on existing loans, based on currently available information. If sequestration results in increased historical loss rates, increases in impairment analyses or changes in certain qualitative factors related to the economic conditions, the current level of the allowance for loan losses may be insufficient and increases in the allowance may be needed to account for the effects of sequestration.

Noninterest Income

For the first quarter of 2013, noninterest income decreased by $155 thousand when compared to the same period in 2012. The reason for the decrease is that in 2012 the Company restructured a portion of its investment portfolio to improve the portfolio's cash flow and increase its yields. Due to the restructuring, $314 thousand in net gain on available-for-sale securities was posted to income in the first quarter of 2012. There was no net gain on sale of securities in the first quarter of 2013 because management has, as of the writing of this quarterly report on Form 10-Q, completed its restructuring of the securities portfolio.

Although the Company has not posted any income related to gains on the sale of available-for-sale securities, increases occurred in other categories of noninterest income when comparing the first quarter to 2013 to the same period in 2012. Noninterest income improved in the categories of income from fiduciary activities, other service charges, commissions and fees and other operating income. Income from fiduciary activities increased $73 thousand for the first quarter of 2013 as compared to the same period in 2012 as Trust continues to open new accounts. In addition, because most account fees are tied to the market value of account assets, improvement in the equities market yielded higher fee income to Trust. Other service charges, commissions and fees grew $62 thousand for the first quarter of 2013 over the same period in 2012. The increase in other service charges, commissions and fees was due to increased revenues from merchant processing services and investment brokerage services. Other operating income increased $67 thousand for the first quarter of 2013 as compared to the first quarter of 2012. The majority of this income is due to increased revenue from Old Point Mortgage, LLC, which is a joint venture of the Company. The Bank has emphasized to its employees the importance of referrals to Old Point Mortgage, LLC, which has led to an increase in referrals and closed loans.

The Company continues to focus on diversifying noninterest income in response to declining interest income and regulatory restrictions on some sources of noninterest income. Management anticipates that noninterest income, other than gains on sales of available-for-sale securities, will continue to increase as the Company adds new services.

Noninterest Expense

The Company's noninterest expense decreased by $324 thousand in the first quarter of 2013 as compared to the first quarter of 2012. Several categories of noninterest expense decreased; the largest decreases were in losses on sale of foreclosed assets which decreased $130 thousand or 50.72%, FDIC insurance premiums, which decreased $98 thousand or 34.82%, and legal and audit expenses, which decreased $73 thousand or 39.58%. As the economy generally improved over the past year, the Company's nonperforming assets declined, which also reduced expenses related to these assets.

A small decrease in noninterest expense was seen in the category of salaries and employee benefits. Salaries and employee benefits expense decreased $39 thousand when comparing the first quarter of 2013 to the first quarter of 2012. In 2012, the Company made early retirement offers to eligible employees and initiated a reduction in work force program to eliminate positions that had become unnecessary due to improvements in technology and efficiencies. Both the early retirement offer and the reduction in work force program provided severance packages to employees, which increased salaries and employee benefits expense in 2012.

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Balance Sheet Review

Assets as of March 31, 2013 were $890.8 million, a decrease of $16.7 million or 1.84%, compared to assets as of December 31, 2012. Due to the lack of quality loan demand in recent years, the Company's loan portfolio has declined. The securities available for sale decreased $7.8 million or 2.37% due to the receipt of payments on its portfolio of mortgage-backed securities. The Company has not made additional purchases of securities but instead has focused on reducing higher cost time deposits. To manage its net interest margin, the Company has focused on low-cost deposits rather than higher cost time deposits. Higher cost time deposits decreased $11.4 million from $308.8 million on December 31, 2012 to $297.4 million at March 31, 2013, while low-cost funds increased $4.8 million between December 31, 2012 and March 31, 2013. Until loan demand recovers, the Company will likely continue to manage the net interest margin by allowing higher cost funds to decrease.

The Company's holdings of "Alt-A" type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of March 31, 2013.

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

For the purposes of this discussion, a "subprime loan" is defined as a loan to a borrower having a credit score of 660 or below. The majority of the Company's subprime loans are to customers in the Company's local market area. The following table details the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end loans and 1-4 family junior lien loans for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family First Mortgages,
1 - 4 Family Open-end and 1 - 4 Family Junior Liens
As of March 31, 2013
(dollars in thousands)

		Amount	Percent	
Subprime	$	18,727	18.4	%
Non-subprime		83,011	81.6	%
	$	101,738	100.0	%
Total loans	$	457,510		
Percentage of Real Estate-Secured Subprime Loans to Total Loans			4.09	%

In addition to the subprime loans secured by real estate discussed above, as of March 31, 2013, the Company had an additional $1.8 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of March 31, 2013 were $20.5 million, amounting to 4.49% of the Company's total loans at March 31, 2013.

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

Average assets for the first three months of 2013 were $893.4 million compared to $850.1 million for the first three months of 2012. The increase in average assets for the first three months of 2013 as compared to average assets for the first three months of 2012 was due mainly to the increase in average investment securities of $80.7 million, due to lack of quality loan demand and growth of low cost deposits. This increase in average assets was partially offset by the decrease in average loans of $32.4 million.

Total available-for-sale securities at March 31, 2013 was $321.6 million, a decrease of $7.8 million from $329.5 million at December 31, 2012. The Company's goal is to provide maximum return on the investment portfolio within the framework of its asset/liability objectives. The objectives include managing interest sensitivity, liquidity and pledging requirements.

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At March 31, 2013, total deposits were $6.6 million lower than total deposits at December 31, 2012. With the lack of loan growth and the reduction of the interest margin, the Company has focused on reducing its high cost time deposits. Time deposits decreased $11.4 million during the first three months of 2013. The Company continues to focus on building customer relationships, which generated growth in lower cost noninterest-bearing and savings deposit categories during the first three months of 2013.

Capital Resources

Total stockholders' equity as of March 31, 2013 was $88.2 million, down $1.1 million or 1.20% from $89.3 million at December 31, 2012. Under applicable banking regulations, Total Capital is comprised of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity and retained earnings less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios at March 31, 2013. As shown below, these ratios were all well above the regulatory minimum levels, and demonstrate that the Company's capital position remains strong.

	2013 Regulatory Minimums	March 31, 2013
Tier 1	4.00%	16.05%
Total Capital	8.00%	17.30%
Tier 1 Leverage	4.00%	10.11%

Book value per share was $17.79 at March 31, 2013 up from $17.34 at March 31, 2012. Cash dividends were $248 thousand or $0.05 per share in both the first quarter of 2013 and the first quarter of 2012. The common stock of the Company has not been extensively traded.

Liquidity

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

A major source of the Company's liquidity is its large, stable deposit base. In addition, secondary liquidity sources are available through the use of borrowed funds if the need should arise, including secured advances from the FHLB. As of the end of the first quarter of 2013, the Company had $241.0 million in FHLB borrowing availability. The Company has available short-term, unsecured borrowed funds in the form of federal funds lines with correspondent banks. As of the end of the first quarter of 2013, the Company had $43.0 million available in federal funds lines to handle any short-term borrowing needs.

Management is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on the liquidity, capital resources or operations of the Company. Nor is management aware of any current recommendations by regulatory authorities that would have a material affect on liquidity, capital resources or operations. The Company's internal sources of such liquidity are deposits, loan and investment repayments and securities available-for-sale. As of March 31, 2013, the Bank's unpledged, available-for-sale securities totaled $238.1 million. The Company's primary external source of liquidity is advances from the FHLB.

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

Contractual Obligations

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

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The Company is expanding the building of a current branch office. See the subsequent events disclosure in Note 1 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q.

As of March 31, 2013, other than those disclosed above, there have been no material changes outside the ordinary course of business in the Company’s contractual obligations disclosed in the Company’s 2012 annual report on Form 10-K.

Off-Balance Sheet Arrangements

As of March 31, 2013, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company’s 2012 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Based on scheduled maturities only, the Company was liability sensitive as of March 31, 2013. It should be noted, however, that non-maturing deposit liabilities, which consist of interest checking, money market, and savings accounts, are less interest sensitive than other market driven deposits. At March 31, 2013, non-maturing deposit liabilities totaled $449.8 million or 60.20% of total deposit liabilities.

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

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

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

Under the rate environment forecasted by management, rate changes in 50 to 100 basis point increments are applied to assess the impact on the Company's earnings at March 31, 2013. The rate change model assumes that these changes will occur gradually over the course of a year. The model reveals that a 50 basis point ramped decrease in rates would cause an approximate 0.49% annual decrease in net interest income. The model reveals that a 50 basis point ramped rise in rates would cause an approximate 0.93% annual increase in net interest income and that a 100 basis point ramped rise in rates would cause an approximate 1.99% increase in net interest income.

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Item 4. Controls and Procedures.

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

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

Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). No changes in the Company's internal control over financial reporting occurred during the fiscal quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A.Risk Factors.

There have been no material changes in the risk factors faced by the Company from those disclosed in the Company's 2012 annual report on Form 10-K.

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

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. During the quarter ended March 31, 2013, the Company did not repurchase any shares related to the exercise of stock options.

During the quarter ended March 31, 2013, the Company did not repurchase any shares pursuant to the Company's stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

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Item 5. Other Information.

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

Item 6. Exhibits.

Exhibit No.	Description
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended effective June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 12, 2009)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated March 8, 2011 (incorporated by reference to Exhibit 3.2 to Form 8-K filed March 10, 2011)
10.6	Base Salaries of Named Executive Officers of the Registrant (incorporated by reference to Exhibit 10.6 to Form 10-K filed March 29, 2013)
10.7.1	2013 Target Bonuses and Performance Goals under the Management Incentive Plan (incorporated by reference to Form 8-K filed February 13, 2013)
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 quarterly report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language), furnished herewith: (i) Consolidated Balance Sheets (unaudited for March 31, 2013), (ii) Consolidated Statements of Income (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited)

SIGNATURES

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

OLD POINT FINANCIAL CORPORATION

May 10, 2013

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

May 10, 2013	/s/Laurie D. Grabow Laurie D. Grabow Chief Financial Officer & Senior Vice President/Finance (Principal Financial & Accounting Officer)