

OLD POINT FINANCIAL CORP
Form 10-Q
August 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number: 000-12896

OLD POINT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1265373
(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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (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). Yes No

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

4,902,167 shares of common stock (\$5.00 par value) outstanding as of July 31, 2008

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OLD POINT FINANCIAL CORPORATION

FORM 10-Q

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Consolidated Balance Sheets

| | June 30, 2008 (unaudited) | December 31, 2007 |
|--|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 61,549,946 | \$ 16,367,590 |
| Federal funds sold | 2,684,296 | 35,196,606 |
| Cash and cash equivalents | 64,234,242 | 51,564,196 |
| Securities available-for-sale, at fair value | 97,719,408 | 129,055,515 |
| Securities held-to-maturity (fair value approximates \$3,122,894 and \$2,947,128) | 3,104,000 | 2,904,000 |
| Loans, net of allowance for loan losses of \$5,113,123 and \$5,130,188 | 621,197,230 | 592,013,988 |
| Premises and equipment, net | 27,594,175 | 27,001,621 |
| Bank owned life insurance | 13,159,161 | 12,801,399 |
| Other assets | 9,212,167 | 7,216,689 |
| | \$ 836,220,383 | \$ 822,557,408 |
| Liabilities & Stockholders Equity | | |
| Deposits: | | |
| Noninterest-bearing deposits | \$ 107,532,153 | 95,969,841 |
| Savings deposits | 183,676,179 | 185,823,155 |
| Time deposits | 323,468,641 | 314,371,633 |
| Total deposits | 614,676,973 | 596,164,629 |
| Federal funds purchased, repurchase agreements and other borrowings | 56,864,172 | 64,225,595 |
| Federal Home Loan Bank advances | 80,000,000 | 80,000,000 |
| Accrued expenses and other liabilities | 3,143,530 | 2,459,986 |
| Total liabilities | 754,684,675 | 742,850,210 |
| Commitments and contingencies | | |
| Stockholders Equity: | | |
| Common stock, \$5 par value, 10,000,000 shares authorized; 4,902,167 and 4,907,567 shares issued | 24,510,835 | 24,537,835 |
| Additional paid-in capital | 15,414,159 | 15,357,005 |
| Retained earnings | 41,879,510 | 40,039,194 |
| Accumulated other comprehensive loss | (268,796) | (226,836) |
| Total stockholders equity | 81,535,708 | 79,707,198 |
| | \$ 836,220,383 | \$ 822,557,408 |

See Notes to Consolidated Financial Statements.

Table of Contents**Old Point Financial Corporation and Subsidiaries**

Consolidated Statements of Income

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|---------------|
| | 2008 (unaudited) | 2007 | 2008 (unaudited) | 2007 |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | \$ 10,093,806 | \$ 10,469,595 | \$ 20,346,432 | \$ 20,706,778 |
| Interest on federal funds sold | 112,641 | 143,794 | 329,835 | 297,276 |
| Interest on securities: | | | | |
| Taxable | 864,736 | 1,150,858 | 1,857,610 | 2,374,728 |
| Tax-exempt | 244,696 | 321,179 | 520,196 | 647,651 |
| Dividends and interest on all other securities | 339,670 | 95,625 | 475,571 | 221,361 |
| Total interest and dividend income | 11,655,549 | 12,181,051 | 23,529,644 | 24,247,794 |
| Interest Expense: | | | | |
| Interest on savings and interest-bearing demand deposits | 262,781 | 660,470 | 673,344 | 1,293,233 |
| Interest on time deposits | 3,348,926 | 3,343,068 | 6,961,762 | 6,654,799 |
| Interest on federal funds purchased, securities sold under agreement to repurchase and other borrowings | 213,394 | 479,236 | 549,501 | 977,745 |
| Interest on Federal Home Loan Bank advances | 1,024,668 | 1,220,270 | 2,049,336 | 2,635,293 |
| Total interest expense | 4,849,769 | 5,703,044 | 10,233,943 | 11,561,070 |
| Net interest income | 6,805,780 | 6,478,007 | 13,295,701 | 12,686,724 |
| Provision for loan losses | 300,000 | 200,000 | 600,000 | 500,000 |
| Net interest income, after provision for loan losses | 6,505,780 | 6,278,007 | 12,695,701 | 12,186,724 |
| Noninterest Income: | | | | |
| Income from fiduciary activities | 807,075 | 782,777 | 1,655,000 | 1,579,691 |
| Service charges on deposit accounts | 1,464,306 | 1,449,876 | 2,891,859 | 2,842,823 |
| Other service charges, commissions and fees | 669,026 | 581,856 | 1,379,457 | 1,167,147 |
| Income from bank owned life insurance | 179,574 | 148,173 | 357,154 | 296,346 |
| Gain on available-for-sale securities, net | | | | 3,168 |
| Other operating income | 53,829 | 170,528 | 113,764 | 322,581 |
| Total noninterest income | 3,173,810 | 3,133,210 | 6,397,234 | 6,211,756 |
| Noninterest Expense: | | | | |
| Salaries and employee benefits | 4,252,361 | 4,040,113 | 8,289,221 | 7,942,411 |
| Occupancy and equipment | 931,639 | 889,194 | 1,873,074 | 1,787,781 |
| Data processing | 252,040 | 219,562 | 488,776 | 423,512 |
| Advertising | 225,381 | 203,081 | 409,740 | 376,382 |
| Customer development | 187,744 | 162,524 | 410,395 | 339,064 |
| Employee professional development | 178,758 | 176,384 | 330,863 | 325,604 |
| Other | 928,758 | 882,996 | 1,816,084 | 1,704,343 |
| Total noninterest expense | 6,956,681 | 6,573,854 | 13,618,153 | 12,899,097 |
| Income before income taxes | 2,722,909 | 2,837,363 | 5,474,782 | 5,499,383 |
| Income tax expense | 787,763 | 810,050 | 1,569,650 | 1,555,158 |

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| | | | | |
|------------|--------------|--------------|--------------|--------------|
| Net income | \$ 1,935,146 | \$ 2,027,313 | \$ 3,905,132 | \$ 3,944,225 |
|------------|--------------|--------------|--------------|--------------|

Basic Earnings per Share: *

| | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Average shares outstanding | 4,903,532 | 4,989,839 | 4,905,549 | 4,988,311 |
| Net income per share of common stock | \$ 0.40 | \$ 0.41 | \$ 0.80 | \$ 0.79 |

Diluted Earnings per Share: *

| | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Average shares outstanding | 4,934,292 | 5,031,621 | 4,937,017 | 5,035,416 |
| Net income per share of common stock | \$ 0.39 | \$ 0.40 | \$ 0.79 | \$ 0.78 |

See Notes to Consolidated Financial Statements.

* Per share data have been adjusted to reflect the 5 for 4 stock split in the form of a dividend declared on August 16, 2007 and paid on October 1, 2007.

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Table of Contents**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 |
|--|------------------------------|-----------------|----------------------------------|----------------------|--|---------------|
| FOR SIX MONTHS ENDED JUNE 30, 2008 | | | | | | |
| Balance at beginning of period | 4,907,567 | \$ 24,537,835 | \$ 15,357,005 | \$ 40,039,194 | \$ (226,836) | \$ 79,707,198 |
| Comprehensive income: | | | | | | |
| Net income | | | | 3,905,132 | | 3,905,132 |
| Unrealized holding losses arising during the period (net of tax, \$33,103) | | | | | (64,259) | (64,259) |
| Adjustment to reflect change in accounting principle (change pension plan measurement date) (net of tax, \$11,487) | | | | | 22,299 | 22,299 |
| Total comprehensive income | | | | 3,905,132 | (41,960) | 3,863,172 |
| Adjustment to reflect change in accounting principle (in regards to Split Dollar Post Retirement Benefits) | | | | (425,051) | | (425,051) |
| Repurchase and retirement of common stock | (5,400) | (27,000) | | (70,207) | | (97,207) |
| Stock compensation expense | | | 57,154 | | | 57,154 |
| Cash dividends (\$.32 per share) | | | | (1,569,558) | | (1,569,558) |
| Balance at end of period | 4,902,167 | \$ 24,510,835 | \$ 15,414,159 | \$ 41,879,510 | \$ (268,796) | \$ 81,535,708 |
| FOR SIX MONTHS ENDED JUNE 30, 2007 | | | | | | |
| Balance at beginning of period | 3,992,155 | \$ 19,960,775 | \$ 14,718,903 | \$ 42,245,413 | \$ (2,259,839) | \$ 74,665,252 |
| Comprehensive income: | | | | | | |
| Net income | | | | 3,944,225 | | 3,944,225 |
| Unrealized holding gains arising during the period (net of tax, \$295,390) | | | | | 573,404 | 573,404 |
| Reclassification adjustment, (net of tax, \$1,077) | | | | | (2,091) | (2,091) |
| Total comprehensive income | | | | 3,944,225 | 571,313 | 4,515,538 |
| Sale of common stock | 17,741 | 88,705 | 548,909 | (482,693) | | 154,921 |
| Repurchase and retirement of common stock | (30,785) | (153,925) | | (672,727) | | (826,652) |
| Nonqualified stock options | | | 5,121 | | | 5,121 |
| Cash dividends (\$.29 per share) | | | | (1,436,450) | | (1,436,450) |
| Balance at end of period | 3,979,111 | \$ 19,895,555 | \$ 15,272,933 | \$ 43,597,768 | \$ (1,688,526) | \$ 77,077,730 |

See Notes to Consolidated Financial Statements.

Table of Contents**Old Point Financial Corporation and Subsidiaries**

Consolidated Statements of Cash Flows

| | Six Months Ended June 30, 2008 (unaudited) | | 2007 |
|---|---|-------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ | 3,905,132 | \$ 3,944,225 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 875,701 | 844,302 |
| Provision for loan losses | | 600,000 | 500,000 |
| Net gain on sale of available-for-sale securities | | | (3,168) |
| Net accretion of securities | | (28,546) | (32,065) |
| Loss (gain) on disposal of equipment | | 2,172 | (16,490) |
| Income from bank owned life insurance | | (357,762) | (296,954) |
| Stock compensation expense | | 57,154 | |
| Increase in other assets | | (2,365,127) | (772,059) |
| Increase in other liabilities | | 683,544 | 421,521 |
| Net cash provided by operating activities | | 3,372,268 | 4,589,312 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of available-for-sale securities | | (24,780,153) | (3,372,130) |
| Purchases of held-to-maturity securities | | (1,700,000) | (600,000) |
| Proceeds from maturities and calls of securities | | 53,702,444 | 30,628,954 |
| Proceeds from sales of available-for-sale securities | | 3,845,000 | 1,770,000 |
| Loans made to customers | | (137,903,639) | (114,325,159) |
| Principal payments received on loans | | 108,120,397 | 107,608,342 |
| Purchases of premises and equipment | | (1,470,427) | (380,921) |
| Net cash provided by (used in) investing activities | | (186,378) | 21,329,086 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase in noninterest-bearing deposits | | 11,562,312 | 892,244 |
| Increase (decrease) in savings deposits | | (2,146,976) | 2,365,016 |
| Proceeds from the sale of time deposits | | 132,154,440 | 109,041,988 |
| Payments for maturing time deposits | | (123,057,432) | (102,365,575) |
| Decrease in federal funds purchased and repurchase agreements | | (7,261,590) | (13,013,040) |
| Decrease in Federal Home Loan Bank advances | | | (35,000,000) |
| Decrease in interest-bearing demand notes and other borrowed money | | (99,833) | (84,779) |
| Proceeds from issuance of common stock | | | 154,921 |
| Repurchase and retirement of common stock | | (97,207) | (826,652) |
| Effect of nonqualified stock options | | | 5,121 |
| Cash dividends paid on common stock | | (1,569,558) | (1,436,450) |
| Net cash provided by (used in) financing activities | | 9,484,156 | (40,267,206) |
| Net increase (decrease) in cash and cash equivalents | | 12,670,046 | (14,348,808) |
| Cash and cash equivalents at beginning of period | | 51,564,196 | 36,784,361 |
| Cash and cash equivalents at end of period | \$ | 64,234,242 | \$ 22,435,553 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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Cash payments for:

| | | |
|------------|---------------|---------------|
| Interest | \$ 10,620,045 | \$ 11,779,907 |
| Income tax | \$ 1,450,000 | \$ 1,675,000 |

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS

| | | |
|--|--------------|------------|
| Unrealized gain (loss) on investment securities | \$ (97,362) | \$ 865,626 |
| Loans transferred to other real estate owned | \$ 1,125,911 | \$ 240,000 |
| Adjustment to reflect change in accounting principle split dollar post retirement benefits | \$ (425,051) | \$ |

See Notes to Consolidated Financial Statements.

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Table of Contents**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 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 consisting of a normal and recurring nature considered necessary to present fairly the financial positions at June 30, 2008 and December 31, 2007, the results of operations for the three months and six months ended June 30, 2008 and 2007, and statements of cash flows and changes in stockholders' equity for the six months ended June 30, 2008 and 2007. 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 2007 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

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 at the Company's Internet address is not part of this Form 10-Q or any other report filed by the Company with the SEC. The public may read and copy any documents the Company files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's SEC filings can also be obtained on the SEC's website on the Internet at www.sec.gov.

Note 2. Securities

Amortized costs and fair values of securities held-to-maturity at June 30, 2008 and December 31, 2007 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | (in thousands) | | | |
| June 30, 2008 | | | | |
| Obligations of U.S. Government agencies | \$ 2,500 | \$ 4 | \$ (13) | \$ 2,491 |
| Obligations of state and political subdivisions | 604 | 28 | | 632 |
| Total | \$ 3,104 | \$ 32 | \$ (13) | \$ 3,123 |
| December 31, 2007 | | | | |
| Obligations of U.S. Government agencies | \$ 2,300 | \$ 7 | \$ (2) | \$ 2,305 |
| Obligations of state and political subdivisions | 604 | 38 | | 642 |
| Total | \$ 2,904 | \$ 45 | \$ (2) | \$ 2,947 |

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Amortized costs and fair values of securities available-for-sale at June 30, 2008 and December 31, 2007 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | (in thousands) | | | |
| June 30, 2008 | | | | |
| U.S. Treasury securities | \$ 397 | \$ | \$ (1) | \$ 396 |
| Obligations of U.S. Government agencies | 68,014 | 174 | (221) | 67,967 |
| Obligations of state and political subdivisions | 19,399 | 212 | | 19,611 |
| Mortgage-backed securities | 2,716 | 3 | (1) | 2,718 |
| Money market investments | 1,663 | | | 1,663 |
| Federal Home Loan Bank stock - restricted | 5,072 | | | 5,072 |
| Federal Reserve Bank stock - restricted | 169 | | | 169 |
| Other marketable equity securities | 166 | | (43) | 123 |
| Total | \$ 97,596 | \$ 389 | \$ (266) | \$ 97,719 |
| December 31, 2007 | | | | |
| U.S. Treasury securities | \$ 986 | \$ 2 | \$ | \$ 988 |
| Obligations of U.S. Government agencies | 95,760 | 233 | (282) | 95,711 |
| Obligations of state and political subdivisions | 25,031 | 310 | | 25,341 |
| Money market investments | 1,604 | | | 1,604 |
| Federal Home Loan Bank stock - restricted | 5,115 | | | 5,115 |
| Federal Reserve Bank stock - restricted | 169 | | | 169 |
| Other marketable equity securities | 169 | | (41) | 128 |
| Total | \$ 128,834 | \$ 545 | \$ (323) | \$ 129,056 |

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Information pertaining to securities with gross unrealized losses at June 30, 2008 and December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | June 30, 2008 | | | | | |
|---|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| (in thousands) | | | | | | |
| Securities Available-for-Sale | | | | | | |
| Debt securities: | | | | | | |
| U.S. Treasury securities | \$ 1 | \$ 396 | \$ | \$ | \$ 1 | \$ 396 |
| Obligations of U.S. Government agencies | 221 | 32,795 | | | 221 | 32,795 |
| Mortgage-backed securities | 1 | 1,277 | | | 1 | 1,277 |
| Total debt securities | 223 | 34,468 | | | 223 | 34,468 |
| Other marketable equity securities | \$ | \$ | \$ 43 | \$ 7 | \$ 43 | \$ 7 |
| Total securities available-for-sale | \$ 223 | \$ 34,468 | \$ 43 | \$ 7 | \$ 266 | \$ 34,475 |
| Securities Held-to-Maturity | | | | | | |
| Obligations of U.S. Government agencies | \$ 13 | \$ 1,387 | \$ | \$ | \$ 13 | \$ 1,387 |
| Total securities held-to-maturity | \$ 13 | \$ 1,387 | \$ | \$ | \$ 13 | \$ 1,387 |
| Total | \$ 236 | \$ 35,855 | \$ 43 | \$ 7 | \$ 279 | \$ 35,862 |

| | December 31, 2007 | | | | | |
|---|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| (in thousands) | | | | | | |
| Securities Available-for-Sale | | | | | | |
| Debt securities: | | | | | | |
| Obligations of U.S. Government agencies | \$ | \$ | \$ 282 | \$ 55,480 | \$ 282 | \$ 55,480 |
| Total debt securities | | | 282 | 55,480 | 282 | 55,480 |
| Other marketable equity securities | | | 41 | 9 | 41 | 9 |
| Total securities available-for-sale | \$ | \$ | \$ 323 | \$ 55,489 | \$ 323 | \$ 55,489 |
| Securities Held-to-Maturity | | | | | | |
| Obligations of U.S. Government agencies | \$ | \$ | \$ 2 | \$ 899 | \$ 2 | \$ 899 |
| Total securities held-to-maturity | \$ | \$ | \$ 2 | \$ 899 | \$ 2 | \$ 899 |
| Total | \$ | \$ | \$ 325 | \$ 56,388 | \$ 325 | \$ 56,388 |

The Company has the ability and intent to hold these securities until maturity. None of the securities are impaired due to credit issues. Therefore, securities with a loss are considered temporarily impaired.

Table of Contents**Note 3. Loans**

Loans at June 30, 2008 and December 31, 2007 are summarized as follows:

| | June 30, 2008 | December 31, 2007 |
|----------------------------------|------------------|----------------------|
| | (in thousands) | |
| Commercial and other loans | \$ 75,896 | \$ 70,741 |
| Real estate loans: | | |
| Construction | 61,571 | 56,007 |
| Farmland | | 44 |
| Equity lines of credit | 32,444 | 30,383 |
| 1-4 family residential | 132,314 | 123,006 |
| Multifamily residential | 6,631 | 7,031 |
| Nonfarm nonresidential | 269,118 | 254,790 |
| Installment loans to individuals | 45,176 | 51,912 |
| Tax-exempt loans | 2,881 | 2,992 |
| Total loans | 626,031 | 596,906 |
| Less: Allowance for loan losses | (5,113) | (5,130) |
| Net deferred loan costs | 279 | 238 |
| | | |
| Loans, net | \$ 621,197 | \$ 592,014 |

At June 30, 2008 and December 31, 2007, impaired loans amounted to \$7.8 million and \$9.3 million. Included in the allowance for loan losses was \$177 thousand related to \$7.8 million of impaired loans at June 30, 2008 and \$655 thousand related to \$9.3 million of impaired loans at December 31, 2007.

Note 4. Allowance for Loan Losses

The following summarizes activity in the allowance for loan losses for the six months ended June 30, 2008 and the year ended December 31, 2007:

| | June 30, 2008 | December 31, 2007 |
|----------------------------|------------------|----------------------|
| | (in thousands) | |
| Balance, beginning of year | \$ 5,130 | \$ 4,784 |
| Recoveries | 266 | 381 |
| Provision for loan losses | 600 | 1,000 |
| Loans charged off | (883) | (1,035) |
| | | |
| Balance, end of period | \$ 5,113 | \$ 5,130 |

Note 5. Share-Based Compensation

Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)) requires 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. SFAS 123(R) was adopted by the Company as of January 1, 2006.

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Since its adoption of SFAS 123(R), the Company issued options once in October 2007. The fair value of the options granted in 2007 was estimated using the Black Scholes option pricing model with the following assumptions: dividend yield of 2.46%, expected volatility of 27.398%, risk-free interest rate of 4.47% and an expected option life of six and one-half years. The grant-date fair value of options granted during 2007 was \$5.48 per share.

On March 9, 2008, the Company's 1998 stock option plan expired. Options for the purchase of 358,666 shares of common stock are outstanding at June 30, 2008. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and an option's maximum term is ten years. All share data have been adjusted to reflect the 5 for 4 stock split in the form of a dividend declared on August 16, 2007 and paid on October 1, 2007.

Stock option plan activity for the six months ended June 30, 2008 is summarized below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|--------------------------------|---------|--|---|---------------------------------|
| Options outstanding, January 1 | 363,041 | \$ 18.99 | | |
| Granted | | | | |
| Exercised | | | | |
| Canceled or expired | (4,375) | 21.13 | | |
| Options outstanding, June 30 | 358,666 | 18.97 | 5.07 | \$ 611,458 |
| Options exercisable, June 30 | 246,831 | \$ 18.48 | 3.15 | \$ 611,458 |

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 June 30, 2008. This amount changes based on changes in the market value of the Company's stock.

As of June 30, 2008, there was \$486 thousand unrecognized compensation which relates to unvested options.

SFAS 123(R) requires the benefits of tax deductions in excess of grant-date fair value to be reported as a financing cash flow. The Company did not have any tax benefit deductions from the exercise of stock options in the second quarter of 2008.

Note 6. Pension Plan

The Company provides pension benefits for eligible participants through a non-contributory defined benefits pension plan. The plan was frozen effective September 30, 2006; therefore no additional participants will be added to the plan. The Company implemented the requirement of the Financial Accounting Standards Board's (FASB) SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) to measure plan assets and obligations as of the balance sheet date. This increased our stockholder's equity by \$22 thousand. The components of net periodic pension cost are as follows:

| Quarter ended June 30, | 2008 | 2007 |
|-------------------------------------|-------------|-------------|
| Interest cost | \$ 76,095 | \$ 71,948 |
| Expected return on plan assets | (109,882) | (102,902) |
| Amortization of prior service cost | | |
| Amortization of net loss | | 8,606 |
| Net periodic pension plan (benefit) | \$ (33,787) | \$ (22,348) |

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| Six months ended June 30, | 2008 | 2007 |
|--|--------------------|--------------------|
| | Pension Benefits | |
| Interest cost | 152,190 | 143,895 |
| Expected return on plan assets | (219,765) | (205,803) |
| Amortization of prior service cost | | |
| Amortization of net loss | | 17,211 |
| Net periodic pension plan (benefit) | \$ (67,575) | \$ (44,697) |

The Company has not made and, does not expect to make, any contributions to the plan in 2008.

Note 7. Earnings per Share

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

The Company did not include 257 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation because they were antidilutive.

Note 8. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). The Statement will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Company does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 requires the Company to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance

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and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

Note 9. Fair Value Measurements

SFAS No. 157, Fair Value Measurements (SFAS 157), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Impaired loans

SFAS 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisal or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other real estate owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS 157.

Note 10. Split Dollar Post Retirement Benefits

The FASB ratified Emerging Issues Task Force (EITF) Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements which was effective January 1, 2008 for calendar-year entities. The EITF concluded that an employer should recognize a liability for future benefits based on the substantive agreement with the employee. As a result of the change in accounting principle, the Company recorded a reduction to retained earnings of \$425 thousand in the first quarter of 2008.

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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 statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as believes, expects, plans, may, will, should, projects, contemplates, and forecasts, intends or other words of similar meaning. You can also identify them 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.

Factors that could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the Office of the Comptroller of the Currency, U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, the local real estate market, demand for loan products, deposit flows, competition, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake 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. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of June 30, 2008, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2007 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.

Earnings Summary

Net income for the second quarter of 2008 was \$1.9 million as compared with \$2.0 million earned in the comparable quarter in 2007, a decrease of 4.5%. Basic and diluted earnings per share for the second quarter 2008 were \$0.40 and \$0.39. Basic and diluted earnings per share for the second quarter of 2007 were \$0.41 and \$0.40. Annualized return on average assets (ROA) for the second quarter of 2008 was 0.92% and 0.99% for the comparable period in 2007. Annualized return on equity (ROE) was 9.48% for the second quarter of 2008 compared with 10.52% for the same period in 2007.

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

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margin is calculated by dividing tax equivalent net interest income by average earning assets. Net interest income, on a fully tax equivalent basis, was \$7.0 million in the second quarter of 2008, an increase of \$286 thousand from the second quarter of 2007. The net interest margin was 3.55% in the second quarter of 2008 and 3.45% in the second quarter of 2007. The net interest margin improved 9 basis points from 3.46% in the first quarter of 2008. Although loan yields have declined since the first quarter, the Company has been able to reduce its interest-bearing liability costs by more than the decline in the loan yields.

Tax equivalent interest income decreased \$568 thousand, or 4.59%, in the second quarter of 2008 compared to the same period of 2007. Average earning assets grew \$10.2 million, or 1.33% compared to the second quarter of 2007. The average yield on earning assets decreased in the second quarter of 2008 by 38 basis points. Interest expense decreased \$854 thousand, or 14.97%, and average interest-bearing liabilities increased by \$3.0 million, or 0.47% in the second quarter of 2008 compared to the same period of 2007. The cost of funding those liabilities decreased 54 basis points from the same period of 2007.

For the six months ended June 30, 2008 net interest income, on a fully tax equivalent basis, increased \$539 thousand, or 4.13%, over the comparable period in 2007. Comparing the first six months of 2008 to 2007, average loans increased \$23.0 million, or 3.93%, while investment securities decreased \$35.7 million, or 19.86%. Average earning assets increased 0.09% and the net interest yield increased from 3.36% in 2007 to 3.50% in 2008, an increase of 14 basis points. For the six months ended June 30, 2008 interest expense decreased \$1.3 million, or 11.48%, over the same period in 2007.

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

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AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

| (unaudited) | For the quarter ended June 30, 2008 | | | 2007 | | |
|---|--|--------------------------------|------------------------------------|--------------------|--------------------------------|------------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate** (in thousands) | Average Balance | Interest Income/ Expense | Yield/ Rate** |
| Loans | \$ 614,471 | \$ 10,111 | 6.58% | \$ 587,625 | \$ 10,489 | 7.14% |
| Investment securities: | | | | | | |
| Taxable | 125,195 | 1,205 | 3.85% | 145,674 | 1,247 | 3.42% |
| Tax-exempt | 20,348 | 370 | 7.28% | 27,654 | 487 | 7.04% |
| Total investment securities | 145,543 | 1,575 | 4.33% | 173,328 | 1,734 | 4.00% |
| Federal funds sold | 22,209 | 113 | 2.04% | 11,021 | 144 | 5.23% |
| Total earning assets | 782,223 | \$ 11,799 | 6.03% | 771,974 | \$ 12,367 | 6.41% |
| Allowance for loan losses | (5,052) | | | (5,085) | | |
| Other nonearning assets | 62,841 | | | 55,719 | | |
| Total assets | \$ 840,012 | | | \$ 822,608 | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing transaction accounts | \$ 10,772 | \$ 3 | 0.11% | \$ 11,596 | \$ 7 | 0.24% |
| Money market deposit accounts | 139,974 | 235 | 0.67% | 157,056 | 602 | 1.53% |
| Savings accounts | 37,898 | 24 | 0.25% | 39,970 | 51 | 0.51% |
| Time deposits, \$100,000 or more | 123,582 | 1,263 | 4.09% | 104,424 | 1,280 | 4.90% |
| Other time deposits | 204,987 | 2,086 | 4.07% | 183,639 | 2,063 | 4.49% |
| Total time and savings deposits | 517,213 | 3,611 | 2.79% | 496,685 | 4,003 | 3.22% |
| Federal funds purchased, repurchase agreements and other borrowings | 51,349 | 214 | 1.67% | 49,145 | 480 | 3.91% |
| Federal Home Loan Bank advances | 80,000 | 1,024 | 5.12% | 99,723 | 1,220 | 4.89% |
| Total interest-bearing liabilities | 648,562 | 4,849 | 2.99% | 645,553 | 5,703 | 3.53% |
| Demand deposits | 106,464 | | | 97,303 | | |
| Other liabilities | 3,335 | | | 2,641 | | |
| Stockholders' equity | 81,651 | | | 77,111 | | |
| Total liabilities and stockholders' equity | \$ 840,012 | | | \$ 822,608 | | |
| Net interest income/yield | | \$ 6,950 | 3.55% | | \$ 6,664 | 3.45% |

| (unaudited) | For the six months ended June 30, 2008 | | | 2007 | | |
|-----------------------------|---|--------------------------------|------------------------------------|--------------------|--------------------------------|------------------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate** (in thousands) | Average Balance | Interest Income/ Expense | Yield/ Rate** |
| Loans | \$ 609,151 | \$ 20,382 | 6.69% | \$ 586,138 | \$ 20,746 | 7.08% |
| Investment securities: | | | | | | |
| Taxable | 122,028 | 2,333 | 3.82% | 151,925 | 2,596 | 3.42% |
| Tax-exempt | 22,141 | 788 | 7.12% | 27,972 | 982 | 7.02% |
| Total investment securities | 144,169 | 3,121 | 4.33% | 179,897 | 3,578 | 3.98% |

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| | | | | | | |
|---|------------|-----------|-------|------------|-----------|-------|
| Federal funds sold | 24,841 | 330 | 2.66% | 11,390 | 297 | 5.22% |
| Total earning assets | 778,161 | \$ 23,833 | 6.13% | 777,425 | \$ 24,621 | 6.33% |
| Allowance for loan losses | (5,089) | | | (4,975) | | |
| Other nonearning assets | 58,454 | | | 55,046 | | |
| Total assets | \$ 831,526 | | | \$ 827,496 | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing transaction accounts | \$ 10,426 | \$ 8 | 0.15% | \$ 11,113 | \$ 14 | 0.25% |
| Money market deposit accounts | 140,264 | 607 | 0.87% | 153,841 | 1,180 | 1.53% |
| Savings accounts | 37,362 | 58 | 0.31% | 39,427 | 99 | 0.50% |
| Time deposits, \$100,000 or more | 111,791 | 2,617 | 4.68% | 106,920 | 2,614 | 4.89% |
| Other time deposits | 213,657 | 4,345 | 4.07% | 182,625 | 4,041 | 4.43% |
| Total time and savings deposits | 513,500 | 7,635 | 2.97% | 493,926 | 7,948 | 3.22% |
| Federal funds purchased, repurchase agreements and other borrowings | 52,977 | 550 | 2.08% | 50,088 | 978 | 3.91% |
| Federal Home Loan Bank advances | 80,000 | 2,049 | 5.12% | 108,060 | 2,635 | 4.88% |
| Total interest-bearing liabilities | 646,477 | 10,234 | 3.17% | 652,074 | 11,561 | 3.55% |
| Demand deposits | 100,637 | | | 96,354 | | |
| Other liabilities | 3,184 | | | 2,612 | | |
| Stockholders equity | 81,228 | | | 76,456 | | |
| Total liabilities and stockholders equity | \$ 831,526 | | | \$ 827,496 | | |
| Net interest income/yield | | \$ 13,599 | 3.50% | | \$ 13,060 | 3.36% |

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

** Annualized

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Provision for Loan Losses

The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the portfolio.

The provision for loan losses was \$600 thousand for the first six months of 2008, and \$500 thousand in the comparable period in 2007. Loans charged off (net of recoveries) in the first six months of 2008 were \$617 thousand as compared to \$195 thousand in the first six months of 2007. On an annualized basis, net loan charge-offs were 0.20% of total net loans for the first six months of 2008 compared with 0.07% for the same period in 2007.

On June 30, 2008, nonperforming assets totaled \$4.3 million compared with \$3.1 million on June 30, 2007. The June 2008 total consisted of \$233 thousand in restructured debt, \$896 thousand in loans still accruing interest but past due 90 days or more, \$889 thousand in nonaccrual loans, \$165 thousand in a former branch site listed for sale and \$2.1 million in foreclosed property. The June 2007 total consisted of \$1.3 million in restructured debt, \$1.2 million in loans still accruing interest but past due 90 days or more, \$164 thousand in nonaccrual loans, \$165 thousand in a former branch site listed for sale and \$240 thousand in foreclosed property. The increase of \$1.9 million in foreclosed property primarily relates to one completed constructed home on the market to be sold, one construction home in process, one residential lot on the market to be sold and one plot of commercial property.

The allowance for loan losses on June 30, 2008 was \$5.1 million, compared with \$5.1 million on June 30, 2007. As of June 30, 2008, the allowance for loan losses represented a multiple of 2.53 times nonperforming loans. Nonperforming loans includes nonaccrual loans, loans still accruing interest but past due 90 days or more and restructured loans. The allowance for loan losses was 0.82% and 0.86% of total loans on June 30, 2008 and 2007, respectively.

Noninterest Income

For the second quarter of 2008, noninterest income increased \$41 thousand, or 1.30%, over the same period in 2007. The increase in other services charges, commissions and fees is attributed to increases in debit card and ATM interchange fees. The decrease in other operating income is attributed to the closing of our in-house brokered mortgage department at the Bank in the fall of 2007.

Noninterest Expense

For the second quarter of 2008, noninterest expense increased \$383 thousand, or 5.82%, over the second quarter of 2007. Salaries and employee benefits increased by \$212 thousand, or 5.25%, as a result of customary yearly salary increases and an increase of one in the Company's full time equivalent positions.

Occupancy and equipment expenses increased \$42 thousand, or 4.77% over the second quarter of 2007. The increase is related to the new branch that was opened in January 2008.

Balance Sheet Review

At June 30, 2008, the Company had total assets of \$836.2 million, an increase of 1.66% from \$822.6 million at December 31, 2007. Net loans as of June 30, 2008 were \$621.2 million, an increase of 4.93% from \$592.0 million at December 31, 2007.

Average assets for the first six months of 2008 were \$831.5 million compared to \$827.5 million for the first six months of 2007. The growth in assets in 2008 was due primarily to the growth in average loans, which increased 3.93% as compared to the same period in 2007.

Total investment securities at June 30, 2008 were \$100.8 million, a decrease of 23.6% from \$132.0 million at December 31, 2007. The Company's goal is to provide maximum return on the investment portfolio within the framework of its asset/liability objectives. The objectives include managing interest sensitivity, liquidity and pledging requirements.

At June 30, 2008, the Company had \$61.5 million in cash and due from banks as compared to \$16.4 million at June 30, 2007. During the second quarter of 2008 the Bank invested excess funds in the Certificate of Deposit Account Registry Service (CDARS) program. As of June 30, 2008, the Company had \$45.0 million invested in CDARS. During the second quarter the Company was able to obtain higher yields in the CDARS program than the yields being paid in federal funds sold or like term investment securities.

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At June 30, 2008, total deposits increased \$18.5 million, up 3.11% from \$596.2 million at December 31, 2007. The majority of this growth occurred in the noninterest-bearing and time deposits.

Federal funds purchased, repurchase agreements and other borrowings decreased to \$56.9 million at June 30, 2008, a decrease of 11.46% from \$64.2 million on December 31, 2007.

Capital Resources

Under applicable banking regulations, Total Capital is comprised of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity and retained earnings less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios at June 30, 2008. As shown below, these ratios were all well above the regulatory minimum levels.

| | 2008 Regulatory Minimums | June 30,2008 |
|-----------------|---|---------------------|
| Tier 1 | 4.00% | 12.42% |
| Total Capital | 8.00% | 13.19% |
| Tier 1 Leverage | 3.00% | 9.73% |

Quarter-end book value per share was \$16.63 in 2008 and \$15.50 in 2007. Cash dividends were \$784 thousand or \$0.16 per share in the second quarter of 2008, and \$718 thousand or \$0.144 per share in the second quarter of 2007. The common stock of the Company has not been extensively traded. The 2007 per share data have been adjusted to reflect a 5 for 4 stock split in the form of a dividend declared on August 16, 2007 and paid October 1, 2007.

Liquidity

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

In addition, secondary sources are available through the use of borrowed funds if the need should arise. The Company's sources of funds include a large stable deposit base and secured advances from the Federal Home Loan Bank of Atlanta (FHLB). As of the end of the second quarter of 2008, the Company had \$169.4 million in FHLB borrowing availability. The Company has available short-term unsecured borrowed funds in the form of federal funds with correspondent banks. As of the end of the second quarter of 2008, the Company had \$31.0 million available in federal funds 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. Management is not aware of any current recommendations by regulatory authorities that would have a material effect on liquidity, capital resources or operations. The Company's internal sources of such liquidity are deposits, loan and investment repayments and securities available for sale. The Company's primary external source of liquidity is advances from the FHLB.

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

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Contractual Obligations

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

The Company purchased property for a future branch site in 2006. This property was purchased outright, not financed. The Company intends to open the branch in 2009.

As of June 30, 2008, there have been no material changes outside the ordinary course of business in the Company's contractual obligations disclosed in the Company's 2007 annual report on Form 10-K.

Off-Balance Sheet Arrangements

As of June 30, 2008, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company's 2007 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

The Company determines the overall magnitude of interest sensitivity risk and then formulates policies governing asset generating 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 June 30, 2008. It should be noted, however, that non-maturing deposit liabilities totaling \$291.2 million, which consist of interest checking, money market, and savings accounts, are less interest sensitive than other market driven deposits. 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 shocks in 100 basis point increments are applied to see the impact on the Company's earnings at June 30, 2008. The rate shock model reveals that a 100 basis point decrease in rates would cause an approximately 1.98% decrease in net interest income and a 200 basis point decrease in rates would cause an approximately 4.13% decrease in net

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interest income. The rate shock model reveals that a 100 basis point rise in rates would cause an approximately 2.47% increase in net interest income and that a 200 basis point rise in rates would cause an approximately 4.03% increase in net interest income.

Item 4. 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 the 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 the 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.

The Company's management is also 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 June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or the Company's internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, provides reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system reflects resource constraints and the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions; over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

As of June 30, 2008, there have been no material changes in the risk factors faced by the Company from those disclosed in the Company's 2007 annual report on Form 10-K.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table presents the Company's monthly share repurchases during the quarter ended June 30, 2008:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of the Repurchase Program (1) | Maximum Number of Shares that May Yet Be Purchased Under the Repurchase Program (1) |
|----------------------|---|-------------------------------------|---|--|
| 4/1/2008 - 4/30/2008 | 5,400 | \$ 18.00 | 5,400 | 239,978 |
| 5/1/2008 - 5/31/2008 | | | | 239,978 |
| 6/1/2008 - 6/30/2008 | | | | 239,978 |
| Total | 5,400 | | 5,400 | |

- (1) Replacing a similar authorization in 2007, on January 8, 2008, the Company's Board of Directors authorized a program to repurchase during any calendar year up to an aggregate of five percent (5%) of the shares of the Company's common stock outstanding as of January 1 of that calendar year. There is currently no stated expiration date for this program. The Company repurchased 5,400 shares of the Company's common stock during the quarter ended June 30, 2008.

Item 3. Defaults Upon Senior Securities.

None.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders.**

The Company held its Annual Meeting of Stockholders on April 22, 2008. A quorum of stockholders was present, consisting of a total of 4,135,545.669 shares, represented in person or by proxy. At the 2008 Annual Meeting the stockholders elected the 16 directors listed below to serve as directors of the Company for one-year terms, having received the following votes:

| Director Nominee | For | Withheld |
|--------------------------|--------------|------------|
| James Reade Chisman | 3,476,793.59 | 658,752.08 |
| Dr. Richard F. Clark | 3,491,067.59 | 644,478.08 |
| Russell Smith Evans, Jr. | 3,484,235.85 | 651,309.82 |
| Dr. Arthur D. Greene | 3,491,067.59 | 644,478.08 |
| Stephen D. Harris | 3,484,005.59 | 651,540.08 |
| John Cabot Ishon | 3,461,106.36 | 674,439.31 |
| Eugene M. Jordan | 3,464,907.59 | 670,638.08 |
| John B. Morgan, II | 3,458,720.59 | 676,825.08 |
| Louis G. Morris | 3,465,657.59 | 669,888.08 |
| Robert L. Riddle | 3,489,934.59 | 645,611.08 |
| Ellen Clark Thacker | 3,491,067.59 | 644,478.08 |
| Dr. H. Robert Schappert | 3,465,657.59 | 669,888.08 |
| Robert F. Shuford | 3,462,603.10 | 672,942.57 |
| Melvin R. Zimm | 3,465,610.10 | 669,935.57 |
| David L. Bernd | 3,485,067.59 | 650,478.08 |
| Joseph R. Witt | 3,491,067.59 | 644,478.08 |

No other matters were voted on during the 2008 Annual Meeting.

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 April 25, 1995 (incorporated by reference to Exhibit 3 to Form 10-K filed March 26, 1999) |
| 3.2 | Bylaws of Old Point Financial Corporation, as amended and restated September 11, 2007 (incorporated by reference to Exhibit 3.2 to Form 8-K/A filed September 20, 2007) |
| 10.6 | Base Salaries of Named Executive Officers of the Registrant |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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SIGNATURES

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

OLD POINT FINANCIAL CORPORATION

August 6, 2008

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

August 6, 2008

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

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