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Old Point Financial Corporation (OPOF – NASDAQ GLOBAL MARKET)

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Price:	\$29.67	EPS *	2016A:	\$ 0.77	P/E	2016A:	38.5 x
52 Wk. Range:	\$20.26 - \$34.82	(FY: DEC)	2017E:	\$ 0.80		2017E:	37.1 x
Div/Div Yld:	\$0.44 / 1.5%		2018E:	\$ 0.92		2018E:	32.3 x
Shrs/Mkt Cap:	5.0 mm / \$149 mm	Book Value:		\$ 19.49	Price/Book Value:		1.52 x

* EPS are diluted.

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 September 30, 2017, the Company had total assets of approximately \$954 million 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.”

Operating (Pre-Provision) Earnings Improved; Transaction With Citizens National Announced

The third quarter of 2017 was a significant one for Old Point. From a financial perspective, the operating results were good and right in line with projections. Although reported earnings were lower than the year-ago figures, all of that was due to an increase in the provision for loan losses, reflecting the Bank's rapid loan growth. In fact, the fundamentals were clearly positive, with net interest income driving much of the increase in the pre-provision core earnings. While the solid operating results were noteworthy, even more significant was the announcement by the Company that it was purchasing Citizens National Bank, a Windsor, VA based institution with \$48 million in assets. The transaction, which is expected to close in the first quarter of 2018, will greatly strengthen Old Point's existing presence (moving the Bank up to the second largest market share) in the attractive Isle of Wight County market.

Getting back to the financials, net income for the third quarter of 2017 was \$757,000, or \$0.15 per diluted share, versus \$1,329,000, or \$0.27 per diluted share, in the year-ago quarter. Included in 2017's third quarter was a provision for loan losses of \$1,275,000, versus a \$100,000 *credit* for loan losses in the year-ago quarter, meaning that there was a roughly \$1.4 million swing in pretax earnings due to the change in provision. Excluding the provision, as well as a modest amount of security gains and OREO losses, pretax, pre-provision income actually increased 33% to \$1,974,000 in 2017's third quarter, versus \$1,479,000 in the year-ago quarter. We would also note that the third quarter of 2017 core earnings level (the \$1,974,000) is also higher than the comparable figures in 2017's first quarter (\$1,594,000) and second quarter (\$1,704,000). As has been the

Third Quarter Results (\$000s)	2016	2017
Pretax Income	1,541	701
Add Back:		
Provision	(100)	1,275
Security Losses (Gains)	(7)	(2)
OREO Losses (Gains)	45	-
Pretax Inc. Bef. Unusual Items	1,479	1,974

case for the past several quarters, net interest income was quite strong, increasing 14% to \$7,731,000 in the third quarter of 2017 from \$6,803,000 in the year-ago quarter. Margins increased modestly, with

SYMBOL: OPOF

ASSETS: \$954 MM

HQ: HAMPTON, VA

INVESTOR RELATIONS

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3RD QUARTER HIGHLIGHTS:

THE QUARTER WAS SIGNIFICANT IN THAT OPERATING RESULTS WERE GOOD BUT ALSO IN THAT AN ACQUISITION WAS ANNOUNCED

ALTHOUGH EARNINGS DECLINED, ALL OF THAT WAS DUE TO A HIGHER PROVISION

EPS: \$0.15 vs. \$0.27

PRETAX INCOME BEFORE THE PROVISION AND NONCORE ITEMS INCREASED 33%

NET INTEREST INCOME INCREASED 14% AND CONTINUED TO DRIVE THE OPERATING EARNINGS

strong average earning assets growth being the primary driver of the improvement. Noninterest income was relatively stable at \$3,361,000 in 2017's third quarter, versus \$3,327,000 in the year-ago quarter, while noninterest expense increased to \$9,116,000 from \$8,689,000 over the same respective periods.

NINE MONTHS HIGHLIGHTS:

EPS: \$0.57 vs. \$0.59

THE PROVISION MORE THAN DOUBLED

LOAN GROWTH HAS BEEN EXCELLENT OVER THE PAST YEAR, LARGELY DUE TO THE AUTO DEALER FINANCING PROGRAM

AUTO LOANS TOTAL \$94 MILLION AT SEPTEMBER 30, 2017, UP FROM \$67 MILLION THREE MONTHS AGO

OLD POINT'S CAPITAL POSITION REMAINS STRONG

OLD POINT ANNOUNCES ACQUISITION OF CITIZENS NATIONAL, A \$48 MILLION WINDSOR, VA BASED BANK

THE TRANSACTION IS EXPECTED TO BE IMMEDIATELY ACCRETIVE TO BOOK VALUE AND EPS

NPAs/ASSETS: 1.49%

RESERVES/GROSS LOANS: 1.28%

EPS:
2016A: \$0.77
2017E: \$0.80
2018E: \$0.92

For the first nine months of 2017, net income was \$2,860,000, or \$0.57 per diluted share, versus \$2,902,000, or \$0.59 per diluted share, in the year-ago period. Net interest income grew 10%, noninterest income (excluding nonrecurring items) was up 2% and noninterest expense increased 3%. The provision more than doubled to \$2,925,000 in the first nine months of 2017, versus \$1,300,000 in the year-ago period.

Loans Have Increased 18% in the Past Year

From a balance sheet standpoint, growth continues to be quite good as well. The Bank's auto dealer financing program remains highly successful, and by September 30, 2017, total auto loans had grown to \$94 million, up from \$68 million at June 30, 2017 and essentially zero at the year-ago date. At the current level, auto loans account for roughly 13% of the total loan portfolio. Largely as a result of the success of this program, gross loans increased an impressive 18% over the past year, while deposits grew 2% and total assets were up 5%. As is evident from the fact that loans are growing faster than assets, there has been a strategic shift in the asset mix towards loans, which are obviously higher yielding assets. Finally, we would note that Old Point remains in excellent financial shape from a capital standpoint. Total equity was \$97.6 million at September 30, 2017, or 10.2% of assets.



Citizens National Bank Acquisition Announced

As was mentioned earlier in this report, Old Point recently announced its intention to acquire Citizens National Bank, a one-branch bank with \$48 million in assets (as of June 30, 2017) that is based in Windsor, VA. Windsor is located southwest of Hampton, VA and is in Isle of Wight County, which is a dynamic market with excellent demographics. Under the terms of the transaction, Citizens National shareholders will receive 0.1041 of a share of Old Point common stock and \$2.19 in cash for each outstanding share of Citizens National common stock. Citizens National also had \$41 million in loans and \$40 million in deposits as of June 30, 2017. Old Point essentially paid book value for the Bank, and the transaction is expected to be immediately accretive to Old Point's EPS and tangible book value. Moreover, it greatly augments Old Point's existing presence in Isle of Wight County. The transaction is expected to close in 2018's first quarter.

NPAs Are Up From the Year-Ago Level But Down from June 30, 2017

At September 30, 2017, NPAs (which exclude performing restructured loans) were \$14.2 million, or 1.49% of assets, versus \$14.9 million, or 1.57% of assets, at June 30, 2017, and \$12.3 million, or 1.36% of total assets, at September 30, 2016. Approximately \$2.8 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 \$9.0 million, or 1.28% of total loans, at September 30, 2017, up from \$7.8 million, or 1.31% of total loans, at the year-ago date.

Projections

Based on the most recent results, we are lowering our 2017 operating earnings projection to \$4.0 million, or \$0.80 per share, but expect 2018 earnings to increase to \$4.6 million, or \$0.92 per diluted share. These projections are subject to wide variation and could increase or decrease significantly based on changing conditions.

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