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Old Point Financial Corporation (OPOF – NASDAQ CAPITAL MARKET)

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May 2, 2017

Price:	\$30.40	EPS *	2015A:	\$ 0.73	P/E	2015A:	41.6 x
52 Wk. Range:	\$18.30 - \$30.95	(FY: DEC)	2016A:	\$ 0.77		2016A:	39.5 x
Div/Div Yld:	\$0.44 / 1.4%		2017E:	\$ 0.94		2017E:	32.3 x
Shrs/Mkt Cap:	5.0 mm / \$151 mm	Book Value:		\$ 19.17	Price/Book Value:		1.59 x

* EPS are diluted.

Background

Old Point Financial Corporation ("the Company") 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 March 31, 2017, the Company had total assets of approximately \$923 million and was serving the Hampton, Newport News, Williamsburg/James City County, Norfolk, Chesapeake, Virginia Beach and Isle of Wight County areas through 17 active branch offices. Through Old Point National Bank, the Company offers a broad range of banking services to retail and commercial customers. 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 SmallCap market under the symbol "OPOF."

First Quarter Operating Results Were Slightly Better Than Expected

Although Old Point Financial Corporation reported first quarter earnings that were slightly below the year-ago figures, that shortfall was entirely due to a higher than normal provision for loan losses, the majority of which related to the Company's successful effort in stimulating loan growth. The comparisons were also affected by significant year-ago gains on the sale of securities, although those were largely offset by a prepayment penalty on a Federal Home Loan advance. Bottom line, if we adjust for the items that were unusual or nonrecurring, we note that operating earnings were actually much better than the year-ago figures and were slightly better than we had modeled. Moreover, as was implied above, the Company achieved excellent loan growth in the quarter, much of which has been due to the dealer lending division (which was reopened last September) gaining traction. The improving fundamentals has helped to support a higher valuation for the Company, as OPOF shares continue to advance well beyond comparable bank indices, both on a long- and short-term basis.

In terms of reported results, net income for the first quarter of 2017 was \$942,000, or \$0.19 per diluted share, versus \$1,021,000, or \$0.21 per diluted share, in the year-ago quarter. Excluding the nonrecurring and volatile items, pretax income was \$1,594,000 in 2017's first quarter, up from \$1,201,000 in the year-ago quarter. One area we were particularly pleased by in the quarter was the strength in net interest income, which grew 7% to \$7,137,000 in the first quarter of 2017, versus \$6,646,000 in the year-ago quarter. Margins have been improving, reflecting management's redeployment of lower yielding securities into higher yielding assets such as loans, as well as shifting its deposit mix more to transaction accounts. Specifically, the net interest margin was 3.69% in 2017's first quarter, versus 3.61% in 2016's fourth quarter and 3.62% in the first quarter of 2016, while average earning assets were up 5% over the past

SYMBOL: OPOF

ASSETS: \$923 MM

HQ: HAMPTON, VA

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1ST QUARTER HIGHLIGHTS:

EPS: \$0.19 vs. \$0.21

ALTHOUGH EARNINGS DECLINED SLIGHTLY FROM THE YEAR-AGO LEVEL, THAT WAS DUE TO THE HIGHER PROVISION AND NON-OPERATING ITEMS

THE AUTO FINANCING PROGRAM CONTINUES TO ADD TO LOAN VOLUME

NET INTEREST INCOME WAS UP 7% AND BENEFITTED FROM BOTH A MARGIN EXPANSION AND SOLID EARNING ASSET GROWTH

First Quarter Results (\$000s)	2016	2017
Pretax Income	1,070	944
Add Back:		
Provision	150	650
Security Losses (Gains) & Impair.	(509)	-
Prepayment Penalty	391	-
OREO Losses (Gains)	99	-
Pretax Inc. Bef. Unusual Items	1,201	1,594

BOTH NONINTEREST INCOME AND NONINTEREST EXPENSE, EXCLUDING NONRECURRING ITEMS, WERE ESSENTIALLY UNCHANGED FROM THE YEAR AGO LEVEL

FROM MARCH 31, 2016 TO MARCH 31, 2017:

LOANS GREW 11%

ASSETS INCREASED 8%

DEPOSITS WERE UP 9%

THE BALANCE SHEET CONTINUES TO HAVE A SOMEWHAT CONSERVATIVE ASSET MIX

QUARTERLY CASH DIVIDEND WAS INCREASED TO \$0.11 PER SHARE

THE CASH DIVIDEND HAS DOUBLED IN THE PAST FIVE YEARS

OVER TIME, THE DIVIDEND HAS CONTRIBUTED A LARGE PORTION OF THE STOCK'S TOTAL RETURN

NPAs/ASSETS: 1.63%

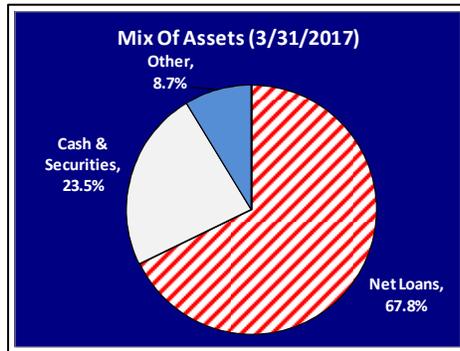
RESERVES/GROSS LOANS: 1.36%

**EPS:
2015A: \$0.73
2016A: \$0.77
2017E: \$0.94**

year. Essentially offsetting this improvement was the provision for loan losses, which grew to \$650,000 in the first quarter of 2017, versus \$150,000 in the year-ago quarter. Noninterest income (excluding \$509,000 in gains on the sale of securities in the year-ago quarter) was essentially flat at \$3,163,000. Noninterest expense (excluding the \$391,000 prepayment penalty on the FHLB advance) was likewise essentially unchanged at \$8,706,000 in 2017's first quarter. A couple of final notes regarding the quarter was the purchase of the Bank's remaining interest in Old Point Mortgage (the remaining 51% was acquired at book value), which better positions the Company to manage its mortgage banking business. Secondly, the Bank recently established Old Point Insurance, LLC, which will offer a complete line of commercial and personal insurance products.

Balance Sheet Growth Has Accelerated; Mix Allows For More Reallocation from Investments

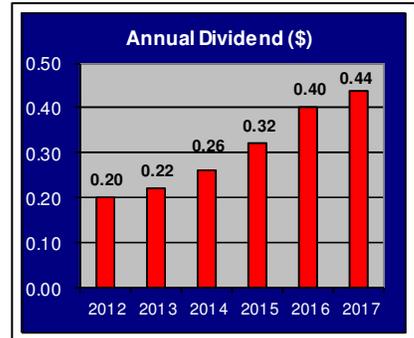
Balance sheet growth accelerated in the most recent quarter, much of that prompted by loan originations. For example, while loans were up 11% in the past year, about half of that occurred in the last three months, thanks in part to the previously mentioned auto dealer lender program. Total assets were up 8% over the past year, while deposits increased 9%. Despite the fact that Old Point has been shifting some of its cash and investments into loans, it continues to have a fairly conservative asset mix. Whereas Old Point has about 68% of its assets in loans (versus about 60% three years ago), that percentage is still below the 73% median rate for all Virginia banks. This opportunity to reallocate



lower yielding funds into higher ones has favorable implications for margins.

Dividend Increased

Another significant event of the first quarter was the Board of Directors' decision to increase the quarterly cash dividend to \$0.11 per share from \$0.10 per share previously. This represents the fifth consecutive annual increase in the dividend. Although the current dividend represents what may seem like a small incremental return of one or two percent, the cumulative effect of it builds over time and can be quite substantial. For example, over the past one year, the appreciation of OPOF shares was 62%, while the total return was 65%. However, over the past five years, the appreciation was 186%, while the total return was 214%. If we extend the terms to ten years, the cash dividend component accounts for roughly 45% of the total return.



Asset Quality and Reserve Coverage

At March 31, 2017, NPAs (which exclude performing restructured loans) were \$15.1 million, or 1.63% of assets, versus \$11.1 million, or 1.23% of assets, at year-end 2016 and \$11.8 million, or 1.38% of total assets, at March 31, 2016. Approximately \$2.7 million of loans more than 90 days past due were student loans that are at least 97% government guaranteed. The allowance for loan losses was \$8.5 million, or 1.34% of total loans, at March 31, 2017, up from \$7.8 million, or 1.36% of total loans, at the year-ago date.

Projections

We are maintaining our 2017 earnings projection at \$4.7 million, or \$0.94 per share. These projections are subject to wide variation and could increase or decrease significantly based on changing conditions.

ADDITIONAL INFORMATION UPON REQUEST

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