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Old Point Financial Corporation

(OPOF – NASDAQ GLOBAL MARKET)

John A. (Buddy) Howard, CFA
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Price:	$23.09	**EPS ***	**2017A:**	$(0.01)	**P/E**	**2017A:**	NMF
52 Wk. Range:	$19.00 - $29.90	(FY: DEC)	**2018A:**	$ 0.96		**2018A:**	24.1 x
Div/Div Yld:	$0.44 / 1.9%		**2019E:**	$ 1.18		**2019E:**	19.6 x
Shrs/Mkt Cap:	5.2 mm / $120 mm	**Book Value:***		$ 19.68	**Price/Book Value:**		1.17 x

* EPS are diluted. 2017 EPS includes multiple non-operating items. 2018 EPS includes $0.14 in merger-related costs.

** Tangible book value is $19.28 per share.

SYMBOL: OPOF

ASSETS: $1.0 BB

HQ: HAMPTON, VA

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Background

Old Point Financial Corporation ("the Company" or "Old Point") is a Hampton, Virginia-based bank holding company with two bank subsidiaries, The Old Point National Bank of Phoebus ("Old Point National Bank") and Old Point Trust & Financial Services, N.A. ("Old Point Trust"). As of December 31, 2018, the Company had total assets of approximately $1.0 billion and was serving the Hampton, Newport News, Williamsburg/James City County, Norfolk, Chesapeake, Virginia Beach and Isle of Wight County areas through 18 active branch offices. Through Old Point National Bank, the Company offers a broad range of banking services to retail and commercial customers, including mortgage and insurance. Through Old Point Trust, the Company provides a full range of trust services, including retirement, estate, tax and financial planning and investment management services. The Company's stock trades on the Nasdaq Global Market under the symbol "OPOF."

Fourth Quarter Earnings Were Better Than Expected

4TH QUARTER HIGHLIGHTS:

OPERATING RESULTS WERE QUITE STRONG

Old Point reported solid quarterly results in the fourth quarter of 2018. Earnings came in above our projections, largely due to stronger than anticipated net interest income growth, but also due to good cost containment. The Bank also achieved commendable increases in key balance sheet areas, although loans did decline on a linked quarter basis due to an ongoing (and expected) moderation in auto dealer loan originations and brisk paydown/payoff activity. Asset quality also improved, with nonperforming assets dropping from both the year-ago quarter and the linked third quarter of 2018. So all in all, it was a good quarter.

EPS (LOSS): $0.27 VS. ($0.58)

THE YEAR-AGO QUARTER HAD SEVERAL LARGE NONRECURRING ITEMS

Net income in the fourth quarter of 2018 was $1,388,000, or $0.27 per diluted share, as compared to a loss of $2,889,000, or $0.58 per diluted share, in the fourth quarter of 2017. Included in the year-ago quarter was a $2.2 million (after-tax) nonrecurring charge relating to the termination of the Company's defined benefit plan, $241,000 (after-tax) merger-related expenses associated with the acquisition of Citizens National and a $1.2 million deferred tax charge relating to the new tax law. If we exclude these items and a modest amount of merger expense ($12,000 after-tax) in 2018's fourth quarter, the *net* operating earnings would have been $1,400,000 in 2018's fourth quarter, versus $781,000 in the year-ago quarter.

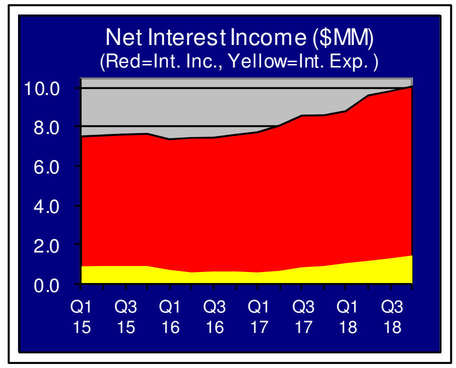
MUCH OF THE OPERATING STRENGTH CAME FROM HIGHER NET INTEREST INCOME

As was stated earlier, the strength in the results was mainly attributable to higher net interest income, although good cost containment also contributed to the earnings progress. Specifically, net interest income was up 12% to $8,602,000 in 2018's fourth quarter, versus $7,665,000 in the year-ago quarter. Over the past year or so, net interest income has been benefitting from accelerating earning assets growth, principally the result of the auto dealer financing program gaining traction and the acquisition of Citizens National Bank. The progress can be seen graphically in the following chart. Looking ahead, we believe the rapid rate of net interest income growth could moderate somewhat, as the auto

NET INTEREST INCOME INCREASED 12%, WHILE NONINTEREST INCOME WAS UP 2%

NONINTEREST EXPENSE EXCLUDING MERGER-RELATED CHARGES AND A CHARGE FROM THE TERMINATION OF A PENSION WAS ONLY UP 4%

loan portfolio is already a pretty good size (roughly 16% of the loan portfolio). However, we would note that there are several initiatives that management is implementing that should help to spur loan originations, one notable example being the pending roll-out of a new loan origination platform. (The Bank also recently executed contracts to migrate to a new online banking platform and upgrade its core processing system.) Getting back to the quarterly results, noninterest income was up modestly (2%), while noninterest expense, excluding merger-related expenses and the defined benefit termination charge, was up 4%. Finally, we would note that earnings did benefit from a decline in the provision for loan losses to $1,012,000 in 2018's fourth quarter from a year-ago level of $1,235,000.



FULL YEAR HIGHLIGHTS:

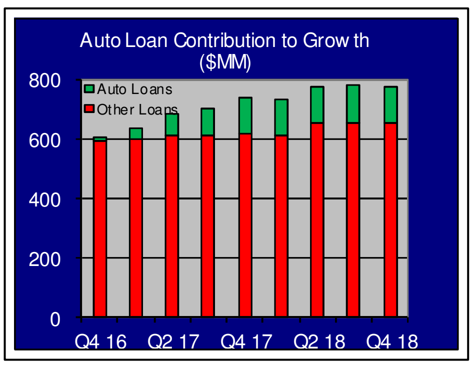
EPS: $0.96 VS. $0.01

BOTH YEARS INCLUDED NONRECURRING ITEMS

NET OPERATING EARNINGS, AS DEFINED IN THE COMPANY'S PRESS RELEASE, WERE UP 73%

THE CAPITAL POSITION REMAINS STRONG

Earnings for the full year likewise included nonrecurring items, but as with the quarterly figures, the annual results reflected strong underlying operating trends. Net income in 2018 was $4,919,000, or $0.96 per diluted share, up from a loss of $29,000, or $0.01 per diluted share, in 2017. Included in the yearly results were most of the same nonrecurring factors that affected the quarterly results. According to the Company's press release, net operating earnings excluding nonrecurring items was $5,662,000 in 2018, up 73% from $3,278,000 in 2017. Balance sheet growth was also commendable, although loan growth has begun to moderate and actually contracted slightly on a linked quarter basis. As can be seen in the adjacent chart, gross loans have been relatively stable over the past few quarters. In terms of balance sheet growth rates over the past twelve months, gross loans grew 5%, assets were up 6% and deposits increased 8%. Capital wise, the Company remains in great shape, with an equity-to-assets ratio of 9.8% and a tangible equity-to-tangible assets ratio of 9.6%.



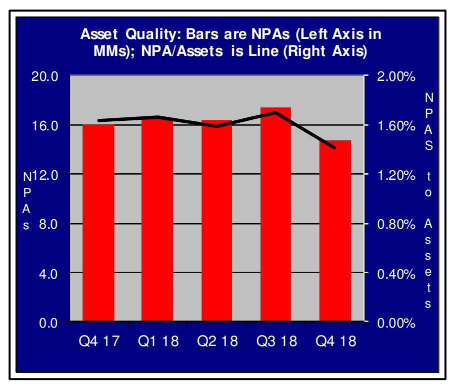
ASSET QUALITY IMPROVED IN THE QUARTER

NPAS/ASSETS: 1.42%

RESERVES/GROSS LOANS: 1.31%

Asset Quality Improved

Nonperforming assets (which exclude performing restructured loans) at December 31, 2018 totaled $14.7 million, or 1.42% of assets, versus $17.5 million, or 1.70% of assets, at September 30, 2018 and $16.1 million, or 1.64% of total assets, at December 31, 2017. Approximately $1.7 million of loans more than 90 days past due were government guaranteed student and small business loans. The allowance for loan losses totaled $10.1 million, or 1.31% of total loans, at December 31, 2018, up from $9.4 million, or 1.28% of total loans, at the year-ago date.



EPS:*
2017A: $(0.01)
2018A: $0.96 (INCLUDES $0.14 IN NONRECURRING MERGER CHARGES)
2019E: $1.18

*** 2017 EPS INCLUDES MULTIPLE NON-OPERATING ITEMS**

Projections Maintained

Although fourth quarter operating earnings were better than expected, we are maintaining our 2019 earnings estimate at $6.2 million, or $1.18 per diluted share. These projections are subject to wide variation and could increase or decrease significantly based on changing conditions.

ADDITIONAL INFORMATION UPON REQUEST