OLD POINT FINANCIAL CORP
Form 10-K
March 30, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or

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

Commission file number 000-12896

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2014 was $49,311,653 based on the closing sales price on the NASDAQ Capital Market of $15.39.

There were 4,959,009 shares of common stock outstanding as of March 17, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 26, 2015, are incorporated by reference in Part III of this report.

OLD POINT FINANCIAL CORPORATION

FORM 10-K

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Part I
Item 1. Business

GENERAL

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

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

The Bank is a national banking association that was founded in 1922. As of the end of 2014, the Bank had 18 branch offices serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and business customers.

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

As of December 31, 2014, the Company had assets of $876.3 million, loans of $536.0 million, deposits of $716.7 million, and stockholders' equity of $88.5 million. At year-end, the Company and its subsidiaries had a total of 301 employees, 18 of whom were part-time.

MARKET AREA AND COMPETITION

The Company's market area is located in Hampton Roads, situated in the southeastern corner of Virginia and boasting the world's largest natural deepwater harbor. The Hampton Roads Metropolitan Statistical Area (MSA) is the 37th most populous MSA in the United States according to the U.S. Census Bureau's 2010 census and the third largest deposit market in Virginia, after Richmond and the Washington Metropolitan area, according to the Federal Deposit Insurance Corporation (FDIC). Hampton Roads includes the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, and the counties of Isle of Wight, Gloucester, James City, Mathews, York and Surry. The market area is serviced by 73 banks, savings institutions and credit unions and, in addition, branches of virtually every major brokerage house serve the Company's market area.

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

Concurrently, the Company continues to build a stronger presence in the business banking market, where greater opportunities for fee-based revenues and cross-selling exist. In 2009, the Company expanded its treasury services offerings by adding a Corporate Banking group and expanding its product offerings to match those offered by larger institutions. This expansion continued throughout 2013 and 2014 with an aim towards growth and relationship development. Through these business banking capabilities, the Company is able to service a highly lucrative market that offers the opportunities to identify new revenue streams and cross sell additional products.

Personal assets held by non-banks are difficult to track at a local level, so research relies on deposits reported by governmental agencies to measure market share. In 2014, the Company held tenth place with 2.60% market share of all Hampton Roads deposits, as compared to 2.51% market share in 2013. Overall deposit growth remains consistent including most of the geographically smaller markets as well. The Company retains first place in Hampton with 31.63% market share and deposit growth from 2013 of over $5.4 million. Market share also increased as deposits grew from 2013 in Newport News by over $12.4 million and in Isle of Wight County by over $1.1 million. While deposits declined in York County from 2013 by just over $1.9 million, deposits in James City County increased by $768 thousand.

The Company saw significant growth in the Chesapeake market with deposits increasing just over $15.0 million and moving up in rank from thirteenth to eleventh. However, in the Norfolk and Virginia Beach markets deposits decreased by just over $4.2 million and $3.4 million, respectively. Combined with heightened marketing efforts, the staff in the Company's newer locations continues to work diligently to increase the Company's name recognition in their respective regions of the Hampton Roads MSA.

The Company also faces competitive pressure from credit unions. The three largest credit unions headquartered in the Hampton Roads MSA are Chartway Federal Credit Union, Langley Federal Credit Union, and Bayport Credit Union (also known as Newport News Shipbuilding Employees' Credit Union) with deposits totaling approximately $1.7 billion, $1.5 billion and $1.1 billion, respectively. Both Langley Federal Credit Union and Newport News Shipbuilding Employees' Credit Union posted a positive growth rate from 2013.

AVAILABLE INFORMATION

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

REGULATION AND SUPERVISION

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

General. The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other events led to the adoption of numerous laws and regulations that apply to financial institutions. The most significant of these laws is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), adopted on July 21, 2010, to implement significant structural reforms to the financial services industry. The Dodd-Frank Act is discussed in more detail below.

As a result of the Dodd-Frank Act and other regulatory reforms, the Company continues to experience a period of rapidly changing regulatory requirements. These regulatory changes have had and will continue to have a significant impact on how the Company conducts its business. The full extent of the Dodd-Frank Act and other proposed regulatory reforms cannot yet be fully determined and will depend to a large extent on regulations that will be adopted in the coming months and years.

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

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

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

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

The regulations of the FRB, the Comptroller and the FDIC govern most aspects of the Company's business, including deposit reserve requirements, investments, loans, certain check clearing activities, issuance of securities, payment of dividends, branching, and numerous other matters. As a consequence of the extensive regulation of commercial banking activities in the United States, the Company's business is particularly susceptible to changes in state and federal legislation and regulations, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

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

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

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

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

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

- changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and

- increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000;
- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), which is discussed in more detail below;
- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;

- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;

- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

- required loan originators to retain 5 percent of any loan sold or securitized, unless it is a "qualified residential mortgage", subject to certain restrictions;

- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and

- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

Many aspects of the Dodd-Frank Act remain subject to future rulemaking, making it difficult to anticipate the overall financial impact on the Company, Bank and Trust or their customers, or on the financial industry more generally. Dodd-Frank Act provisions that require revisions to the capital requirements of the Company, the Bank and Trust could impact their ability to raise capital in the future. Although the Company has not issued trust preferred securities, Dodd-Frank Act provisions that revoke the Tier 1 capital treatment of trust preferred securities could cause the Company, the Bank and Trust to seek other sources of capital in the future. Some of the rules that have been adopted or proposed to comply with Dodd-Frank Act mandates are discussed in more detail below.

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

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

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

Basel III Capital Framework. In July 2013, the federal bank regulatory agencies adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the Basel III Final Rules). For purposes of these capital rules, (i) common equity Tier 1 capital (CET1) consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stock and trust preferred securities; and (iii) Tier 2 capital consists principally of Tier 1 capital plus qualifying subordinated debt and preferred stock, and limited amounts of the allowance for loan losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, including, importantly, applying higher risk weightings to certain commercial real estate loans.

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

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

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

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

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

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

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

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." Among other changes, the Dodd-Frank Act (i) raised the minimum designated reserve ratio to 1.35 percent and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35 percent by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion of raising the designated reserve ratio from 1.15 percent to 1.35 percent – which requirement will be met through rules the FDIC intends to propose when the reserve ratio is closer to 1.15 percent. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. The FDIC has adopted a DIF restoration plan to ensure that the fund reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act (SOX) enacted major reforms of the federal securities laws intended to protect investors by improving the accuracy and reliability of corporate disclosures. It impacts all companies with securities registered under the Exchange Act, including the Company. SOX creates increased responsibility for chief executive officers and chief financial officers with respect to the content of filings with the SEC. Section 404 of SOX and related SEC rules focused increased scrutiny by internal and external auditors on the

Company's systems of internal controls over financial reporting, to insure that those internal controls are effective in both design and operation. SOX sets out enhanced requirements for audit committees, including independence and expertise, and it includes stronger requirements for auditor independence and limits the types of non-audit services that auditors can provide. Finally, SOX contains additional and increased civil and criminal penalties for violations of securities laws.

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

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

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

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

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

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

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

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

The Bank's mortgage origination activities are also subject to Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3% of the total loan amount. Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules.

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

Item 1A. Risk Factors

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

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

The Company is subject to interest rate risk and variations in interest rates may negatively affect its financial performance. The Company's profitability depends in substantial part on its net interest margin, which is the difference between the rates received on loans and investments and the rates paid for deposits and other sources of funds. The net interest margin depends on many factors that are partly or completely outside of the Company's control, including competition; federal economic, monetary and fiscal policies; and economic conditions. Changes in interest rates affect operating performance and financial condition. The Company tries to minimize its exposure to interest rate risk, but it is unable to completely eliminate this risk. Because of the differences in the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's net interest margin and, in turn, its profitability. In addition, the FRB's Federal Open Market Committee has stated that it will keep the federal funds target rate at 0%-0.25% until economic and labor conditions (as indicated by the unemployment rate) improve, which which may be later in 2015. Even though such a continuance of accommodative monetary policy could allow the Company to continue to reprice fixed-rate deposits at lower rates, continued low interest rates could put further pressure on the yields generated by the Company's loan portfolio and on the Company's net interest margin. At December 31, 2014, based on scheduled maturities only, the Company's balance sheet was liability sensitive at the one-year time frame and, as a result, its net interest margin will tend to decrease in a rising interest rate environment and increase in a declining interest rate environment. However, when using decay rates to simulate maturities for non-maturing deposits, the Company's balance sheet as of December 31, 2014 is asset sensitive at the one-year time frame. When the Company is asset sensitive, the net interest margin should rise if rates rise and should fall if rates fall. For additional details, See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Sensitivity" in Item 7 of this report on Form 10-K.

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

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

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

Weaknesses in the commercial real estate markets could negatively affect the Company's financial performance. At December 31, 2014, the Company had $296.6 million, or 55.34%, of total loans concentrated in commercial real estate, which includes, for purposes of this concentration, all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties.

Commercial real estate loans carry risks associated with the successful operation of a business if the properties are owner occupied. If the properties are non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts. Weak economic conditions may impair a borrower's business operations, slow the execution of new leases and lead to turnover in existing leases. The combination of these factors could result in deterioration in value of some of the Company's loans. The deterioration of one or more of the Company's significant commercial real estate loans could cause a significant increase in nonaccrual loans. An increase in nonaccrual loans could result in a loss of interest income from those loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial performance.

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

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

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

The downgrade of the U.S. credit rating could have a material adverse effect on the Company's business, financial condition and liquidity. Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+ in 2011. A further downgrade or a downgrade by other rating agencies could have a material adverse impact on financial markets and economic conditions in the United States and worldwide, which may lead to among other things, increased volatility and illiquidity in the capital markets, declines in consumer confidence, increased unemployment levels, and declines in the value of U.S. Treasury securities and securities guaranteed by the U.S. government, any of which could have a material adverse effect on the Company's liquidity, financial condition and results of operations.

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

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

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

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

In recent years, the market value of real estate declined considerably and has failed to materially recover, leaving the Company with certain loans that are under-collateralized. Some of these loans have become troubled and have been foreclosed upon, and the Company was unable to realize the expected value of the collateral. Due to these events, the Company has established a valuation reserve for other real estate owned (OREO), including foreclosed assets, which negatively affects the Company's earnings in periods in which a provision is added to the valuation reserve.

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

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

The allowance for loan losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that losses could be sustained because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. Like all financial institutions, the Company maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses may not be adequate to cover actual loan losses. In addition, future provisions for loan losses could materially and adversely affect, and have in recent years materially and adversely affected, the Company's operating results.

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

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

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

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

These techniques, all of which are outside the Company's control, may have an adverse effect on deposit levels, net interest margin, loan demand or the Company's business and operations.

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

One of the Dodd-Frank Act's significant regulatory changes is the creation of the CFPB, a financial consumer protection agency that has the authority to impose new regulations and include its examiners in routine regulatory examinations conducted by the Comptroller. The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the Dodd-Frank Act's prohibitions against unfair, deceptive and abusive business practices, which may directly impact the business operations of financial institutions offering consumer financial products or services, including the Company and the Bank. This agency's broad rulemaking authority includes identifying practices or acts that are unfair, deceptive or abusive in connection with any consumer financial transaction or consumer financial product or service. Although the CFPB generally has jurisdiction over banks with $10 billion or more in assets, rules, regulations and policies issued by the CFPB may also apply to the Company, the Bank and/or Trust through the adoption of such policies and best practices by the FRB, Comptroller and FDIC. The full costs and limitations related to this additional regulatory agency and the limitations and restrictions that may be placed upon the Company with respect to its consumer product and service offerings have yet to be determined. However, these costs, limitations and restrictions may have a material impact on the Company's business, financial condition and results of operations.

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

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

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

The repeal of federal prohibitions on payment of interest on demand deposits could increase interest expense. As part of the Dodd-Frank Act, the prohibition on the ability of financial institutions to pay interest on commercial demand deposit accounts was repealed. As a result, beginning in 2011, financial institutions could begin offering interest on demand deposits. Although the Company cannot be certain what interest rates other institutions may offer, the Company expects the impact of offering interest on demand deposits to remain minimal as long as the low interest rate environment continues. When interest rates begin to increase, however, the Company's interest expense may increase and the net interest margin may decline, which could adversely affect the Company's business, financial condition and results of operations.

Deposit insurance premiums could increase in the future, which may adversely affect future financial performance. The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF at a certain level. Economic conditions since 2008 have increased the rate of bank failures and expectations for further bank failures, requiring the FDIC to make payments for insured deposits from the DIF and prepare for future payments from the DIF.

During 2009, the FDIC imposed a special deposit insurance assessment on all institutions which it regulates, including the Bank. This special assessment was imposed due to the need to replenish the DIF, as a result of increased bank failures and expected future bank failures. In addition, the FDIC required regulated institutions to prepay their fourth quarter 2009, and estimates of their 2010, 2011 and 2012 assessments in December 2009. Any similar, additional measures taken by the FDIC to maintain or replenish the DIF may have an adverse effect on the Company's financial condition, results of operations and liquidity.

In 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. A depository institution's deposit insurance assessment is now calculated based on the institution's total assets less tangible equity, rather than the previous base of total deposits. These changes did not increase the Company's FDIC insurance assessments for comparable asset and deposit levels. However, if the Bank's asset size increases or the FDIC takes other actions to replenish the DIF, the Bank's FDIC insurance premiums could increase, which could have an adverse affect on the Company's results of operations.

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

The Company is dependent on key personnel and the loss of one or more of those key personnel could harm its business. The banking business in Virginia, and in the Company's primary service area in the Hampton Roads MSA, is highly competitive and dominated by a relatively small number of large banks. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of and experience in the Virginia community banking industry. The Company's success depends to a significant degree upon its ability to attract and retain qualified management, loan origination, administrative, marketing and technical personnel and upon the continued contributions of and customer relationships developed by management and personnel. In particular, the Company's success is highly dependent upon the capabilities of its senior executive management. The Company believes that its management team, comprised of individuals who have worked in the banking industry for many years, is integral to implementing the Company's business plan. The Company has not entered into employment agreements with any of its executive management employees, and the loss of the services of one or more of them could harm the Company's business.

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, the Company owned the main office, which includes a branch, located in Hampton, Virginia: the corporate headquarters, which includes a branch; six office buildings; and 12 branches. All of these are owned directly and free of any encumbrances. The land at the Fort Monroe branch is leased by the Company under an agreement that expires in June 2017. Two of the remaining three branches are leased from unrelated parties. The Crown Center branch is leased from Crown Center Associates, LLC, which is indirectly owned by Michael Glasser, a member of the Company's Board of Directors. These three branch leases have renewal options that expire anywhere within three to ten years from December 31, 2014.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name (Age) And Present Position	Served in Current Position Since	Principal Occupation During Past Five Years
Robert F. Shuford, Sr. (77) Chairman, President & Chief Executive Officer Old Point Financial Corporation	1965	Banker

Louis G. Morris (60) Executive Vice President & Secretary/Bank Old Point Financial Corporation	1988	Banker
Laurie D. Grabow (57) Chief Financial Officer & Senior Vice President/Finance Old Point Financial Corporation	1999	Banker
Eugene M. Jordan, II (60) Executive Vice President/Trust Old Point Financial Corporation	2003	Banker
Robert F. Shuford, Jr. (50) Chief Operating Officer & Senior Vice President/Operations Old Point Financial Corporation	2003	Banker
Joseph R. Witt (54) Chief Administrative Officer & Senior Vice President/Administration Old Point Financial Corporation	2008	Banker

Part II

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

The common stock of the Company is quoted on the NASDAQ Capital Market under the symbol "OPOF". The approximate number of stockholders of record as of March 17, 2015 was 1,157. On that date, the closing price of the Company's common stock on the NASDAQ Capital Market was $15.15. The range of high and low sale prices and dividends paid per share of the Company's common stock for each quarter during 2014 and 2013 is presented in Item 7 of this report on Form 10-K under "Capital Resources" and is incorporated herein by reference. Additional information related to funds available for dividend declaration can be found in Note 16 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

On January 12, 2010, the Company authorized a program to repurchase during any given calendar year up to an aggregate of 5 percent of the shares of the Company's common stock outstanding as of January 1 of that calendar year. The Company did not repurchase any shares of the Company's common stock under this plan during 2014. There is currently no stated expiration date for this program.

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. No such repurchases occurred during 2014.

Item 6. Selected Financial Data

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

SELECTED FINANCIAL HIGHLIGHTS

Years ended December 31,	2014	2013	2012	2011	2010
(in thousands except per share data)					
RESULTS OF OPERATIONS					
Interest income	$30,289	$29,823	$32,580	$36,251	$40,890
Interest expense	3,849	4,680	5,774	6,715	9,982
Net interest income	26,440	25,143	26,806	29,536	30,908
Provision for loan losses	600	1,300	2,400	3,700	8,800
Net interest income after provision for loan losses	25,840	23,843	24,406	25,836	22,108
Net gains (losses) on available-for-sale securities	2	(26)	2,313	787	541
Noninterest income	12,642	12,799	12,646	11,409	12,098
Noninterest expenses	34,172	33,105	34,183	33,679	33,051
Income before income taxes	4,312	3,511	5,182	4,353	1,696
Income tax expense	196	348	995	1,063	149
Net income	$4,116	$3,163	$4,187	$3,290	$1,547
FINANCIAL CONDITION					
Total assets	$876,280	$864,288	$907,499	$849,504	$886,842
Total deposits	$716,654	$725,405	$753,816	$690,879	$679,214
Total loans	$535,994	$500,699	$471,133	$520,327	$586,619
Stockholders' equity	$88,497	$80,761	$89,300	$85,865	$80,952
Average assets	$869,965	$881,378	$869,436	$853,849	$924,709
Average equity	$85,550	$84,695	$87,912	$83,322	$82,513
PERTINENT RATIOS					
Return on average assets	0.47 %	0.36 %	0.48 %	0.39 %	0.17 %
Return on average equity	4.81 %	3.73 %	4.76 %	3.95 %	1.87 %
Dividends paid as a percent of net income	31.32 %	34.49 %	23.67 %	30.12 %	79.64 %
Average equity as a percent of average assets	9.83 %	9.61 %	10.11 %	9.76 %	8.92 %
PER SHARE DATA					
Basic earnings per share	$0.83	$0.64	$0.84	$0.66	$0.31
Diluted earnings per share	$0.83	$0.64	$0.84	$0.66	$0.31
Cash dividends declared	$0.26	$0.22	$0.20	$0.20	$0.25
Book value	$17.85	$16.29	$18.01	$17.31	$16.40
GROWTH RATES					
Year-end assets	1.39 %	-4.76 %	6.83 %	-4.21 %	-3.75 %
Year-end deposits	-1.21 %	-3.77 %	9.11 %	1.72 %	2.52 %
Year-end loans	7.05 %	6.28 %	-9.45 %	-11.30 %	-7.65 %

Year-end equity	9.58	%	-9.56	%	4.00	%	6.07	%	-0.80	%
Average assets	-1.29	%	1.37	%	1.83	%	-7.66	%	6.52	%
Average equity	1.01	%	-3.66	%	5.51	%	0.98	%	-0.31	%
Net income	30.13	%	-24.46	%	27.26	%	112.67	%	-8.03	%
Cash dividends declared	18.18	%	10.00	%	0.00	%	-20.00	%	-46.81	%
Book value	9.58	%	-9.55	%	4.04	%	5.55	%	-1.20	%

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

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

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

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to, changes in interest rates and yields; general economic conditions; uncertainty over future federal spending or the effects of federal budget cuts, particularly to the Department of Defense, on the Company's service area; the quality or composition of the loan or securities portfolios; changes in the volume and mix of interest-earning assets and interest-bearing liabilities; the effects of management's investment strategy and strategy to manage the net interest margin; the adequacy of the Company's credit quality review processes; the level of nonperforming assets and related charge-offs and recoveries; the ability of the Company to diversify its sources of noninterest income; the effect of the Company's sales training efforts for branch staff; the local real estate market; volatility and disruption in national and international financial markets; government intervention in the U.S. financial system; FDIC premiums and/or assessments; penalties paid if the Company were to prepay its FHLB advance; demand for loan products; levels of noninterest income and expense; deposit flows; competition; the use of inaccurate assumptions in management's modeling systems; technology; reliance on third parties for key services; adequacy of the allowance for loan losses; and changes in accounting principles, policies and guidelines. The Company could also be adversely affected by monetary and fiscal policies of the U.S. Government, as well as any regulations or programs implemented pursuant to the Dodd-Frank Act or other legislation and policies of the Comptroller, U.S. Treasury and the Federal Reserve Board.

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

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

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

Executive Overview

Description of Operations

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

Management Initiatives in 2014

In 2014, management continued its 2013 initiatives to improve asset quality, grow the loan portfolio, expand the Company's fee based revenue (defined as service charges on deposit accounts and other service charges, commissions and fees) and concentrate on improving Company efficiency. Management believes substantial progress was made with respect to all four initiatives. Management was able to improve asset quality as is evident by a $1.4 million reduction in net charge-offs when comparing charge-offs for 2014 to those of 2013, and a $3.4 million reduction in risk rated loans in the Other Assets Especially Mentioned and Substandard categories when comparing December 31, 2014 to December 31, 2013. Details of the improvement of asset quality can be found in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. In addition, fee based revenue was higher for the year ended December 31, 2014 as compared to 2013. The loan portfolio grew by $35.3 million when comparing total loans on December 31, 2014 to December 31, 2013. Finally, the Company continued to focus on efficiency, with a net increase of only three employees during 2014 to 301 employees, still significantly lower than the 319 employees on December 31, 2012.

Primary Financial Data for 2014

The Company earned $4.1 million in 2014, as compared to net income of $3.2 million in 2013, an increase of $953 thousand or 30.13%. The increase in net income was due to higher net interest income and a lower provision for loan losses. Total interest and dividend income increased $466 thousand, while total interest expense decreased $831 thousand and the provision for loan losses decreased $700 thousand. A decrease in net charge-offs and improvement in loan quality between the two periods allowed management to reduce the provision for loan losses in 2014. Net loans charged off for the year ended December 31, 2014 were 80.15% lower than net charge-offs for the year ended December 31, 2013.

Assets as of December 31, 2014 were $876.3 million, an increase of $12.0 million or 1.39% compared to assets as of December 31, 2013. During 2014, the Company continued the loan growth seen in 2013, funding this growth mainly from the securities portfolio. Net loans grew $35.1 million, or 7.10%, over the year, while securities declined $23.1 million. In years prior to 2013, the Company experienced a lack of quality loan demand in its market area and invested excess funds in securities that could be readily liquidated as the Company waited for loan demand to recover. This recovery began in the second half of 2013 and continued through 2014.

Critical Accounting Estimates

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

Allowance for Loan Losses

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

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

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

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

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

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

Income Taxes

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

Earnings Summary

Net income was $4.1 million, or $0.83 per diluted share, in 2014 compared to $3.2 million, or $0.64 per diluted share, in 2013. This increase was primarily attributable to higher interest income, lower interest expense, and lower provision for loan losses, partially offset by lower noninterest income and higher noninterest expense. A shift in assets from securities to loans increased interest income, while decreases in higher-cost time accounts reduced interest expense. Continued improvement in asset quality, as evidenced by lower charge-offs and a reduction in loans categorized as Other Assets Especially Mentioned or Substandard in 2014 when compared to 2013, allowed management to reduce the provision. Noninterest expense was $1.1 million higher in 2014 than in 2013, due primarily to increases in salaries and employee benefits and occupancy and equipment 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. Net interest income, on a fully tax-equivalent basis, was $27.4 million in 2014, an increase of $1.5 million from 2013 and an increase of $176 thousand from 2012. The net interest margin was 3.57% in 2014 as compared to 3.23% in 2013 and 3.40% in 2012.

When comparing 2014 to 2013, the following changes were noted. Tax equivalent interest income increased $693 thousand, or 2.27%. Average earning assets decreased $31.9 million, or 3.98%. Total average loans increased $46.0 million, or 9.76%, and average investment securities decreased $46.8 million, or 16.38%, as continued loan demand allowed the company to shift its assets from securities and interest-bearing due from banks to loans. Average interest-bearing due from banks, which has a significantly lower yield than investment securities and other investments, decreased $32.2 million, or 85.75%. The Company also sold certain investment securities to reduce the portfolio's susceptibility to interest rate risk. As loans typically bear higher yields than securities, this change in asset composition led to an increase of 25 basis points in the yield on earning assets, partially offset by a lower average yield on loans. Management expects that the Company's loan yields will continue to decline, due to intense competition for quality loans and rate reductions on loans currently held in the portfolio. The reduction in loan yields will likely continue in 2015 at approximately the same pace seen in 2014, depending on monetary policy actions taken by the Federal Open Market Committee. To partially offset this anticipated decline in loan yields, management has placed an increased focus on managing the mix of the liabilities in order to increase low cost funds and reduce high cost funds when possible.

Interest expense decreased $831 thousand, or 17.76% in 2014 as compared to 2013, while average interest-bearing liabilities decreased $15.6 million, or 2.55%. The cost of interest-bearing liabilities decreased 12 basis points due to the low interest rate environment. As discussed above, management has focused on adjusting the composition of its interest-bearing liabilities, specifically by allowing high-cost time deposits to reduce. Management expects that the reduction of the Company's interest expense will continue to slow in the future, because the majority of the higher cost time deposits have repriced to current, lower market rates. However, Management will continue to focus on the mix of deposits as stated above, by actively targeting new noninterest bearing deposits.

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

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

Years ended December 31,	2014			2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Loans	$517,183	$24,959	4.83 %	$471,203	$23,769	5.04 %	$478,220	$26,565	5.55 %
Investment securities:									
Taxable	164,755	3,562	2.16 %	229,914	4,547	1.98 %	263,532	5,238	1.99 %
Tax-exempt	74,112	2,580	3.48 %	55,745	2,042	3.66 %	25,053	1,032	4.12 %
Total investment securities	238,867	6,142	2.57 %	285,659	6,589	2.31 %	288,585	6,270	2.17 %
Interest-bearing due from banks	5,356	13	0.24 %	37,581	96	0.26 %	28,460	56	0.20 %
Federal funds sold	3,515	5	0.14 %	1,906	1	0.05 %	1,780	2	0.11 %
Other investments	2,944	125	4.25 %	3,374	96	2.85 %	3,967	100	2.52 %
Total earning assets	767,865	31,244	4.07 %	799,723	30,551	3.82 %	801,012	32,993	4.12 %
Allowance for loan losses	(7,062)			(7,239)			(7,771)		
	760,803			792,484			793,241		
Cash and due from banks	25,700			13,446			8,589		
Bank premises and equipment, net	42,277			36,188			30,728		
Other assets	41,185			39,260			36,878		
Total assets	$869,965			$881,378			$869,436		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Time and savings deposits:									
Interest-bearing transaction accounts	$11,537	$5	0.04 %	$11,129	$6	0.05 %	$11,600	$7	0.06 %
Money market deposit accounts	213,918	179	0.08 %	199,848	234	0.12 %	180,106	322	0.18 %
Savings accounts	73,576	46	0.06 %	62,562	62	0.10 %	53,054	53	0.10 %
Time deposits, $100,000 or more	108,630	1,038	0.96 %	126,127	1,436	1.14 %	131,020	1,613	1.23 %
Other time deposits	128,383	1,316	1.03 %	157,154	1,683	1.07 %	172,230	2,228	1.29 %

Total time and savings deposits	536,044	2,584	0.48 %	556,820	3,421	0.61 %	548,010	4,223	0.77 %
Federal funds purchased, repurchase agreements and other borrowings	32,848	32	0.10 %	31,182	35	0.11 %	29,917	55	0.18 %
Federal Home Loan Bank advances	28,507	1,233	4.33 %	25,000	1,224	4.90 %	30,574	1,496	4.89 %
Total interest-bearing liabilities	597,399	3,849	0.64 %	613,002	4,680	0.76 %	608,501	5,774	0.95 %
Demand deposits	184,555			180,538			170,792		
Other liabilities	2,461			3,143			2,231		
Total liabilities	784,415			796,683			781,524		
Stockholders' equity	85,550			84,695			87,912		
Total liabilities and stockholders' equity	$869,965			$881,378			$869,436		
Net interest margin		$27,395	3.57 %		$25,871	3.23 %		$27,219	3.40 %

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

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

Table II
VOLUME AND RATE ANALYSIS*
(in thousands)

	2014 vs. 2013 Increase (Decrease) Due to Changes in:			2013 vs. 2012 Increase (Decrease) Due to Changes in:			2012 vs. 2011 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
EARNING ASSETS:									
Loans	$2,319	$(1,129)	$1,190	$(390)	$(2,406)	$(2,796)	$(3,918)	$(1,693)	$(5,611)
Investment securities									
Taxable	(1,289)	304	(985)	(668)	(23)	(691)	1,153	201	1,354
Tax-exempt	673	(135)	538	1,264	(254)	1,010	1,347	(553)	794
Total investment securities	(616)	169	(447)	596	(277)	319	2,500	(352)	2,148
Federal funds sold	1	3	4	0	(1)	(1)	(18)	(1)	(19)
Other investments **	(153)	99	(54)	41	(5)	36	105	(33)	72
Total earning assets	1,551	(858)	693	247	(2,689)	(2,442)	(1,331)	(2,079)	(3,410)
Interest-Bearing Liabilities									
Interest-bearing transaction accounts	0	(1)	(1)	0	(1)	(1)	0	0	0
Money market deposit accounts	16	(71)	(55)	35	(123)	(88)	21	(51)	(30)
Savings accounts	11	(27)	(16)	9	0	9	5	(1)	4
Time deposits, $100,000 or more	(199)	(199)	(398)	(60)	(117)	(177)	63	(312)	(249)
Other time deposits	(308)	(59)	(367)	(195)	(350)	(545)	(116)	(290)	(406)
Total time and savings deposits	(480)	(357)	(837)	(211)	(591)	(802)	(27)	(654)	(681)
Federal funds purchased, repurchase agreements and other borrowings	2	(5)	(3)	2	(22)	(20)	(43)	(8)	(51)
Federal Home Loan Bank advances	172	(163)	9	(273)	1	(272)	(216)	7	(209)
Total interest-bearing liabilities	(306)	(525)	(831)	(482)	(612)	(1,094)	(286)	(655)	(941)
Change in net interest income	$1,857	$(333)	$1,524	$729	$(2,077)	$(1,348)	$(1,045)	$(1,424)	$(2,469)

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

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

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

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

Based on scheduled maturities only, the Company was liability sensitive at the one-year timeframe as of December 31, 2014. It should be noted, however, that non-maturing, interest-bearing deposit liabilities, which consist of interest checking, money market and savings accounts, are less interest sensitive than other market driven deposits. On December 31, 2014 non-maturing, interest-bearing deposit liabilities totaled $307.1 million, or 57.90%, of total interest-bearing deposits. In a rising rate environment these deposit rates have historically lagged behind the changes in earning asset rates, thus mitigating the impact from the liability-sensitive position. The asset/liability model allows the Company to reflect the fact that non-maturing deposits are less rate sensitive than other deposits by using a decay rate. The decay rate is a type of artificial maturity that simulates maturities for non-maturing deposits over the number of months that more closely reflects historic data. Using the decay rate, the model reveals that the Company is asset sensitive at the one-year timeframe as of December 31, 2014.

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

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

TABLE III
INTEREST SENSITIVITY ANALYSIS

As of December 31, 2014 (in thousands)	Within 3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
Uses of Funds					
Interest-bearing due from banks	$833	$0	$0	$0	$833
Federal funds sold	1,391	0	0	0	1,391
Taxable investments	20,719	100	3,092	132,011	155,922
Tax-exempt investments	0	0	8,612	64,901	73,513
Total federal funds sold and investment securities	22,943	100	11,704	196,912	231,659
Loans					
Commerical	$9,135	$7,303	$11,545	$9,715	$37,698
Consumer	10,204	737	6,774	12,778	30,493
Real estate	41,433	26,769	266,915	109,879	444,996
Other	12,406	577	4,143	5,681	22,807
Total loans	73,178	35,386	289,377	138,053	535,994
Total earning assets	$96,121	$35,486	$301,081	$334,965	$767,653
Sources of funds					
Interest-bearing transaction accounts	$14,722	$0	$0	$0	$14,722
Money market deposit accounts	220,298	0	0	0	220,298
Savings accounts	72,058	0	0	0	72,058
Time deposits $100,000 or more	33,228	24,840	46,964	0	105,032
Other time deposits	22,594	44,254	51,416	0	118,264
Federal funds purchased and other borrowings	0	0	0	0	0
Overnight repurchase agreements	37,404	0	0	0	37,404
Term repurchase agreements	412	0	0	0	412
FHLB advances	25,000	5,000	0	0	30,000
Total interest bearing liabilities	$425,716	$74,094	$98,380	$0	$598,190
Rate sensitivity GAP	$(329,595)	$(38,608)	$202,701	$334,965	$169,463
Cumulative GAP	$(329,595)	$(368,203)	$(165,502)	$169,463	

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

Under the rate environment forecasted by management, rate shocks in 50 to 100 basis point increments are applied to estimate the impact on the Company's net interest income. The table below shows the estimated impact of changes in interest rates on net interest income as of December 31, 2014, assuming gradual and parallel changes in interest rates, and consistent levels of assets and liabilities. Net interest income for the following twelve months is projected to increase when interest rates are higher than current rates. Due to the current low interest rate environment, no measurement was considered necessary for a further decline in interest rates.

Estimated Changes in Net Interest Income
(dollars in thousands)
As of December 31, 2014

	Changes in Net Interest Income	
Changes in Interest Rates	Amount	Percent
Up 4.00%	$ 425	1.62 %
Up 3.00%	$ 386	1.47 %
Up 2.00%	$ 314	1.20 %
Up 1.00%	$ 251	0.96 %
Up 0.50%	$ 181	0.69 %
No change	$ 0	0.00 %

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

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

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

The provision for loan losses was $600 thousand for the year ended December 31, 2014 as compared to $1.3 million for 2013. Loans that were charged off during 2014 totaled $1.2 million compared to $2.7 million in 2013. Recoveries amounted to $882 thousand in 2014 and $913 thousand in 2013. The Company's net loans charged off to year-end loans were 0.07% in 2014 as compared to 0.36% in 2013. The allowance for loan losses, as a percentage of year-end loans, was 1.32% in 2014 and 1.36% in 2013. Net loan charge-offs for 2014 were lower than in 2013 due to continued improvements in asset quality and the concomitant reduction in charge-offs. Management believes that net loan charge-offs in subsequent years will be higher than what was experienced in 2014, as no similarly large recoveries are anticpated in the future. The state of the local economy also significantly impacts the level of loan charge-offs, and if the economic recovery does not continue, nonperforming assets could increase as a result of declines in real estate values and home sales or increases in unemployment rates and financial stress on borrowers. Increased nonperforming assets would cause increased charge-offs and lower earnings due to larger contributions to the loan loss provision.

In 2014, management contributed $600 thousand to the allowance for loan losses through the provision, or $700 thousand less than the provision for the year ended December 31, 2013. This decision was based on management's evaluation of loan losses in the loan portfolio. Management's evaluation included credit quality trends, collateral values, discounted cash flow analysis, loan volumes, geographic, borrower and industry concentrations, the findings of internal credit quality assessments and results from external regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business conditions, were used in developing estimated loss factors for determining the loan loss provision. Management's evaluation identified improvement in the credit quality of the Company's loan portfolio, including a $1.4 million reduction in net charge-offs when comparing the year ended December 31, 2014 to 2013, and a $3.4 million reduction in risk rated loans in the Other Assets Especially Mentioned and Substandard categories when comparing December 31, 2014 to December 31, 2013. This improvement supported the decrease in the provision for loan losses and the allowance for loan losses as a percent of total loans when comparing the year ended December 31, 2014 to 2013. Management believes that smaller contributions to the provision for loan losses, relative to the contributions made in recent years, will continue if current economic conditions remain stable or improve.

Noninterest Income
Noninterest income decreased $129 thousand or 1.01% for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This decrease was driven by a reduction in income from Old Point Mortgage LLC, a joint venture between the Bank and Tidewater Mortgage Services. Income from Old Point Mortgage was elevated in 2013 by the recognition of fair value accounting. In addition, low interest rates in recent years resulted in an unusually high number of borrowers refinancing their mortgages. By the end of 2013, management believes most eligible borrowers interested in refinancing had done so.

The reduction in income from Old Point Mortgage was mostly offset by the $378 thousand increase in other service charges, commissions and fees. In the fourth quarter of 2013, Trust acquired Penact, a company that provides consultation, administration and valuation services for retirement plans. Revenue from Penact was $359 thousand for the year ended December 31, 2014, $328 thousand higher than in 2013. As Penact was acquired in the fourth quarter of 2013, 2014 is the first full year of revenue.

Small decreases were seen in income from fiduciary activities, service charges on deposit accounts, and other operating income. When comparing 2014 to 2013, service charges on deposit accounts decreased $64 thousand due to decreases in nonsufficient funds and overdraft fees. The decrease of $34 thousand in other operating income in 2014, compared to 2013, was driven by the Bank's sale of a foreclosed property, which was occupied by a rent-paying tenant. This property was sold in the first quarter of 2014, reducing other income by $33 thousand. While this sale did reduce the Company's noninterest income, it is important to note that the sale also reduced foreclosed property expenses, and that the Company recorded a gain on the sale.

Income from fiduciary activities decreased $47 thousand in 2014, when compared to 2013, due to Trust's determination that certain customer fees had been inadvertently charged. The Company recognized an adjustment in the financial statements for the second quarter of 2014, which reduced noninterest income by $135 thousand in that quarter. The affected customers were credited in the third quarter of 2014. Other than the impact of the inadvertent fee charges, other income from fiduciary activities increased during 2014 as compared to 2013, and management expects this positive trend to continue in 2015.

In addition to the increase in other service charges, commissions and fees discussed above, the Company also had a relatively small improvement in gain (loss) on sale of available-for-sale securities between 2013 and 2014. During both years, the Company has focused on restructuring its securities portfolio to improve the portfolio's cash flow, increase its yields, and reduce its susceptibility to interest rate risk. As a result of this restructuring, the Company recorded a net gain on sales of $2 thousand in 2014, compared to a net loss on sales of $26 thousand in 2013.

The Company continues to focus on diversifying noninterest income through efforts to expand Trust relationships and a continued focus on business checking and other corporate services. The portions of the Dodd-Frank Act that have been fully implemented have increased, and the Company expects the Dodd-Frank Act when fully implemented to further increase, government regulation of consumer financial products and services, including fees generated on consumer financial transactions. Although the impact of the Dodd-Frank Act and regulations promulgated thereunder is not yet fully known, the Company expects that this additional regulation of consumer financial products, services and transactions may materially impact the Company's ability to generate future noninterest income.

Noninterest Expenses
The Company's noninterest expense increased $1.1 million or 3.22% for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The largest increases were in salaries and employee benefits and occupancy and equipment expenses. Occupancy and equipment expenses increased $490 thousand, or 11.15% when comparing 2014 and 2013, due to the completion of the Company's new corporate headquarters. Salaries and employee benefits increased $776 thousand, or 4.06%, when comparing 2014 to 2013, mainly due to an increase in the cost of employer-provided medical insurance of $424 thousand. Staffing was also increased by the addition of four employees when Trust acquired Penact in the fourth quarter of 2013. The Company expects that future revenues will more than offset the increased salaries and benefits, as evidenced by the increase in income from other service charges, commissions and fees when comparing the years ended December 31, 2014 and 2013.

Other outside services, employee professional development, and capital stock tax also increased in 2014, when compared to 2013. Other outside services increased $125 thousand, mainly as a result of outsourcing of certain information technology and audit functions requiring extremely specialized skills and expertise. Employee professional development increased $126 thousand as the Company provided sales training for all branch staff to improve future revenues.

Capital stock tax is paid to the state of Virginia instead of state income tax, and is based on the subsidiaries' capital less certain allowances. One such allowance is based on holdings of U.S. Government agency securities and is calculated as of each quarter-end during the fiscal year, rather than on an average or year-end balance. As the composition of the Company's securities portfolio has changed between 2012, 2013, and 2014, the level of U.S. Government agency securities decreased significantly and provided a smaller deduction for the purposes of calculating the capital stock tax.

These increases in noninterest expense were partially offset by decreases in other operating expenses and loss on write-down/sale of other real estate owned. Loan expenses, which are included in other operating expenses, were lower in 2014 than in 2013 due to recoveries of funds as a result of settlements on problem loans. Losses on other real estate owned were elevated in 2013 due to the write-down on a single piece of property. The value of this property declined sharply due to the foreclosure by other banks of similar property in the area. There were no similarly large write-offs on other real estate owned in 2014.

Income tax expense was also lower in 2014 than in 2013, due to a shift in the securities portfolio toward tax-exempt securities. The Company also took advantage of several tax credits during 2014; together, the tax credits and shift in the securities portfolio reduced 2014 income tax expense by 43.68% compared to 2013.

Balance Sheet Review

At December 31, 2014, the Company had total assets of $876.3 million, an increase of $12.0 million or 1.39% compared to assets as of December 31, 2013. Net loans increased $35.1 million or 7.10%, from $493.9 million at December 31, 2013 to $528.9 million at December 31, 2014. Loan demand began to increase in 2013 and continued throughout 2014, but until loan demand recovers significantly, the Company will likely continue to manage the interest margin by allowing higher cost funds, such as time deposits, to decrease. High-cost time deposits decreased $33.5 million or 13.05% between December 31, 2013 and December 31, 2014, while low-cost funds in the form of noninterest-bearing and savings deposits increased $24.8 million or 5.28% in the same time period.

The Company's holdings of Alternative A-paper, or "Alt-A", type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of December 31, 2014.

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

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

The following table details, as of December 31, 2014, the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end and 1-4 family junior lien loans for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family
First Mortgages,
1 - 4 Family Open-end and 1 - 4
Family Junior Liens
As of December 31, 2014
(dollars in thousands)

	Amount	Percent
Subprime	$20,200	14.9 %
Non-subprime	115,685	85.1 %
	$135,885	100.0 %
Total loans	$535,994	
Percentage of Real Estate-Secured Subprime Loans to Total Loans		3.77 %

In addition to the subprime loans secured by real estate discussed above, as of December 31, 2014, the Company had an additional $1.4 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of December 31, 2014 were $21.6 million, amounting to 4.03% of the Company's total loans at December 31, 2014.

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

Securities Portfolio

When comparing December 31, 2014 to December 31, 2013, securities available-for-sale decreased $16.3 million and securities held-to-maturity decreased $6.8 million. In December 2014, as part of a strategy to reduce its capital stock tax expense, the Company purchased $20.0 million in short-term U.S Treasury securities. U.S. Treasury securities have very low yields. However, the anticipated future reduction in capital stock tax, included in noninterest expense, should more than offset the reduction in interest income. If the Company had not purchased these U.S. Treasuries, securities available-for-sale would have decreased $36.3 million. Securities were sold to reduce the portfolio's susceptibility to interest rate risk and to fund loan demand, which began to recover in the second quarter of 2013 and continued in 2014. The Company's goal is to provide maximum return on the securities portfolio within the framework of its asset/liability objectives and consistent with its need to manage tax exposure when necessary. The asset/liability objectives include managing interest sensitivity, liquidity and pledging requirements.

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

TABLE IV
SECURITIES PORTFOLIO

As of December 31,	2014	2013	2012
	(in thousands)		
Available-for-sale securities, at fair value:			
U.S. Treasury securities	$20,000	$0	$0
Obligations of U.S. Government agencies	4,618	15,024	37,088
Obligations of state and political subdivisions	50,246	47,100	43,774
Mortgage-backed securities	60,888	90,750	247,355
Money market investments	719	691	541
Corporate bonds	2,790	2,074	698
Other marketable equity securities	85	0	0
	$139,346	$155,639	$329,456
Held-to-maturity securities, at cost:			
Obligations of U.S. Government agencies	$100	$400	$570
Obligations of state and political subdivisions	29,529	30,120	0
Mortgage-backed securities	60,460	66,327	0
	$90,089	$96,847	$570
Restricted securities:			
Federal Home Loan Bank stock	$2,124	$2,209	$2,393
Federal Reserve Bank stock	169	169	169
	$2,293	$2,378	$2,562
Total	$231,728	$254,864	$332,588

The following table summarizes the contractual maturity of the securities portfolio and their weighted average yields as of December 31, 2014:

	1 year or less	1-5 years	5-10 years	Over 10 years	Total
	(dollars in thousands)				
U.S. Treasury securities	$20,000	$0	$0	$0	$20,000
Weighted average yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Obligations of U.S. Government Agencies	$0	$402	$0	$4,316	$4,718
Weighted average yield	0.00 %	1.10 %	0.00 %	1.83 %	1.77 %
Obligations of state and political subdivisions	$0	$8,613	$25,502	$45,660	$79,775
Weighted average yield	0.00 %	1.86 %	2.20 %	2.53 %	2.36 %
Mortgage-backed securities	$0	$0	$0	$121,348	$121,348
Weighted average yield	0.00 %	0.00 %	0.00 %	2.81 %	2.81 %
Money market investments	$719	$0	$0	$0	$719
Weighted average yield	0.01 %	0.00 %	0.00 %	0.00 %	0.01 %
Corporate bonds	$100	$2,690	$0	$0	$2,790

Weighted average yield	1.10 %	1.35 %	0.00 %	0.00 %	1.34 %
Federal Home Loan Bank stock - restricted	$0	$0	$0	$2,124	$2,124
Weighted average yield	0.00 %	0.00 %	0.00 %	2.57 %	2.57 %
Federal Reserve Bank stock - restricted	$0	$0	$0	$169	$169
Weighted average yield	0.00 %	0.00 %	0.00 %	6.00 %	6.00 %
Other marketable equity securities	$0	$0	$0	$85	$85
Weighted average yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Total securities	$20,819	$11,705	$25,502	$173,702	$231,728
Weighted average yield	0.01 %	1.72 %	2.20 %	2.67 %	2.33 %

In the table above, U.S. Treasury securities show a yield of 0.00%, due to the fact that the Company purchased these securities, which matured in early January 2015, in late December 2014. See above for a discussion of the Company's purchase of these securities.

The table above is based on maturity. Therefore, it does not reflect cash flow from principal payments or prepayments prior to maturity. The weighted average life of the $121.3 million in mortgage-backed securities as of December 31, 2014 was 6.31 years. Yields are calculated on a fully tax-equivalent basis using a 34% rate.

Loan Portfolio

The following table shows a breakdown of total loans by segment at December 31 for years 2010 through 2014:

TABLE V
LOAN PORTFOLIO

As of December 31,	2014	2013	2012	2011	2010
	(in thousands)				
Commercial	$37,698	$30,702	$25,341	$35,015	$36,053
Real estate-construction	9,082	14,505	12,005	19,981	19,206
Real estate-mortgage	435,914	416,966	398,522	415,960	489,190
Consumer	30,493	19,791	13,146	17,041	24,389
Other	22,807	18,735	22,119	32,330	17,781
Total	$535,994	$500,699	$471,133	$520,327	$586,619

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

As of December 31, 2014, the total loan portfolio increased by $35.3 million or 7.05% as compared to December 31, 2013. Quality loan demand began to increase in the second half of 2013, a trend which continued in 2014. To assist with the loan growth generated by relationship building, the Company worked with Old Point Mortgage, LLC to generate 1 to 4 family mortgage loans and continued to market the fixed-rate equity line product developed in 2013. During 2014 the Company also purchased a $10.3 million portfolio of installment loans, included in the consumer category in the table above, for which the Company maintains a dedicated reserve account. Any loan losses in this portfolio are covered first by the reserve account, and then by the allowance for loan losses only if the funds available in the reserve account are not sufficient.

The maturity distribution and rate sensitivity of certain categories of the Company's loan portfolio at December 31, 2014 is presented below:

TABLE VI
MATURITY SCHEDULE OF SELECTED LOANS

December 31, 2014	Within 1 year	1 to 5 years	After 5 years	Total
	(in thousands)			
Commercial	$16,373	$11,155	$10,170	$37,698
Real estate - construction	6,247	2,624	211	9,082
Total	$22,620	$13,779	$10,381	$46,780
Loans due after 1 year with:				
Fixed interest rate		$12,454	$9,256	$21,710
Variable interest rate		1,325	1,125	2,450
Total		$13,779	$10,381	$24,160

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, nonperforming restructured loans, and other real estate owned (OREO). Restructured loans are loans with terms that were modified in a troubled debt restructuring (TDR) for borrowers experiencing financial difficulties. During the year ended December 31, 2014, the Company restructured four loans.

As of December 31, 2014, nonperforming assets totaled $11.8 million, down from $18.3 million at December 31, 2013. The 2014 total consisted of $5.1 million of OREO, $1.1 million in loans still accruing interest but past due 90 days or more and $5.6 million in nonaccrual loans. All of the $5.6 million in nonaccrual loans were secured by real estate. All of the nonaccrual loans are classified as substandard. Substandard loans are a component of the allowance for loan losses. When a loan changes from "90 days past due but still accruing interest" to "nonaccrual" status, the loan is normally reviewed for impairment. If the loan is considered impaired, then the Company records a charge-off based on the value of the collateral or the loan's expected future cash flows. If the Company is waiting on an appraisal to determine the collateral's value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The recorded investment in impaired loans decreased to $14.4 million as of December 31, 2014 from $19.8 million as of December 31, 2013 as detailed in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. The majority of these loans were collateralized.

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

TABLE VII
NONPERFORMING ASSETS

As of December 31,	2014	2013	2012	2011	2010
	(in thousands)				
Nonaccrual loans					
Commercial	$0	$149	$97	$129	$178
Real estate-construction	499	2,545	3,065	0	37
Real estate-mortgage (1)	5,071	8,630	7,470	8,334	20,550
Consumer	0	0	0	12	116
Total nonaccrual loans	$5,570	$11,324	$10,632	$8,475	$20,881
Loans past due 90 days or more and accruing interest					
Commercial	$10	$0	$25	$0	$0
Real estate-construction	0	0	0	0	16
Real estate-mortgage (1)	107	527	408	510	33
Consumer (2)	1,019	5	11	2	23
Other	5	14	3	5	1
Total loans past due 90 days or more and accruing interest	$1,141	$546	$447	$517	$73
Restructured loans					
Real estate-construction	$102	$0	$0	$0	$0
Real estate-mortgage (1)	12,203	12,076	8,810	4,326	1,639
Consumer	13	15	16	18	0
Total restructued loans	$12,318	$12,091	$8,826	$4,344	$1,639
Less nonaccrual restructured loans (included above)	4,240	3,630	1,908	2,756	0
Less restructured loans in compliance (3)	8,078	8,461	6,918	1,588	0
Net nonperforming restructured loans	$0	$0	$0	$0	$1,639
Other real estate owned					
Construction, land development, and other land	$2,138	$2,783	$3,804	$3,969	$4,074
1-4 family residential properties	884	457	676	3,650	2,807
Multifamily (5 or more) residential properties	0	0	0	0	1,155
Former branch sites	886	886	0	0	0
Nonfarm nonresidential properties	1,198	2,289	2,094	1,771	3,412
	$5,106	$6,415	$6,574	$9,390	$11,448
Total nonperforming assets	$11,817	$18,285	$17,653	$18,382	$34,041
Interest income that would have been recorded under original loan terms on nonaccrual loans included above	$301	$762	$673	$1,353	$1,507
Interest income recorded for the period on nonaccrual loans included above	$265	$251	$121	$506	$790

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Amounts listed include student loans with principal amounts that are 97 - 98% guaranteed by the government. The past due portion of these guaranteed loans totaled $2.4 million at December 31, 2014. For

additional information, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K
(3) Amounts listed represent restructured loans that are in compliance with their modified terms as of the date presented.

As shown in the table above, as of December 31, 2014 compared to December 31, 2013, the nonaccrual loan category decreased by $5.8 million or 50.81% and the 90-days past due and still accruing interest category increased by $595 thousand or 108.97%. The large decline in nonacrrual loans was due primarily to the resolution of two large loans. Loans past due 90 days or more and still accruing interest increased due to the purchase of a student loan portfolio by the Company in November 2013; the principal amount of these loans is 97-98% guaranteed by the government. OREO decreased by $1.3 million or 20.41% when comparing December 31, 2014 to December 31, 2013, as the Company worked to sell these properties. The former branch sites included in other real estate owned are also listed for sale.

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

Management remains cautious about the future and is well aware that if the economy does not continue to improve, nonperforming assets could increase in future periods. As the Company experienced in 2009, 2010 and 2011, the effect of a sustained increase in nonperforming assets would be lower earnings caused by larger contributions to the loan loss provision, which in turn would be driven by larger impairments in the loan portfolio and higher levels of loan charge-offs.

The Allowance for Loan Losses

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

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

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

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company has not yet received a current appraisal on loans being reviewed for impairment, any loan balance that is in excess of the estimated appraised value is allocated in the allowance. As of December 31, 2014 and December 31, 2013, the impaired loan component of the allowance for loan losses amounted to $702 thousand and $1.7 million, respectively. The decrease in this component was due to the resolution of one loan during the first quarter of 2014 that had a large impairment before the resolution. The impaired loan component of the allowance for loan losses is reflected as a valuation allowance related to impaired loans in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

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

Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1 – 29 days past due), or are 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2014 and December 31, 2013, the Company had no loans in these categories.

For the December 31, 2014 and December 31, 2013 calculations, the migration analysis was based on twelve quarters and eight quarters respectively. For a detailed discussion of migration analysis and this change in accounting methodology, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. Each quarter, management reviews the migration period to determine the most applicable period to use, which may be longer or shorter than the migration period used in prior quarters. Adding additional quarters to the migration analysis extends the period over which the loan could cease to perform; migration analysis of a longer period, therefore, generally reflects a greater number of loans that default, and accordingly an increased historical loss rate, than migration analysis of a shorter period.

The final component of the allowance consists of qualitative factors such as economic conditions, trends in growth, loan concentrations, changes in certain loans, changes in underwriting, changes in management and changes in the legal and regulatory environment. On a combined basis, the historical loss and qualitative factor component of the allowance amounted to $6.4 million and $5.1 million as of December 31, 2014 and 2013, respectively. This increase is due to growth in the loan portfolio and higher historical loss rates due to the expanded migration period.

As a result of management's belief that the quality of the loan portfolio continues to improve, the Company added, through the provision, $600 thousand to the allowance for loan losses in 2014. Management believes that the allowance has been appropriately funded for additional losses on existing loans, based on currently available information. The Company will continue to monitor the loan portfolio and levels of nonperforming assets closely and make changes to the allowance for loan losses when necessary.
The following table shows an analysis of the allowance for loan losses:

TABLE VIII
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2014	2013	2012	2011	2010
	(dollars in thousands)				
Balance at the beginning of period	$6,831	$7,324	$8,498	$13,228	$7,864
Charge-offs:					
Commercial	286	200	138	942	556
Real estate-construction	51	501	831	0	126
Real estate-mortgage	563	1,548	2,554	7,822	2,971
Consumer	163	141	259	333	655
Other	175	316	187	210	180
Total charge-offs	1,238	2,706	3,969	9,307	4,488
Recoveries:					
Commercial	55	76	67	141	192
Real estate-construction	173	6	30	0	0
Real estate-mortgage	524	513	162	575	636
Consumer	64	111	70	102	155
Other	66	207	66	59	69
Total recoveries	882	913	395	877	1,052
Net charge-offs	356	1,793	3,574	8,430	3,436
Provision for loan losses	600	1,300	2,400	3,700	8,800
Balance at end of period	$7,075	$6,831	$7,324	$8,498	$13,228

Selected loan loss statistics										
Loans (net of unearned income):										
End of period balance	$535,994		$500,699		$471,133		$520,327		$586,619	
Average balance	$517,183		$471,203		$478,220		$544,523		$621,550	
Net charge-offs to average total loans	0.07	%	0.38	%	0.75	%	1.55	%	0.55	%
Provision for loan losses to average total loans	0.12	%	0.28	%	0.50	%	0.68	%	1.42	%
Provision for loan losses to net charge-offs	168.54	%	72.50	%	67.15	%	43.89	%	256.11	%
Allowance for loan losses to period end loans	1.32	%	1.36	%	1.55	%	1.63	%	2.25	%
Earnings to loan loss coverage*	13.80		2.68		2.12		0.96		3.05	
Allowance for loan losses to nonperforming loans	105.42	%	57.55	%	66.11	%	94.51	%	58.55	%

* Income before taxes plus provision for loan losses, divided by net charge-offs.

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

TABLE IX
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2014		2013		2012		2011		2010	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(dollars in thousands)									
Commercial	$595	7.03 %	$350	6.13 %	$677	5.38 %	$1,011	6.73 %	$799	6.15 %
Real estate-construction	703	1.69 %	662	2.90 %	187	2.55 %	323	3.84 %	441	3.27 %
Real estate-mortgage	5,347	81.33 %	5,357	83.28 %	6,179	84.59 %	6,735	79.94 %	11,498	83.39 %
Consumer	219	5.69 %	294	3.95 %	204	2.79 %	300	3.28 %	357	4.16 %
Other	211	4.26 %	168	3.74 %	77	4.70 %	129	6.21 %	133	3.03 %
Total	$7,075	100.00 %	$6,831	100.00 %	$7,324	100.00 %	$8,498	100.00 %	$13,228	100.00 %

For the year ended December 31, 2014 as compared to the year ended December 31, 2013, there was an increase in the allowance for loan losses due to growth in the loan portfolio and the expanded migration period used to calculate historic losses. The increase in the allowance was distributed among the loan segments based on the composition of loans in each segment. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K for further information related to the effect of the change in the calculation method.

Although the allowance for loan losses is allocated into these categories, the entire allowance for loan losses is available to cover loan losses in any category. For example, if real estate-construction loans experienced losses of $1.0 million, the allowance for loan losses could absorb these losses even though only $703 thousand is allocated to that category.

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

TABLE X
DEPOSITS

Years ended December 31,	2014		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Interest-bearing transaction accounts	$11,537	0.04 %	$11,129	0.05 %	$11,600	0.06 %
Money market deposit accounts	213,918	0.08 %	199,848	0.12 %	180,106	0.18 %
Savings accounts	73,576	0.06 %	62,562	0.10 %	53,054	0.10 %

Time deposits, $100,000 or more	108,630	0.96 %	126,127	1.14 %	131,020	1.23 %
Other time deposits	128,383	1.03 %	157,154	1.07 %	172,230	1.29 %
Total interest-bearing deposits	536,044	0.48 %	556,820	0.61 %	548,010	0.77 %
Demand deposits	184,555		180,538		170,792	
Total deposits	$720,599		$737,358		$718,802	

The Company's average total deposits were $720.6 million for the year ended December 31, 2014, a decrease of $16.8 million or 2.27% from average total deposits for the year ended December 31, 2013. The money market deposit accounts and savings accounts categories had the largest increases, totaling $14.1 million and $11.0 million, respectively. In addition, average time deposits, which are currently the Company's most expensive deposit categories, decreased by a total of $46.3 million, as seen in the table above. The rates paid on interest-bearing deposits by the Company decreased from 0.61% for the year ended December 31, 2014 to 0.48% for the year ended December 31, 2013.

To manage its net interest margin, in 2013 and 2014 the Company focused on reducing higher-cost time deposits by lowering deposit rates and allowing time deposits to shrink through attrition.

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

TABLE XI
TIME DEPOSITS OF $100,000 OR MORE

As of December 31,	2014	2013	2012
	(in thousands)		
Maturing in:			
Within 3 months	$32,995	$25,272	$25,318
4 through 6 months	12,212	12,591	13,294
7 through 12 months	12,628	33,992	19,968
Greater than 12 months	47,197	42,920	79,029
	$105,032	$114,775	$137,609

Return on Equity and Assets

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

As of December 31,	2014	2013	2012
Return on average assets	0.47 %	0.36 %	0.48 %
Return on average equity	4.81 %	3.73 %	4.76 %
Dividend pay-out ratio	31.32%	34.49%	23.67%
Average equity to average assets	9.83 %	9.61 %	10.11%

Capital Resources

Total stockholders' equity as of December 31, 2014 was $88.5 million, up 9.58% from $80.8 million on December 31, 2013. The increase in total stockholders' equity was primarily due to lower unrealized losses on available-for-sale securities between the two years. The Company's capital position remains strong as evidenced by the regulatory capital measurements. Under the banking regulations, Total Capital is composed of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios for the past three years. As shown below, these ratios were all well above the regulatory minimum levels.

	2014 Regulatory Minimums	2014	2013	2012
Tier 1	4.00 %	14.36%	14.50%	15.64%
Total Capital	8.00 %	15.44%	15.58%	16.89%
Tier 1 Leverage	4.00 %	10.75%	10.37%	10.09%

Year-end book value per share was $17.85 in 2014, $16.29 in 2013, and $18.01 in 2012. Cash dividends were $1.3 million or $0.26 per share in 2014, $1.1 million or $0.22 per share in 2013, and $991 thousand or $0.20 per share in 2012. The common stock of the Company has not been extensively traded. The table below shows the high and low sales prices and dividends paid for each quarter of 2014 and 2013. The stock is quoted on the NASDAQ Capital Market under the symbol "OPOF" and the prices below are based on trade information as reported by The NASDAQ Stock Market, LLC. There were 1,157 stockholders of record of the Company as of March 17, 2015. This stockholder count does not include stockholders who hold their stock in a nominee registration.

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

	2014			2013		
		Sales Price			Sales Price	
	Dividend	High	Low	Dividend	High	Low
1st Quarter	$0.06	$18.00	$12.81	$0.05	$13.60	$10.91
2nd Quarter	$0.06	$17.93	$14.86	$0.05	$14.73	$11.76
3rd Quarter	$0.07	$16.89	$14.36	$0.06	$13.24	$12.24
4th Quarter	$0.07	$15.50	$14.76	$0.06	$13.10	$12.60

Liquidity

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

In addition, secondary sources are available through the use of borrowed funds if the need should arise. The Company's sources of funds include a large stable deposit base and secured advances from the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2014, the Company had $231.5 million in FHLB borrowing availability. The Company has available short-term unsecured borrowed funds in the form of federal funds with correspondent banks. As of year-end 2014, the Company had $50.0 million available in federal funds lines of credit to address any short-term borrowing needs, compared to $43.0 million available at December 31, 2013.

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

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

The fair value of unpledged securities available for sale decreased from December 31, 2013 to December 31, 2014 primarily because the Company sold certain available for sale securities during this time, both to manage interest rate risk and to shift those funds into loan originations. The decrease in federal funds sold and balances at the Federal Reserve from December 31, 2013 to December 31, 2014 was also primarily a result of the increased loan growth.

The following table sets forth information relating to the Company's sources of liquidity and the outstanding commitments for use of liquidity at December 31, 2014 and December 31, 2013. Dividing the total short-term sources of liquidity by the outstanding commitments for use of liquidity derives the liquidity coverage ratio.

LIQUIDITY SOURCES AND USES
(dollars in thousands)

	December 31, 2014			December 31, 2013		
	Total	In Use	Available	Total	In Use	Available
Sources:						
Federal funds lines of credit	$50,000	$0	$50,000	$43,000	$0	$43,000
Federal Home Loan Bank advances	261,507	30,000	231,507	257,873	25,000	232,873
Federal funds sold & balances at the Federal Reserve			2,028			19,256
Securities, available for sale and unpledged at fair value			98,409			129,926
Total short-term funding sources			$381,944			$425,055
Uses:						
Unfunded loan commitments and lending lines of credit			63,422			54,916
Letters of credit			1,076			1,349

Commitments to purchase assets	826	1,864
Total potential short-term funding uses	$65,324	$58,129
Liquidity coverage ratio	584.7 %	731.2 %

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

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

The Company's operating activities provided $10.0 million of cash during the year ended December 31, 2014, compared to $8.5 million provided during 2013 primarily due to higher net income in 2014. The Company's investing activities used $9.2 million during 2014, compared to providing $15.6 million during 2013, principally due to a reduction in the volume of sales of securities when comparing 2014 to 2013. Company's financing activities provided $1.2 million of cash during 2014 compared to using $35.1 million of cash during 2013. This change is principally due to a smaller decrease in time deposits in 2014 than the decrease experienced in 2013. Cash flows from financing activities were also impacted by a net increase of $5.0 million in FHLB advances in 2014.

While the Company can elect to prepay its FHLB advances, it would be subject to a prepayment penalty equal to the cost to the FHLB to unwind its underlying hedge plus an administrative fee. Therefore, the Company currently does not intend to prepay its FHLB advances.

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

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

Off-Balance Sheet Lending Related Commitments
The Company had $135.6 million in consumer and commercial commitments at December 31, 2014. As of the same date, the Company also had $3.6 million in letters of credit that the Company will fund if certain future events occur. It is expected that only a portion of these commitments will ever actually be funded.

Management believes that the Company has the liquidity and capital resources to handle these commitments in the normal course of business. See Note 14 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

Contractual Obligations
In the normal course of business, there are various outstanding contractual obligations of the Company that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows. The following table provides the Company's contractual obligations as of December 31, 2014:

Payments due by period
(in thousands)

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Short-Term Debt Obligations	$37,816	$37,816	$0	$0	$ 0
Long-Term Debt Obligations	30,000	5,000	25,000	0	0
Operating Lease Obligations	731	254	409	68	0
Commitment to purchase assets	906	906	0	0	0
Total contractual cash obligations excluding deposits	69,453	43,976	25,409	68	0
Deposits	716,654	617,114	85,092	14,448	0
Total	$786,107	$661,090	$110,501	$14,516	$ 0

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

After December 31, 2014 but prior to the filing of this annual report on Form 10-K, the Company signed additional contracts for fixed asset purchases and professional services. These contracts will require payments of approximately

$906 thousand in 2015.

Short-Term Borrowings
Certain short-term borrowings at December 31, 2014, 2013 and 2012 are presented below. Information is presented only on those categories whose average balance at December 31 exceeded 30 percent of total stockholders' equity at the same date.

TABLE XII
SHORT-TERM BORROWINGS

	2014		2013		2012	
	Balance	Rate	Balance	Rate	Balance	Rate
	(dollars in thousands)					
Balance at December 31,						
Repurchase agreements	$37,816	0.10%	$31,586	0.10%	$37,226	0.16%
Average daily balance for the year ended December 31,						
Repurchase agreements	$32,780	0.10%	$32,219	0.11%	$29,831	0.18%
Maximum month-end outstanding balance:						
Repurchase agreements	$42,429		$41,604		$39,734	

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

	Years Ended December 31,							
	2014				2013			
	(in thousands, except per share data)							
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest and dividend income	$7,760	$7,527	$7,536	$7,466	$7,454	$7,263	$7,477	$7,629
Interest expense	(905)	(951)	(962)	(1,031)	(1,103)	(1,144)	(1,178)	(1,255)
Net interest income	6,855	6,576	6,574	6,435	6,351	6,119	6,299	6,374
Provision for loan losses	200	(450)	(100)	(250)	(500)	(300)	(300)	(200)
Net interest income, after provision for loan losses	7,055	6,126	6,474	6,185	5,851	5,819	5,999	6,174
Noninterest income	3,134	3,195	3,153	3,162	3,179	3,197	3,284	3,113
Noninterest expenses	(8,724)	(8,718)	(8,467)	(8,263)	(9,054)	(7,776)	(8,049)	(8,226)
Income before income taxes	1,465	603	1,160	1,084	(24)	1,240	1,234	1,061
Provision for income taxes	(119)	89	(59)	(107)	234	(203)	(219)	(160)
Net income	$1,346	$692	$1,101	$977	$210	$1,037	$1,015	$901
Earnings per common share:								
Basic	$0.27	$0.14	$0.22	$0.20	$0.04	$0.21	$0.21	$0.18
Diluted	$0.27	$0.14	$0.22	$0.20	$0.04	$0.21	$0.21	$0.18

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This information is incorporated herein by reference from Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", on pages 17 through 35 of this report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Old Point Financial Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old Point Financial Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Winchester, Virginia
March 30, 2015

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$31,081	$11,802
Interest-bearing due from banks	833	18,045
Federal funds sold	1,391	1,478
Cash and cash equivalents	33,305	31,325
Securities available-for-sale, at fair value	139,346	155,639
Securities held-to-maturity (fair value approximates $94,406 and $97,453)	90,089	96,847
Restricted securities	2,293	2,378
Loans, net of allowance for loan losses of $7,075 and $6,831	528,919	493,868
Premises and equipment, net	42,075	40,546
Bank-owned life insurance	23,525	22,673
Other real estate owned, net of valuation allowance of $2,908 and $2,775	5,106	6,415
Other assets	11,622	14,597
	$876,280	$864,288
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$186,280	$182,513
Savings deposits	307,078	286,085
Time deposits	223,296	256,807
Total deposits	716,654	725,405
Overnight repurchase agreements	37,404	31,175
Term repurchase agreements	412	411
Federal Home Loan Bank advances	30,000	25,000
Accrued expenses and other liabilities	3,313	1,536
Total liabilities	787,783	783,527
Commitments and contingencies	--	--
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,959,009 shares issued and outstanding	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	53,203	50,376
Accumulated other comprehensive loss, net	(5,893)	(10,802)
Total stockholders' equity	88,497	80,761
Total liabilities and stockholders' equity	$876,280	$864,288

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31,	
	2014	2013
	(dollars in thousands, except per share data)	
Interest and Dividend Income:		
Interest and fees on loans	$24,881	$23,735
Interest on due from banks	13	96
Interest on federal funds sold	5	1
Interest on securities:		
Taxable	3,562	4,547
Tax-exempt	1,703	1,348
Dividends and interest on all other securities	125	96
Total interest and dividend income	30,289	29,823
Interest Expense:		
Interest on savings deposits	230	302
Interest on time deposits	2,354	3,119
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	32	35
Interest on Federal Home Loan Bank advances	1,233	1,224
Total interest expense	3,849	4,680
Net interest income	26,440	25,143
Provision for loan losses	600	1,300
Net interest income, after provision for loan losses	25,840	23,843
Noninterest Income:		
Income from fiduciary activities	3,506	3,553
Service charges on deposit accounts	4,119	4,183
Other service charges, commissions and fees	3,940	3,562
Income from bank-owned life insurance	851	848
Income from Old Point Mortgage	46	439
Gain (loss) on sale of available-for-sale securities, net	2	(26)
Other operating income	180	214
Total noninterest income	12,644	12,773
Noninterest Expense:		
Salaries and employee benefits	19,884	19,108
Occupancy and equipment	4,886	4,396
Data processing	1,663	1,630
FDIC insurance	704	719
Customer development	822	809
Legal and audit expenses	606	539
Other outside service fees	584	459
Employee professional development	721	595
Postage and courier	445	481
Stationery and supplies	446	457

Capital stock tax	499	400
Loss on write-down/sale of other real estate owned	872	1,345
Other operating expenses	2,040	2,167
Total noninterest expense	34,172	33,105
Income before income taxes	4,312	3,511
Income tax expense	196	348
Net income	$4,116	$3,163
Basic earnings per share		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.83	$0.64
Diluted earnings per share		
Average shares outstanding	4,959,009	4,959,009
Net income per share of common stock	$0.83	$0.64

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,	
	2014	2013
	(dollars in thousands)	
Net income	$4,116	$3,163
Other comprehensive income (loss), net of tax		
Net unrealized gains (losses) on available-for-sale securities	5,239	(11,422)
Amortization of unrealized losses on securities transferred to held-to-maturity	551	176
Changes in defined benefit plan assets and benefit obligations	(881)	636
Other comprehensive income (loss)	4,909	(10,610)
Comprehensive income (loss)	$9,025	$(7,447)

See Notes to Consolidated Financial Statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(dollars in thousands, except per share data)					
Balance at December 31, 2012	4,959,009	$24,795	$16,392	$48,305	$(192)	$89,300
Net income	0	0	0	3,163	0	3,163
Other comprehensive loss, net of tax	0	0	0	0	(10,610)	(10,610)
Cash dividends ($0.22 per share)	0	0	0	(1,092)	0	(1,092)
Balance at December 31, 2013	4,959,009	$24,795	$16,392	$50,376	$(10,802)	$80,761
Net income	0	0	0	4,116	0	4,116
Other comprehensive income, net of tax	0	0	0	0	4,909	4,909
Cash dividends ($0.26 per share)	0	0	0	(1,289)	0	(1,289)
Balance at December 31, 2014	4,959,009	$24,795	$16,392	$53,203	$(5,893)	$88,497

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,116	$ 3,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,277	1,952
Provision for loan losses	600	1,300
Net (gain) loss on sale of available-for-sale securities	(2)	26
Net amortization of securities	2,241	2,512
Net loss on disposal of premises and equipment	1	28
Net loss on write-down/sale of other real estate owned	872	1,345
Income from bank owned life insurance	(851)	(848)
Deferred tax benefit	(101)	(316)
(Increase) decrease in other assets	440	(988)
Increase in other liabilities	442	343
Net cash provided by operating activities	10,035	8,517
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(25,471)	(14,746)
Purchases of held-to-maturity securities	0	(30,363)
Proceeds from sales of restricted securities	85	184
Proceeds from maturities and calls of available-for-sale securities	725	10,690
Proceeds from maturities and calls of held-to-maturity securities	300	170
Proceeds from sales of available-for-sale securities	38,653	63,637
Paydowns on available-for-sale securities	9,318	22,518
Paydowns on held-to-maturity securities	6,160	6,055
Increase in loans made to customers	(36,985)	(33,032)
Proceeds from sales of other real estate owned	1,799	1,404
Payments for improvements to other real estate owned	(23)	0
Purchases of premises and equipment	(3,806)	(10,883)
Net cash provided by (used in) investing activities	(9,245)	15,634
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	3,767	5,773
Increase in savings deposits	20,993	17,832
Decrease in time deposits	(33,511)	(52,016)
Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings, net	6,230	(5,640)
Increase in Federal Home Loan Bank advances	10,000	0
Repayment of Federal Home Loan Bank advances	(5,000)	0
Cash dividends paid on common stock	(1,289)	(1,092)
Net cash provided by (used in) financing activities	1,190	(35,143)
Net increase (decrease) in cash and cash equivalents	1,980	(10,992)
Cash and cash equivalents at beginning of period	31,325	42,317
Cash and cash equivalents at end of period	$ 33,305	$ 31,325
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		

Interest	$ 3,920	$ 4,791
Income tax	$ 535	$ 550
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on securities available-for-sale	$ 7,938	$ (11,076)
Loans transferred to other real estate owned	$ 1,815	$ 1,673
Loans made to finance the sale of other real estate owned	$ 481	$ 0
Former branch site transferred from fixed assets to foreclosed properties	$ 0	$ 885
(Increase) decrease in pension liability	$ (1,336)	$ 964
Book value of equity securities transferred from other assets to available-for-sale	$ 100	$ 0
Securities transferred from available-for-sale to held-to-maturity	$ 0	$ 68,015
Unrealized loss on transfer date on securities transferred from available-for-sale to held-to-maturity	$ 0	$ (6,232)
Amortization of unrealized loss on securities transferred to held-to-maturity	$ 835	$ 267

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1, Significant Accounting Policies

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

NATURE OF OPERATIONS
Old Point Financial Corporation is a holding company that conducts substantially all of its operations through two subsidiaries, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A. The Bank serves individual and commercial customers, the majority of which are in Hampton Roads, Virginia. As of December 31, 2014, the Bank had 18 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers. Trust offers a full range of services for individuals and businesses. Products and services include retirement planning, estate planning, financial planning, estate and trust administration, retirement plan administration, tax services and investment management services.

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

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

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

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

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

At December 31, 2014 and 2013, there were $296.6 million and $301.6 million, or 55.34% and 60.23%, respectively of total loans concentrated in commercial real estate. Commercial real estate for purposes of this note includes all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties.

CASH AND CASH EQUIVALENTS

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

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

RECLASSIFICATIONS
Certain immaterial amounts in the Consolidated Financial Statements have been reclassified to conform to classifications adopted in the current year.

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

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

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

LOANS
The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Hampton Roads. The ability of the Company's debtors to honor their contracts is dependent in part upon the real estate and general economic conditions in this area.

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

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

The accrual of interest on commercial loans is generally discontinued at the time the loan is 90 days past due unless the credit is well-secured and in the process of collection. Consumer loans and consumer real estate secured loans are generally placed on nonaccrual status when payments are 120 days past due. Past due status is based on the contractual terms of the loan, and loans are considered past due when a payment of principal and/or interest is due but not paid. Regular payments not received within the payment cycle are considered to be 30, 60, or 90 or more days past due accordingly. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired, such as a loan that is considered a TDR (discussed in detail below). These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. All loans, including consumer loans, whose terms have been modified in a TDR are also individually analyzed for estimated impairment. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans. The general component is based on migration analysis on pools of loans, segmented by risk grade or days past due, depending on the type of loan. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the past due or risk rating data.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

LOAN CHARGE-OFF POLICIES
Loans are generally fully charged off or partially charged down to the fair value of collateral securing the asset when:
· Management determines the asset to be uncollectible;
· Repayment is deemed to be protracted beyond reasonable time frames;
· The asset has been classified as a loss by either the internal loan review process or external examiners;
· The borrower has filed for bankruptcy protection and the loss becomes evident due to a lack of borrower assets; or
· The loan is 120 days or more past due unless the loan is both well secured and in the process of collection.

TROUBLED DEBT RESTRUCTURINGS
In situations where, for economic or legal reasons related to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty before their loans

reach nonaccrual status and works with them to grant appropriate concessions, if necessary, and modify their loans to more affordable terms. These modified terms could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Company had $12.3 million and $12.1 million in loans classified as TDRs as of December 31, 2014 and 2013, respectively.

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

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

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

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

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

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

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

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

restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

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

INCOME TAXES

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

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

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

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

No uncertain tax positions were recorded in 2014 or 2013.

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

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

ADVERTISING EXPENSES
Advertising expenses are expensed as incurred. Advertising expense for the years ended 2014 and 2013 was $265 thousand and $264 thousand, respectively.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

SUBSEQUENT EVENTS

In accordance with ASC 855-10/SFAS 165, 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 did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-01, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)". The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)". The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606". This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition", most industry-specific guidance, and some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts". The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-11 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)", should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company is currently assessing the impact that ASU 2014-12 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and is intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. Early adoption is permitted provided the entity has already adopted ASU 2014-04. The Company is currently assessing the impact that ASU 2014-14 will have on its consolidated financial statements.

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

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

In November 2014, the FASB issued ASU No. 2014-17, "Business Combinations (Topic 805): Pushdown Accounting". The amendments in this ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company does not expect the adoption of ASU 2014-17 to have a material impact on its consolidated financial statements.

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

NOTE 2. Restrictions on Cash and Amounts Due from Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2014 and 2013, the Company had no balance requirements on any of its accounts. The Company had approximately $17.1 million and $1.7 million in deposits in financial institutions in excess of amounts insured by the FDIC at December 31, 2014 and December 31, 2013, respectively.

NOTE 3, Securities Portfolio

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2014				
Obligations of U.S. Government agencies	$100	$ 0	$ (3)	$97
Obligations of state and political subdivisions	29,529	449	(18)	29,960
Mortgage-backed securities	60,460	3,889	0	64,349
Total	$90,089	$ 4,338	$ (21)	$94,406
December 31, 2013				
Obligations of U.S. Government agencies	$400	$ 1	$ (5)	$396
Obligations of state and political subdivisions	30,120	29	(715)	29,434
Mortgage-backed securities	66,327	1,296	0	67,623
Total	$96,847	$ 1,326	$ (720)	$97,453

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2014				
U.S. Treasury securities	$20,000	$ 0	$ 0	$20,000
Obligations of U.S. Government agencies	4,768	2	(152)	4,618
Obligations of state and political subdivisions	49,783	698	(235)	50,246
Mortgage-backed securities	61,296	34	(442)	60,888
Money market investments	719	0	0	719
Corporate bonds and other securities	2,798	3	(11)	2,790
Other marketable equity securities	100	0	(15)	85
Total	$139,464	$ 737	$ (855)	$139,346
December 31, 2013				
Obligations of U.S. Government agencies	$15,189	$ 263	$ (428)	$15,024
Obligations of state and political subdivisions	51,032	86	(4,018)	47,100
Mortgage-backed securities	94,685	0	(3,935)	90,750
Money market investments	691	0	0	691
Corporate bonds	2,098	1	(25)	2,074
Total	$163,695	$ 350	$ (8,406)	$155,639

Securities with a fair value of $134.5 million and $127.7 million at December 31, 2014 and 2013, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, FHLB advances and for other purposes required or permitted by law.

At December 31, 2014, the Company held no securities of any single issuer (excluding U.S. Government agencies) with a book value that exceeded 10 percent of stockholders' equity.

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

	December 31, 2014			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$20,100	$20,100	$0	$0
Due after one year through five years	4,339	4,383	7,322	7,381
Due after five years through ten years	13,039	13,301	12,201	12,364
Due after ten years	101,167	100,758	70,566	74,661
Total debt securities	138,645	138,542	90,089	94,406
Other securities without stated maturities	819	804	0	0
Total securities	$139,464	$139,346	$90,089	$94,406

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

	2014	2013
	(in thousands)	
Proceeds from sales	$38,653	$63,637
Gross realized gains	$276	$191
Gross realized losses	$274	$217

OTHER-THAN-TEMPORARILY IMPAIRED SECURITIES

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

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

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

The Company has not recorded impairment charges on securities for the years ended December 31, 2014 and 2013.

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

	December 31, 2014						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
U.S. Treasury securities	$0	$20,000	$0	$0	$0	$20,000	1
Obligations of U.S. Government agencies	0	0	152	4,316	152	4,316	1
Obligations of state and political subdivisions	2	604	233	11,951	235	12,555	24
Mortgage-backed securities	62	16,589	380	32,104	442	48,693	6
Corporate bonds and other securities	3	1,096	8	792	11	1,888	14
Other marketable equity securities	15	85	0	0	15	85	1
Total securities available-for-sale	$82	$38,374	$773	$49,163	$855	$87,537	47
Securities Held-to-Maturity							
Obligations of U.S. Government agencies	$0	$0	$3	$97	$3	$97	1
Obligations of state and political subdivisions	2	1,261	16	1,203	18	2,464	6
Total securities held-to-maturity	$2	$1,261	$19	$1,300	$21	$2,561	7
Total Securities	$84	$39,635	$792	$50,463	$876	$90,098	54

	December 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
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$0	$0	$428	$4,403	$428	$4,403	1
Obligations of state and political subdivisions	3,246	36,235	772	6,450	4,018	42,685	82
Mortgage-backed securities	3,321	81,664	614	9,086	3,935	90,750	12
Corporate bonds and other securities	19	1,279	6	295	25	1,574	12
Total securities available-for-sale	$6,586	$119,178	$1,820	$20,234	$8,406	$139,412	107
Securities Held-to-Maturity							
Obligations of U.S. Government agencies	$0	$0	$5	$95	$5	$95	1
Obligations of state and political subdivisions	715	23,765	0	0	715	23,765	50
Total securities held-to-maturity	$715	$23,765	$5	$95	$720	$23,860	51
Total Securities	$7,301	$142,943	$1,825	$20,329	$9,126	$163,272	158

Certain investments within the Company's portfolio had unrealized losses at December 31, 2014 and December 31, 2013, 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 December 31, 2014 or December 31, 2013.

Restricted Securities

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

Note 4. Loans and the Allowance for Loan Losses

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

	December 31, 2014	December 31, 2013
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$91,318	$84,500
Commercial	287,531	287,071
Construction	9,082	14,505
Second mortgages	13,403	13,232
Equity lines of credit	43,662	32,163
Total mortgage loans on real estate	444,996	431,471
Commercial loans	37,698	30,702
Consumer loans	30,493	19,791
Other	22,807	18,735
Total loans	535,994	500,699
Less: Allowance for loan losses	(7,075)	(6,831)
Loans, net of allowance and deferred fees	$528,919	$493,868

Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $541 thousand and $641 thousand at December 31, 2014 and December 31, 2013, respectively.

CREDIT QUALITY INFORMATION

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

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

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

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

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

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

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

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

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$78,612	$1,167	$ 4,721	$84,500
Commercial	274,749	5,693	6,629	287,071
Construction	10,319	640	3,546	14,505
Second mortgages	12,994	0	238	13,232
Equity lines of credit	31,690	0	473	32,163
Total mortgage loans on real estate	408,364	7,500	15,607	431,471
Commercial loans	30,164	319	219	30,702
Consumer loans	19,723	0	68	19,791
Other	18,735	0	0	18,735
Total	$476,986	$7,819	$ 15,894	$500,699

As of December 31, 2014 and 2013 the Company did not have any loans internally classified as Loss or Doubtful.

AGE ANALYSIS OF PAST DUE LOANS BY CLASS

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

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

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$1,043	$55	$792	$1,890	$89,428	$91,318	$ 0
Commercial	31	0	432	463	287,068	287,531	0
Construction	0	0	499	499	8,583	9,082	0
Second mortgages	81	32	168	281	13,122	13,403	107
Equity lines of credit	49	0	0	49	43,613	43,662	0
Total mortgage loans on real estate	1,204	87	1,891	3,182	441,814	444,996	107
Commercial loans	195	0	10	205	37,493	37,698	10
Consumer loans	1,099	323	1,019	2,441	28,052	30,493	1,019
Other	51	3	5	59	22,748	22,807	5
Total	$2,549	$413	$2,925	$5,887	$530,107	$535,994	$ 1,141

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

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

Age Analysis of Past Due Loans as of December 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	$324	$82	$4,304	$4,710	$79,790	$84,500	$ 493
Commercial	120	704	53	877	286,194	287,071	0
Construction	0	0	2,545	2,545	11,960	14,505	0
Second mortgages	0	10	34	44	13,188	13,232	34
Equity lines of credit	139	0	0	139	32,024	32,163	0
Total mortgage loans on real estate	583	796	6,936	8,315	423,156	431,471	527
Commercial loans	15	80	0	95	30,607	30,702	0

Consumer loans	929	5	5	939	18,852	19,791	5
Other	51	15	14	80	18,655	18,735	14
Total	$1,578	$896	$6,955	$9,429	$491,270	$500,699	$ 546

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

In the table above, the consumer category includes student loans with principal amounts that are 97 - 98% guaranteed by the government. The past due portion of these guaranteed loans totaled $744 thousand at December 31, 2013.

NONACCRUAL LOANS

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

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

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

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

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

Nonaccrual Loans by Class

	December 31, 2014	December 31, 2013
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$924	$ 4,024
Commercial	4,086	4,606
Construction	499	2,545
Second mortgages	61	0
Total mortgage loans on real estate	5,570	11,175
Commercial loans	0	149
Total	$5,570	$ 11,324

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

	Years Ended December 31, 2014	2013
	(in thousands)	
Interest income that would have been recorded under original loan terms	$301	$762
Actual interest income recorded for the period	265	251
Reduction in interest income on nonaccrual loans	$36	$511

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

is 90 days or more past due and still accruing interest at the report date.

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

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

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

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

Troubled Debt Restructurings by Class
For the Year Ended December 31, 2013
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2013
Mortgage loans on real estate:				
Residential 1-4 family	8	$ 1,633	$ 1,633	$ 1,620
Commercial	3	3,665	3,665	3,657
Second mortgages	2	231	231	203
Total	13	$ 5,529	$ 5,529	$ 5,480

The loans restructured in 2013 and 2014 were all given below-market rates for debt with similar risk characteristics.

At December 31, 2014 and 2013, the Company had no outstanding commitments to disburse additional funds on any TDR.

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

Restructurings that Subsequently Defaulted
(dollars in thousands)

	For the Years Ended December 31,			
	2014		2013	
Mortgage loans on real estate:	Number of Defaults	Amount of Default	Number of Defaults	Amount of Default

Residential 1-4 family	2	$ 389	2	$ 181
Commercial	0	0	1	2,062
Total	2	$ 389	3	$ 2,243

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

IMPAIRED LOANS

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts when 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 December 31, 2014				For the year ended December 31, 2014	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$2,898	$2,083	$ 646	$ 91	$4,099	$ 126
Commercial	11,766	4,729	5,322	163	10,669	449
Construction	1,157	623	534	270	2,431	55
Second mortgages	506	195	282	178	470	25
Total mortgage loans on real estate	$16,327	$7,630	$ 6,784	$ 702	$17,669	$ 655
Commercial loans	0	0	0	0	37	0
Consumer loans	14	14	0	0	26	1
Total	$16,341	$7,644	$ 6,784	$ 702	$17,732	$ 656

Impaired Loans by Class
(in thousands)

	As of December 31, 2013				For the year ended December 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	$5,713	$1,542	$ 4,009	$ 1,383	$5,152	$ 102
Commercial	12,905	6,882	4,300	307	10,631	591
Construction	3,309	2,545	0	0	2,798	0
Second mortgages	374	296	47	3	462	(19)
Total mortgage loans on real estate	$22,301	$11,265	$ 8,356	$$ 1,693	$19,140	$ 674
Commercial loans	150	149	0	0	44	6

Consumer loans	15	0	15	0	17	1
Total	$22,466	$11,414	$ 8,371	$1,693	$$ 19,201	$ 681

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

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

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

Each portfolio segment has risk characteristics as follows:

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

Each segment of the portfolio is pooled by risk grade or by days past due. Loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on days past due, while all other loans, including loans to consumers that are secured by real estate, are segmented by risk grades. A historical loss percentage is then calculated by migration analysis and applied to each pool. The migration analysis applied to all pools is able to track the risk grading and historical performance of individual loans throughout a number of periods set by management, which provides management with information regarding trends (or migrations) in a particular loan segment. At December 31, 2013 and December 31, 2014, management used eight-quarter and twelve-quarter migration periods, respectively. Management believes the additional information provided by the extended migration analysis results in more accurate historical loss information.

THE COMPANY'S ESTIMATION PROCESS

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

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

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

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $7.1 million adequate to cover loan losses inherent in the loan portfolio at December 31, 2014.

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

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

For the Year Ended December 31, 2014	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 350	$ 662	$ 5,357	$ 294	$ 168	$ 6,831
Charge-offs	(286)	(51)	(563)	(163)	(175)	(1,238)
Recoveries	55	173	524	64	66	882
Provision for loan losses	476	(81)	29	24	152	600
Ending balance	$ 595	$ 703	$ 5,347	$ 219	$ 211	$ 7,075
Ending balance individually evaluated for impairment	$ 0	$ 270	$ 432	$ 0	$ 0	$ 702
Ending balance collectively evaluated for impairment	595	433	4,915	219	211	6,373
Ending balance	$ 595	$ 703	$ 5,347	$ 219	$ 211	$ 7,075
Loan Balances:						
Ending balance individually evaluated for impairment	$ 0	$ 1,157	$ 13,257	$ 14	$ 0	$ 14,428
Ending balance collectively evaluated for impairment	37,698	7,925	422,657	30,479	22,807	521,566
Ending balance	$ 37,698	$ 9,082	$ 435,914	$ 30,493	$ 22,807	$ 535,994

For the Year Ended December 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	(200)	(501)	(1,548)	(141)	(316)	(2,706)
Recoveries	76	6	513	111	207	913
Provision for loan losses	(203)	970	213	120	200	1,300
Ending balance	$ 350	$ 662	$ 5,357	$ 294	$ 168	$ 6,831
Ending balance individually evaluated for impairment	$ 0	$ 0	$ 1,693	$ 0	$ 0	$ 1,693
Ending balance collectively evaluated for impairment	350	662	3,664	294	168	5,138
Ending balance	$ 350	$ 662	$ 5,357	$ 294	$ 168	$ 6,831
Loan Balances:						
Ending balance individually evaluated for impairment	$ 149	$ 2,545	$ 17,076	$ 15	$ 0	$ 19,785
Ending balance collectively evaluated for impairment	30,553	11,960	399,890	19,776	18,735	480,914
Ending balance	$ 30,702	$ 14,505	$ 416,966	$ 19,791	$ 18,735	$ 500,699

CHANGES IN ACCOUNTING METHODOLOGY

Historical loss rates calculated by migration analysis are determined by the performance of a loan over a period of time (the migration period). Adding additional quarters to the migration analysis extends the period over which the loan could cease to perform, increasing the number of loans that default and thus also increasing the historical loss rates. While a longer migration period provides a more conservative estimate of expected future losses, extending the migration period too far can provide less accurate estimates if there have been changes in the economy or the Company's loan management processes. Management reviews the migration period as part of each quarterly calculation of the allowance.

To better reflect the risks inherent in the loan portfolio, the Company extended the migration period used to calculate the historical loss portion of the allowance from eight quarters at December 31, 2013 to twelve quarters at December 31, 2014.

The following table represents the effect on the loan loss provision for the year ended December 31, 2014 as a result of the changes to the methodology from that used in prior periods.

	Calculated Provision Based on Current Methodology	Calculated Provision Based on Prior Methodology	Difference
	(in thousands)		
Portfolio Segment:			
Commercial	$476	$ 320	$ 156
Real estate - construction	(81)	(143)	62
Real estate - mortgage	29	(520)	549
Consumer loans	24	(69)	93
Other	152	157	(5)
Total	$600	$ (255)	$ 855

NOTE 5. Other Real Estate Owned (OREO)

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

	Years Ended December 31, 2014	2013
	(in thousands)	
Balance at beginning of year	$9,190	$8,444
Transfers to OREO due to foreclosure	1,815	1,771
Other additions to foreclosed properties	23	0
Closed branch locations transferred to OREO	0	885
Properties sold	(3,014)	(1,910)
Balance at end of year	$8,014	$9,190

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

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

	Years Ended December 31, 2014	2013
	(in thousands)	
Balance at beginning of year	$2,775	$1,870
Additions and write-downs	1,056	1,250
Reductions due to sales or increases in value	(923)	(345)

Balance at end of year	$2,908	$2,775

Expenses applicable to OREOs include the following:

	Years Ended December 31,	
	2014	2013
	(in thousands)	
Net loss (gain) on sales of real estate	$(184)	$100
Provision for losses (net write-downs)	1,056	1,245
Operating expenses, net of income*	285	217
Total Expenses	$1,157	$1,562

* included in other operating income and other operating expense

NOTE 6. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2014	2013
	(in thousands)	
Land	$7,261	$7,261
Buildings	38,301	24,101
Construction in process	291	13,316
Leasehold improvements	906	906
Furniture, fixtures and equipment	19,391	17,443
	66,150	63,027
Less accumulated depreciation and amortization	24,075	22,481
	$42,075	$40,546

The majority of the decrease in construction in process is due to the completion of the Company's new corporate headquarters.

Depreciation expense for the years ended December 31, 2014 and 2013 amounted to $2.3 and $2.0 million, respectively.

The Company has noncancellable leases on premises and equipment expiring at various dates, not including extensions, to the year 2019. Certain leases provide for increased annual payments based on increases in real estate taxes and the Consumer Price Index.

The total approximate minimum rental commitment at December 31, 2014 under noncancellable leases is $731 thousand which is due as follows (in thousands):

2015	$254
2016	162
2017	158
2018	89
2019	68
Total	$731

The aggregate rental expense of premises and equipment was $281 thousand and $277 thousand for 2014 and 2013, respectively.

NOTE 7. Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2014 and 2013 was $40.2 million and $33.0 million, respectively. As of December 31, 2014, no single customer relationship exceeded 5 percent of total deposits.

At December 31, 2014 the scheduled maturities of time deposits (in thousands) are as follows:

2015	$123,756
2016	32,128
2017	42,550
2018	10,414

2019	14,448
	$223,296

NOTE 8, Short Term and Long Term Borrowings

The Company's short-term borrowing sources include federal funds purchased and overnight repurchase agreements. The Company had no federal funds purchased on December 31, 2014 or 2013. At December 31, 2014, the Company had $50.0 million available in federal funds lines of credt to address any short-term borrowing needs.

Overnight repurchase agreements, which totaled $37.4 million and $31.2 million as of December 31, 2014 and 2013, respectively, are classified as secured borrowings that generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

As of December 31, 2014, three customer relationships exceeded 5 percent of total repurchase agreements, with a combined outstanding balance of $29.7 million, or 78.52% of total repurchase agreements.

The Company's long-term debt at December 31, 2014 and 2013 consisted of fixed-rate FHLB advances. The FHLB advances are secured by a blanket lien on qualified 1 – 4 family residential real estate loans. These pledged loans totaled $76.3 million at December 31, 2014. While the Company can elect to prepay its FHLB advances, it would be subject to a prepayment penalty equal to the cost to the FHLB to unwind its underlying hedge plus an administrative fee. Therefore, the Company currently does not intend to prepay its FHLB advances. At December 31, 2014, the Company had $231.5 million in FHLB borrowing availability, in addition to the $30.0 million already outstanding on that date.

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

	December 31, 2014		2013	
	Fixed Rate (in thousands)	Weighted Avg Rate	Fixed Rate (in thousands)	Weighted Avg Rate
Due in 2015	$5,000	0.26 %	$ 0	0.00 %
Due in 2016	25,000	4.83 %	25,000	4.83 %
Total long-term debt	$30,000	4.07 %	$ 25,000	4.83 %

NOTE 9. Stock Option Plan

On March 9, 2008, the Company's ability to grant additional stock options under its 1998 stock option plan expired. At December 31, 2014, options to purchase 81,210 shares of common stock granted under the stock option plan were outstanding. The exercise price of each option equals the market price of the Company's common stock on the date of the grant, and each option's maximum term is ten years.

Stock option plan activity for the year ended December 31, 2014 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2014	151,335	$ 21.66		
Granted	0	0		
Exercised	0	0		
Canceled or expired	(70,125)	23.53		
Options outstanding, December 31, 2014	81,210	$ 20.05	2.79	$ 0
Options exercisable, December 31, 2014	81,210	$ 20.05	2.79	$ 0

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2014.This amount changes based on changes in the market value of the Company's common stock.

As of December 31, 2014, the outstanding options had no intrinsic value because the exercise prices of all outstanding options were above the market value of a share of the Company's common stock.

No options were granted or exercised during the years ended December 31, 2014 or December 31, 2013.

As of December 31, 2014 and December 31, 2013, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

Information pertaining to options outstanding at December 31, 2014 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 20.05	81,210	2.79	$ 20.05	81,210	$ 20.05

NOTE 10. Stockholders' Equity and Earnings per Common Share

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

	Years Ended December 31, 2014	2013	Affected Line Item on Consolidated Statement of Income
	(in thousands)		
Available-for-sale securities			
Realized gains (losses) on sales of securities	$2	$(26)	Gain (loss) on sale of available-for-sale securities, net
Tax effect	1	(9)	Income tax (benefit) expense
	$1	$(17)	
Defined-benefit pension plan			
Amortization of actuarial loss (1)	$(251)	$(303)	Salaries and employee benefits
Tax effect	(85)	(103)	Income tax benefit
	$(166)	$(200)	
Total reclassifications for the period	$(165)	$(217)	

(1) This accumulated other comprehensive loss component is included in the computation of net periodic pension cost (see NOTE 13. Pension Plan for additional details).

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

	Unrealized Gains (Losses) on Securities	Unrealized Losses on Securities Transferred to Held-to-Maturity	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
	(in thousands)			
Balance at December 31, 2012	$1,992	$ 0	$(2,184)	$ (192)
Net change for the year ended December 31, 2013	(7,309)	(3,937)	636	(10,610)
Balance at December 31, 2013	(5,317)	(3,937)	(1,548)	(10,802)
Net change for the year ended December 31, 2014	5,239	551	(881)	4,909

Balance at December 31, 2014	$(78)	$ (3,386)	$(2,429)	$ (5,893)

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

	Year Ended December 31, 2014		
	Pretax	Tax Expense (Benefit)	Net-of-Tax
	(in thousands)		
Unrealized gains on available-for-sale securities			
Unrealized holding gains arising during the period	$7,940	$ 2,700	$ 5,240
Less reclassification adjustment for gains recognized in income	2	1	1
Net unrealized gains on securities	7,938	2,699	5,239
Unrealized loss on securities transferred to held-to-maturity			
Unrealized loss transferred	0	0	0
Amortization	835	284	551
Net effect of market adjustment on securities transferred to held-to-maturity	835	284	551
Defined benefit pension plans			
Net actuarial gain/(loss) for the period	(1,587)	(540)	(1,047)
Amortization of actuarial (gain)/loss from prior period	251	85	166
Total effect of defined benefit pension plans	(1,336)	(455)	(881)
Total change in accumulated other comprehensive loss	$7,437	$ 2,528	$ 4,909

	Year Ended December 31, 2013		
	Pretax	Tax Expense (Benefit)	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities			
Unrealized holding losses arising during the period	$($11,102)	$ ($3,776)	$($7,326)
Less reclassification adjustment for losses recognized in income	(26)	(9)	(17)
Net unrealized losses on securities	(11,076)	(3,767)	(7,309)
Unrealized loss on securities transferred to held-to-maturity			
Unrealized loss transferred	(6,232)	$ (2,119)	(4,113)
Amortization	267	91	176
Net effect of market adjustment on securities transferred to held-to-maturity	(5,965)	(2,028)	(3,937)
Defined benefit pension plans			
Net actuarial gain/(loss) for the period	661	225	436
Amortization of actuarial (gain)/loss from prior period	303	103	200
Total effect of defined benefit pension plans	964	328	636
Total change in accumulated other comprehensive loss	$($16,077)	$ ($5,467)	$($10,610)

EARNINGS PER COMMON SHARE

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

	Years Ended December 31,	
	2014	2013
	(dollars in thousands)	
Net income applicable to common stock (in thousands)	$4,116	$$ 3,163
Average number of common shares outstanding	4,959,009	4,959,009
Effect of dilutive options	0	0
Average number of common shares outstanding used to calculate diluted earnings per common share	4,959,009	4,959,009

The Company did not include an average of 117 thousand and 154 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for 2014 and 2013, respectively, because they were antidilutive.

NOTE 11, Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal shareholders, executive officers and directors and their affiliates. These loans were made on substantially the same terms and conditions, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management and the Company's board of directors, do not involve more than normal risk or present other unfavorable features. None of the principal shareholders, executive officers or directors had direct or indirect loans exceeding 10 percent of stockholders' equity at December 31, 2014.

Annual activity consisted of the following:

	2014	2013
	(in thousands)	
Balance, beginning of year	$2,589	$1,902
Additions	3,596	1,002
Reductions	(398)	(315)
Balance, end of year	$5,787	$2,589

Deposits from related parties held by the Company at December 31, 2014 and 2013 amounted to $13.2 million and $9.5 million, respectively.

NOTE 12, Income Taxes

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

	2014	2013
	(in thousands)	
Current tax expense	$297	$664
Deferred tax benefit	(101)	(316)
Reported tax expense	$196	$348

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

	Years Ended December 31,	
	2014	2013
	(in thousands)	
Expected tax expense (34%)	$1,466	$1,194
Interest expense on tax-exempt assets	24	21
Tax credit for investment	(324)	(122)
Tax-exempt interest	(631)	(481)
Bank-owned life insurance	(289)	(288)
Other, net	(50)	24
Reported tax expense	$196	$348

The effective tax rates for 2014 and 2013 were 4.6% and 9.9%, respectively.

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

	December 31, 2014	December 31, 2013
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$2,397	$2,322
Interest on nonaccrual loans	100	381
Other real estate owned	989	1,256
Pension - other comprehensive income	1,252	797
Bank owned life insurance benefit	83	108
Charitable contributions carried forward	92	55
Net unrealized loss on securities available-for-sale	40	2,739
Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	1,744	2,028
Unexercised nonqualified options	36	36
Alternative mininum tax	269	0
Deferred benefits and compensation	166	1
Other	70	24
	$7,238	$9,747
Deferred tax liabilities:		
Depreciation	$(696)	$(737)
Deferred loan fees and costs	(295)	(279)
Pension	(627)	(684)
	(1,618)	(1,700)
Net deferred tax assets	$5,620	$8,047

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2011.

NOTE 13, Pension Plan and 401(k) Plan

PENSION PLAN

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

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

	Years ended December 31, 2014	Years ended December 31, 2013
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$5,656	$6,262
Service cost	0	0
Interest cost	278	252

Benefits paid	(298)	(480)
Actuarial (gain) loss	1,468	(378)
Benefit obligation at end of year	$7,104	$5,656
Change in plan assets		
Fair value of plan assets at beginning of year	$5,322	$5,168
Actual return on plan assets	244	634
Employer contribution	0	0
Benefits paid	(298)	(480)
Fair value of plan assets at end of year	$5,268	$5,322
Funded Status at end of year	$(1,836)	$(334)

Amounts recognized in the consolidated balance sheets at December 31,	2014	2013
Accrued pension liability	$(1,836)	$(334)

Amounts recognized in other comprehensive income (loss)		
Loss	$3,681	$2,345
Deferred taxes	(1,252)	(797)
Net loss	$2,429	$1,548
Accumulated benefit obligation	$7,104	$5,656

Assumptions used to determine the benefit obligations at December 31,	2014	2013
Discount rate	3.73%	4.90%

Components of net periodic pension cost	Years ended December 31, 2014	2013
	(in thousands)	
Interest cost	$278	$252
Expected return on plan assets	(362)	(351)
Amortization of unrecognized loss	251	303
Net periodic pension cost	$167	$204

Components of other amounts recognized in other comprehensive income (loss)		
Net actuarial (gain) loss	$ 1,587	$ (661)
Settlement loss	0	0
Amortization of actuarial loss	(251)	(303)
Total recognized in other comprehensive income (loss)	$ 1,336	$ (964)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 1,503	$ (760)

The estimated net loss for the pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $393 thousand.

Weighted-average assumptions used to determine net periodic pension cost	Years ended December 31, 2014	2013
Discount rate	4.90%	4.10%
Expected long-term rate of return on plan assets	7.00%	7.00%

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

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

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

Fair value is discussed in detail in Note 15. The fair value of the Company's pension plan assets by asset category are as follows:

	Assets at Fair Value as of December 31, 2014 (in thousands)			
Asset Category	Level 1	Level 2	Level 3	Total
Money market funds	$310	$0	$ 0	$310
Mutual funds	73	0	0	73
Common stock	2,847	0	0	2,847
Corporate bonds	0	2,038	0	2,038
Total assets at fair value	$3,230	$2,038	$ 0	$5,268

	Assets at Fair Value as of December 31, 2013 (in thousands)			
Asset Category	Level 1	Level 2	Level 3	Total
Money market funds	$240	$0	$ 0	$240
Mutual funds	75	0	0	75
Common stock	2,999	0	0	2,999
Corporate bonds	0	2,008	0	2,008
Total assets at fair value	$3,314	$2,008	$ 0	$5,322

The Company did not contribute to the pension plan in 2014 or 2013. Management has not determined at this time the amount, if any, it will contribute to the plan for the year ending December 31, 2015.

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

2015	$216
2016	221
2017	261
2018	283
2019	293
Thereafter	1,936
Total	$3,210

401(K) PLAN

The Company has a 401(k) Plan in which substantially all employees are eligible to participate. Employees may contribute to the plan subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100 percent of the first 4 percent of an employee's compensation contributed to the plan. Matching contributions vest to the employee immediately. The Company may make profit sharing contributions to the plan as determined by the Board of Directors. Profit sharing contributions vest to the employee over a six-year period. For the years ended December 31, 2014 and 2013, expense attributable to the plan amounted to $527 thousand and $642 thousand, respectively.

NOTE 14, Commitments and Contingencies

CREDIT-RELATED FINANCIAL INSTRUMENTS

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

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

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

	2014	2013
	(in thousands)	
Commitments to extend credit:		
Home equity lines of credit	$43,372	$37,467
Commercial real estate, construction and development loans committed but not funded	21,839	22,528
Other lines of credit (principally commercial)	70,368	58,847
Total	$135,579	$118,842
Letters of credit	$3,586	$4,498

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

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

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

LEGAL CONTINGENCIES

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

NOTE 15. Fair Value Measurements

DETERMINATION OF FAIR VALUE

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

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

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

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

Level 1 –	Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2 –	Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3 –	Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

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

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

		Fair Value Measurements at December 31, 2014 Using (in thousands)		
Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. Treasury securities	$20,000	$0	$ 20,000	$ 0
Obligations of U.S. Government agencies	4,618	0	4,618	0
Obligations of state and political subdivisions	50,246	0	50,246	0
Mortgage-backed securities	60,888	0	60,888	0
Money market investments	719	0	719	0
Corporate bonds	2,790	0	2,790	0
Other marketable equity securities	85	0	85	0
Total available-for-sale securities	$139,346	$0	$ 139,346	$ 0

		Fair Value Measurements at December 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	$15,024	$0	$ 15,024	$ 0
Obligations of state and political subdivisions	47,100	0	47,100	0
Mortgage-backed securities	90,750	0	90,750	0
Money market investments	691	0	691	0
Corporate bonds	2,074	0	2,074	0
Total available-for-sale securities	$155,639	$0	$ 155,639	$ 0

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

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

Impaired loans

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.

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

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

		Carrying Value at December 31, 2014 Using (in thousands)		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$399	$0	$ 0	$ 399
Commercial	1,973	0	0	1,973
Construction	264	0	0	264
Second mortgages	104	0	0	104
Total	$2,740	$0	$ 0	$ 2,740
Other real estate owned				
Residential 1-4 family	$884	$0	$ 0	$ 884
Commercial	1,198	0	0	1,198
Construction	2,139	0	0	2,139
Total	$4,221	$0	$ 0	$ 4,221

Carrying Value at December 31, 2013 Using

	(in thousands)			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$2,455	$0	$ 0	$ 2,455
Commercial	800	0	0	800
Second mortgages	44	0	0	44
Total	$3,299	$0	$ 0	$ 3,299
Other real estate owned				
Residential 1-4 family	$457	$0	$ 0	$ 457
Commercial	2,290	0	0	2,290
Construction	2,783	0	0	2,783
Total	$5,530	$0	$ 0	$ 5,530

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

	Quantitative Information About Level 3 Fair Value Measurements				
Description	Fair Value at December 31, 2014 (in thousands)	Valuation Techniques	Unobservable Input	Range (Average)	
Impaired loans					
Residential 1-4 family real estate	$ 399	Market comparables	Liquidation discount	4.00	%
			Selling costs	7.25	%
Commercial real estate	1,973	Market comparables	Liquidation discount	4.00	%
			Selling costs	7.25	%
Construction	264	Market comparables	Liquidation discount	4.00% - 28.71% (24.70	%)
			Selling costs	0.00% - 7.25% (1.18	%)
Second mortgages	104	Market comparables	Liquidation discount	4.00	%
			Selling costs	7.25	%
Other real estate owned					
Residential 1-4 family	884	Market comparables	Liquidation discount	1.25% - 7.25% (5.34	%)
			Selling costs	10.00	%
Commercial	1,198	Market comparables	Liquidation discount	1.25% - 7.25% (3.16	%)
			Selling costs	10.00	%
Construction	2,139	Market comparables	Liquidation discount	1.25% - 11.25% (1.57	%)
			Selling costs	6.00% - 10.00% (8.49	%)

	Quantitative Information About Level 3 Fair Value Measurements				
Description	Fair Value at December 31, 2013 (in thousands)	Valuation Techniques	Unobservable Input	Range (Average)	
Impaired loans					
Residential 1-4 family real estate	$ 2,455	Market comparables	Liquidation discount	0.00% - 90.00% (10.00	%)
			Selling costs	3.00% - 7.25% (7.25	%)
Commercial real estate	800	Market comparables	Selling costs	7.25	%
Second mortgages	44	Market comparables	Liquidation discount	5.00	%
			Selling costs	7.25	%
Other real estate owned					
Residential 1-4 family	457	Market comparables	Selling costs	6.00% - 10.00% (6.00	%)
Commercial	2,290	Market comparables	Selling costs	6.00% - 10.00% (6.00	%)
Construction	2,783	Market comparables	Selling costs	6.00% - 10.00% (6.00	%)

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

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

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

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

LOANS RECEIVABLE
The fair value of a loan is based on its interest rate in relation to its risk profile, in comparison to what an investor could earn on a different investment with a similar risk profile. Variations in risk tolerance between lenders, and thus in risk pricing, can result in the same loan being priced differently at different institutions. A bank's experience with the type of lending (such as commercial real estate) can also impact its assessment of the riskiness of a loan. A comprehensive picture of competitors' rates in relation to borrower risk profiles is not available. Since the rate and risk profile are the primary factors in determining the fair value of a loan, both of which are unobservable in the market, the Company classifies loans as Level 3 in the fair value hierarchy. 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 deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Information about the rates paid by other institutions for deposits of similar terms is readily available, and rates are mainly influenced by the term of the deposit itself. As a result, fair value calculations are based on observable inputs, and are classified as Level 2.

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

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

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

COMMITMENTS TO EXTEND CREDIT AND IRREVOCABLE LETTERS OF CREDIT
The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2014 and December 31, 2013, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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

		Fair Value Measurements at December 31, 2014 Using (in thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$33,305	$33,305	$ 0	$ 0
Securities available-for-sale	139,346	0	139,346	0
Securities held-to-maturity	90,089	0	94,406	0
Restricted securities	2,293	0	2,293	0
Loans, net of allowances for loan losses	528,919	0	0	527,138
Bank owned life insurance	23,525	0	23,525	0
Accrued interest receivable	2,695	0	2,695	0
Liabilities				
Deposits	$716,654	$0	$717,260	$ 0
Overnight repurchase agreements	37,404	0	37,404	0
Term repurchase agreements	412	0	410	0
Federal Home Loan Bank advances	30,000	0	31,536	0
Accrued interest payable	255	0	255	0

		Fair Value Measurements at December 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	$31,325	$31,325	$ 0	$ 0
Securities available-for-sale	155,639	0	155,639	0
Securities held-to-maturity	96,847	0	97,453	0
Restricted securities	2,378	0	2,378	0

Loans, net of allowances for loan losses	493,868	0	0	494,714
Bank owned life insurance	22,673	0	22,673	0
Accrued interest receivable	2,754	0	2,754	0
Liabilities				
Deposits	$725,405	$0	$ 728,011	$ 0
Overnight repurchase agreements	31,175	0	31,175	0
Term repurchase agreements	411	0	410	0
Federal Home Loan Bank advances	25,000	0	27,567	0
Accrued interest payable	327	0	327	0

NOTE 16, Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The terms Tier 1 capital, risk-weighted assets and average assets, as used in this note, are as defined in the applicable regulations. Management believes, as of December 31, 2014 and 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014, the most recent notification from the Comptroller categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are also presented in the table.

	Capital		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2014:						
Total Capital to Risk Weighted Assets:						
Consolidated	$101,450	15.44%	$52,560	8.00%	N/A	N/A
Old Point National Bank	94,472	14.45%	52,294	8.00%	$65,367	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	94,375	14.36%	26,280	4.00%	N/A	N/A
Old Point National Bank	87,397	13.37%	26,147	4.00%	39,220	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	94,375	10.75%	35,131	4.00%	N/A	N/A
Old Point National Bank	87,397	10.01%	34,940	4.00%	43,675	5.00%
December 31, 2013:						
Total Capital to Risk Weighted Assets:						
Consolidated	$98,394	15.58%	$50,529	8.00%	N/A	N/A
Old Point National Bank	92,356	14.68%	50,336	8.00%	$62,921	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	91,563	14.50%	25,265	4.00%	N/A	N/A
Old Point National Bank	85,525	13.59%	25,168	4.00%	37,752	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	91,563	10.37%	35,315	4.00%	N/A	N/A
Old Point National Bank	85,525	9.74%	35,124	4.00%	43,905	5.00%

The approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank and Trust can distribute as dividends to the Company in 2015, without approval of the Comptroller, $3.9 million plus an additional amount equal to the Bank's and Trust's retained net profits for 2015 up to the date of any dividend declaration.

NOTE 17. Segment Reporting

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

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

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

2014	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$30,239	$50	$ 4,349	$ (4,349)	$ 30,289
Income from fiduciary activities	0	3,506	0	0	3,506
Other income	8,283	916	200	(261)	9,138
Total operating income	38,522	4,472	4,549	(4,610)	42,933
Expenses					
Interest expense	3,849	0	0	0	3,849
Provision for loan losses	600	0	0	0	600
Salaries and employee benefits	16,761	2,695	428	0	19,884
Other expenses	13,371	1,053	125	(261)	14,288
Total operating expenses	34,581	3,748	553	(261)	38,621
Income before taxes	3,941	724	3,996	(4,349)	4,312
Income tax expense (benefit)	69	247	(120)	0	196
Net income	$3,872	$477	$ 4,116	$ (4,349)	$ 4,116
Capital expenditures	$17,036	$20	$ 0	$ 0	$ 17,056
Total assets	$871,691	$5,513	$ 88,497	$ (89,421)	$ 876,280

2013	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$29,783	$41	$ 3,488	$ (3,489)	$ 29,823
Income from fiduciary activities	0	3,553	0	0	3,553
Other income	8,754	527	201	(262)	9,220
Total operating income	38,537	4,121	3,689	(3,751)	42,596
Expenses					
Interest expense	4,681	0	0	(1)	4,680
Provision for loan losses	1,300	0	0	0	1,300
Salaries and employee benefits	16,359	2,317	432	0	19,108
Other expenses	13,061	937	261	(262)	13,997
Total operating expenses	35,401	3,254	693	(263)	39,085
Income before taxes	3,136	867	2,996	(3,488)	3,511
Income tax expense (benefit)	215	300	(167)	0	348

Net income	$2,921	$567	$ 3,163	$ (3,488)	$ 3,163
Capital expenditures	$1,795	$18	$ 0	$ 0	$ 1,813
Total assets	$859,577	$5,505	$ 80,762	$ (81,556)	$ 864,288

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

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

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

NOTE 18. Condensed Financial Statements of Parent Company

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

Balance Sheets	December 31, 2014	2013
	(in thousands)	
Assets		
Cash and cash equivalents	$1,349	$273
Securities available-for-sale	85	0
Investment in common stock of subsidiaries	87,005	80,212
Other assets	58	277
Total assets	$88,497	$80,762
Liabilities and Stockholders' Equity		
Note payable - subsidiary	$0	$1
Common stock	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	53,203	50,376
Accumulated other comprehensive loss	(5,893)	(10,802)
Total liabilities and stockholders' equity	$88,497	$80,762

Statements of Income	Years Ended December 31, 2014	2013
	(in thousands)	
Income:		
Dividends from subsidiaries	$2,475	$1,480
Other income	200	201
Total income	2,675	1,681
Expenses:		
Salaries and benefits	428	432
Legal expenses	107	78
Service fees	143	164
Other operating expenses	(125)	19
Total expenses	553	693
Income before income taxes and equity in undistributed net income of subsidiaries	2,122	988
Income tax benefit	(120)	(167)
	2,242	1,155
Equity in undistributed net income of subsidiaries	1,874	2,008
Net income	$4,116	$3,163

Statements of Cash Flows	Years Ended December 31, 2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	$4,116	$3,163
Adjustments to reconcile net income to net cash provided by operating activities:		

Equity in undistributed net income of subsidiaries	(1,874)	(2,008)
(Increase) decrease in other assets	124	(11)
Increase (decrease) in other liabilities	(1)	1
Net cash provided by operating activities	2,365	1,145
Cash flows from investing activities:	0	0
Cash flows from financing activities: cash dividends paid on common stock	(1,289)	(1,092)
Net increase in cash and cash equivalents	1,076	53
Cash and cash equivalents at beginning of year	273	220
Cash and cash equivalents at end of year	$1,349	$273
Supplemental schedule of noncash transactions:		
Unrealized loss on securities available-for-sale	$(15)	$0
Book value of equity securities transferred from other assets to available-for-sale	$100	S 0

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

None.

Item 9A. Controls and Procedures

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

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

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

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

Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework in 2013. Based on this evaluation, using those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

Changes in Internal Control over Financial Reporting. There was no change in the internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Except as otherwise indicated, information called for by the following items under Part III is contained in the Proxy Statement for the Company's 2015 Annual Meeting of Stockholders (the 2015 Proxy Statement) to be held on May 26, 2015.

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to the directors of the Company is set forth under the caption "Election of Directors" in the 2015 Proxy Statement and is incorporated herein by reference. The information regarding the Section 16(a) reporting requirements of the directors and executive officers is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2015 Proxy Statement and is incorporated herein by reference. The information concerning the executive officers of the Company required by this item is included in Part I of this report on Form 10-K under the caption "Executive Officers of the Registrant." The information regarding the Company's Audit Committee and its Audit Committee Financial Expert is set forth under the caption "Board Committees and Attendance" in the 2015 Proxy Statement and is incorporated herein by reference.

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

A copy of the Code of Ethics will be provided free of charge, upon written request made to the Company's secretary at 1 West Mellen Street, Hampton, Virginia 23663 or by calling (757) 728-1200. The Code of Ethics is also posted on the Company's website at www.oldpoint.com in the "Community" section, under "Investor Relations" and then "Governance Documents." The Company intends to satisfy the disclosure requirements of Form 8-K with respect to waivers of or amendments to the Code of Ethics with respect to certain officers of the Company by posting such disclosures on its website under "Waivers of or amendments to the Code of Ethics." The Company may, however, elect to disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure.

Item 11. Executive Compensation

The information set forth under the captions "Compensation and Benefits Committee Interlocks and Insider Participation" and "Executive Compensation" in the 2015 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in the 2015 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2015 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Interest of Management in Certain Transactions" in the 2015 Proxy Statement is incorporated herein by reference.

The information regarding director independence set forth under the caption "Board Committees and Attendance" in the 2015 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the captions "Principal Accountant Fees" and "Audit Committee Pre-Approval Policy" in the 2015 Proxy Statement is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Consolidated Financial Statements

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

Report of Independent Registered Public Accounting Firm (Yount, Hyde & Barbour, P.C.)
Consolidated Balance Sheets – December 31, 2014 and 2013
Consolidated Statements of Income – Years Ended December 31, 2014 and 2013

Consolidated Statements of Comprehensive Income (Loss) – Years Ended December 31, 2014 and 2013
Consolidated Statements of Changes in Stockholders' Equity – Years Ended December 31, 2014 and 2013
Consolidated Statements of Cash Flows – Years Ended December 31, 2014 and 2013
Notes to Consolidated Financial Statements

(a)(2) Consolidated Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the Consolidated Financial Statements or notes thereto.

(a)(3) Exhibits

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

Exhibit No.	Description
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed on March 12, 2009)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated March 8, 2011 (incorporated by reference to Exhibit 3.2 to Form 8-K filed on March 10, 2011)
10.1*	Old Point Financial Corporation 1998 Stock Option Plan, as amended April 24, 2001 (incorporated by reference to Exhibit 4.4 to Form S-8 filed July 24, 2001)
10.2*	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 10-K filed March 30, 2005)
10.3*	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Form 10-K filed March 30, 2005)
10.4*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with The Northwestern Mutual Life Insurance Company entered into with each of Robert F. Shuford, Sr., Louis G. Morris, Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 30, 2005)
10.5*	Directors' Compensation
10.6*	Base Salaries of Executive Officers of the Registrant
10.7*	Summary of Old Point Financial Corporation Incentive Plan (incorporated by reference to Exhibit 10.7 to Form 8-K filed March 12, 2015)
10.8*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with each of Louis G. Morris, Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 14, 2008)
10.9	Memorandum of Understanding between The Old Point National Bank of Phoebus and Tidewater Mortgage Services, Inc., dated September 10, 2007 (incorporated by reference to Exhibit 10.8 to Form 10-Q filed November 9, 2007)
10.10*	Form of 162 Insurance Plan (incorporated by reference to Exhibit 10.10 to Form 10-K filed March 12, 2009)
10.11*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with Joseph R. Witt (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 12, 2010)
10.12*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with New York Life Insurance and Annuity Corporation entered into with Eugene M. Jordan, II, Robert F. Shuford, Jr, and Joseph R. Witt (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 30, 2012)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Form 10-K filed March 30, 2005)

23	Consent of Yount, Hyde & Barbour, P.C.
24	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Old Point Financial Corporation's annual report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

* Denotes management contract.

SIGNATURES

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

OLD POINT
FINANCIAL
CORPORATION

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

Date: March 30, 2015

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

/s/Robert F. Shuford, Sr. Robert F. Shuford, Sr.	Chairman, President & Chief Executive Officer and Director Principal Executive Officer
Date: March 30, 2015	
/s/Laurie D. Grabow Laurie D. Grabow	Chief Financial Officer & Senior Vice President/Finance Principal Financial & Accounting Officer
Date: March 30, 2015	
/s/Stephen C. Adams* Stephen C. Adams	Director
/s/James Reade Chisman* James Reade Chisman	Director
/s/Russell S. Evans, Jr.* Russell S. Evans, Jr.	Director
/s/Michael A. Glasser* Michael A. Glasser	Director
/s/Dr. Arthur D. Greene* Dr. Arthur D. Greene	Director
/s/John Cabot Ishon* John Cabot Ishon	Director
/s/Tom B. Langley* Tom B. Langley	Director

/s/John B. Morgan, II* John B. Morgan, II	Director
/s/Louis G. Morris* Louis G. Morris	Director
/s/Dr. H. Robert Schappert* Dr. H. Robert Schappert	Director
/s/Robert F. Shuford, Jr.* Robert F. Shuford, Jr.	Director
/s/Ellen Clark Thacker* Ellen Clark Thacker	Director
/s/Joseph R. Witt* Joseph R. Witt	Director

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

Date: March 30, 2015