

Section 1: 10-K (FORM 10-K)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007

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 000-23423

C&F FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1680165
(I.R.S. Employer
Identification No.)

802 Main Street
West Point, VA 23181
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(804) 843-2360**

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

Common Stock, \$1.00 par value per share
Title of each class

The NASDAQ Stock Market LLC
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 not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. (Check one):

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant as of June 29, 2007 was \$120,177,128.

There were 3,022,091 shares of common stock outstanding as of February 25, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement dated March 15, 2008 to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held April 15, 2008 are incorporated by reference in Part III of this report.

Table of Contents

TABLE OF CONTENTS

PART I

ITEM 1.	<u>BUSINESS</u>	page 1
ITEM 1A.	<u>RISK FACTORS</u>	page 11
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	page 14
ITEM 2.	<u>PROPERTIES</u>	page 14
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	page 15
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	page 15

PART II

ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	page 16
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	page 17
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION</u>	page 18
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	page 49
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	page 52
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	page 86
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	page 86
ITEM 9B.	<u>OTHER INFORMATION</u>	page 87

PART III

ITEM 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	page 87
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	page 88
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	page 88
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	page 88
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	page 88

PART IV

ITEM 15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	page 89
----------	--	---------

[Table of Contents](#)

PART I

ITEM 1. BUSINESS

General

C&F Financial Corporation (the Corporation) is a bank holding company that was incorporated in March 1994 under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its sole operating subsidiary, C&F Bank (Citizens and Farmers Bank, or the Bank), which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. The Bank originally opened for business under the name Farmers and Mechanics Bank on January 22, 1927. The Bank has the following five wholly-owned subsidiaries, all incorporated under the laws of the Commonwealth of Virginia:

- C&F Mortgage Corporation and its wholly-owned subsidiaries Hometown Settlement Services LLC, Certified Appraisals LLC, Foundation Home Mortgage and C&F Reinsurance LTD
- C&F Finance Company
- C&F Investment Services, Inc.
- C&F Insurance Services, Inc.
- C&F Title Agency, Inc.

The Corporation operates in a decentralized manner in three principal business activities: (1) retail banking through C&F Bank, (2) mortgage banking through C&F Mortgage Corporation (C&F Mortgage) and (3) consumer finance through C&F Finance Company (C&F Finance). The following general business discussion focuses on the activities within each of these segments.

In addition, the Corporation conducts brokerage activities through C&F Investment Services, Inc., insurance activities through C&F Insurance Services, Inc. and title insurance services through C&F Title Agency, Inc. The financial position and operating results of any one of these subsidiaries are not significant to the Corporation as a whole and are not considered principal activities of the Corporation at this time.

The Corporation also owns two non-operating subsidiaries, C&F Financial Statutory Trust II formed in December 2007 and C&F Financial Statutory Trust I formed in July 2005. These trusts were formed for the purpose of issuing \$10.0 million each of trust preferred capital securities in private placements to institutional investors. These trusts are unconsolidated subsidiaries of the Corporation and their principal assets are \$10.3 million each of the Corporation's junior subordinated debt securities (referred to herein as "trust preferred capital notes,") that are reported as liabilities of the Corporation.

Retail Banking

We provide retail banking services at the Bank's main office in West Point, Virginia, and 17 Virginia branches located one each in Chester, Hampton, Mechanicsville, Midlothian, Newport News, Norge, Providence Forge, Quinton, Saluda, Sandston, Varina, West Point, Yorktown, and two each in Williamsburg and Richmond. These branches provide a wide range of banking services to individuals and businesses. These services include various types of checking and savings deposit accounts, as well as business, real estate, development, mortgage, home equity and installment loans. The Bank also offers ATMs, internet banking, credit card and trust services, as well as travelers' checks, safe deposit box rentals, collection, notary public, wire service and other customary bank services to its customers. Revenues from retail banking operations consist primarily of interest earned on loans and investment securities and fees related to deposit services. At December 31, 2007, assets of the Retail Banking segment totaled \$634.7 million. For the year ended December 31, 2007, income before income taxes for this segment totaled \$4.3 million.

[Table of Contents](#)

Mortgage Banking

We conduct mortgage banking activities through C&F Mortgage, which was organized in September 1995. C&F Mortgage provides mortgage loan origination services through 14 locations in Virginia, three in Maryland, two in North Carolina and one each in Newport, Delaware and Moorestown, New Jersey. The Virginia offices are located one each in Charlottesville, Chester, Fairfax, Fishersville, Fredericksburg, Hanover, Harrisonburg, Lexington, Lynchburg, Midlothian, Newport News, Richmond, Roanoke and Virginia Beach. The Maryland offices are located in Annapolis, Ellicott City and Waldorf. The North Carolina offices are located in Charlotte and Gastonia. C&F Mortgage offers a wide variety of residential mortgage loans, which are originated for sale to numerous investors. C&F Mortgage does not securitize loans. Purchasers of loans include, but are not limited to, Countrywide Bank, FSB; Franklin American Mortgage Company; the Virginia Housing Development Authority; JPMorgan Chase Bank, N.A.; and Wells Fargo Home Mortgage. The Bank also purchases lot and permanent loans and home equity lines of credit from C&F Mortgage. C&F Mortgage originates conventional mortgage loans, mortgage loans insured by the Federal Housing Administration (the FHA), mortgage loans partially guaranteed by the Veterans Administration (the VA) and home equity loans. A majority of the conventional loans are conforming loans that qualify for purchase by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). The remainder of the conventional loans are non-conforming loans that do not meet Fannie Mae or Freddie Mac guidelines, but are eligible for sale to various other investors. Through its subsidiaries, C&F Mortgage also provides ancillary mortgage loan origination services for loan settlement and residential appraisals. Revenues from mortgage banking operations consist principally of gains on sales of loans in the secondary mortgage market, loan origination fee income and interest earned on mortgage loans held for sale. At December 31, 2007, assets of the Mortgage Banking segment totaled \$44.8 million. For the year ended December 31, 2007, income before income taxes for this segment totaled \$2.8 million.

Consumer Finance

We conduct consumer finance activities through C&F Finance, which the Bank acquired on September 1, 2002. C&F Finance is a regional finance company providing automobile loans throughout Virginia and in portions of Kentucky, Maryland, North Carolina, Ohio, Tennessee and West Virginia through its offices in Richmond, Roanoke and Hampton, Virginia, in Nashville, Tennessee and in Towson, Maryland. C&F Finance is an indirect lender that provides automobile financing through lending programs that are designed to serve customers in the “non-prime” market who have limited access to traditional automobile financing. C&F Finance generally purchases installment contracts from manufacturer-franchised dealerships with used-car operations and through selected independent dealerships. C&F Finance selects these dealers based on the types of vehicles sold. Specifically, C&F Finance prefers to finance new vehicles and later model, low mileage used vehicles. C&F Finance’s typical borrowers have experienced prior credit difficulties. Because C&F Finance serves customers who are unable to meet the credit standards imposed by most traditional automobile financing sources, C&F Finance typically charges interest at higher rates than those charged by traditional financing sources. As C&F Finance provides financing in a relatively high-risk market, it expects to experience a higher level of credit losses than traditional automobile financing sources. Revenues from consumer finance operations consist principally of interest earned on automobile loans. At December 31, 2007, assets of the Consumer Finance segment totaled \$167.4 million. For the year ended December 31, 2007, income before income taxes for this segment totaled \$4.4 million.

Employees

At December 31, 2007, we employed 512 full-time equivalent employees. We consider relations with our employees to be excellent.

[Table of Contents](#)

Competition

Retail Banking

In the Bank's market area, we compete with large national and regional financial institutions, savings associations and other independent community banks, as well as credit unions, mutual funds, brokerage firms and insurance companies. Increased competition has come from out-of-state banks through their acquisition of Virginia-based banks and expansion of community and regional banks into our service areas.

The banking business in Virginia, and in the Bank's primary service area in the Hampton to Richmond corridor, is highly competitive for both loans and deposits, and is 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 are their ability to finance wide-ranging advertising campaigns and, by virtue of their greater total capitalization, to have substantially higher lending limits than the Bank.

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. We compete by emphasizing customer service and technology, establishing long-term customer relationships, building customer loyalty, and providing products and services to address the specific needs of our customers. We target individual and small-to-medium size business customers.

No material part of the Bank's business is dependent upon a single or a few customers, and the loss of any single customer would not have a materially adverse effect upon the Bank's business.

Mortgage Banking

Several factors caused rapid consolidation in the mortgage lending industry over the last decade. First, the continuing evolution of the secondary mortgage market led to more commodity-like mortgages. Second, increased regulation imposed on the industry resulted in significant costs and the need for higher levels of specialization. Third, interest rate volatility resulted in an increase in mortgagors' propensity to refinance their mortgages. These factors, together with fluctuations in new home construction and sales, have caused relatively large swings in the volume of loans originated from year to year and dramatically increased complexity in the business. During 2007, there was significant contraction in both the volume of loans originated and the number of institutions and brokers providing mortgage loans for new and resale home sales and refinancings. This contraction accompanied a downturn in the housing markets related to declines in real estate values, coupled with increased payment defaults by borrowers and increased loan foreclosures. To operate profitably in this environment, lenders must have a high level of operational and risk management skills, as well as technological expertise. Our mortgage subsidiary competes by offering a wide selection of products; providing consistently high quality customer service; and pricing its products at competitive rates.

No material part of C&F Mortgage's business is dependent upon a single or a few customers or investors, and the loss of any single customer or investor would not have a materially adverse effect upon C&F Mortgage's business.

[Table of Contents](#)

Consumer Finance

The non-prime automobile finance business is highly competitive. The automobile finance market is highly fragmented and is served by a variety of financial entities, including the captive finance affiliates of major automotive manufacturers, banks, savings associations, credit unions and independent finance companies. Many of these competitors have substantially greater financial resources and lower costs of funds than our finance subsidiary. In addition, competitors often provide financing on terms that are more favorable to automobile purchasers or dealers than the terms C&F Finance offers. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships or their customers other forms of financing, including dealer floor plan financing and leasing, which we do not.

Providers of automobile financing traditionally have competed on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. To establish C&F Finance as one of the principal financing sources at the dealers it serves, we compete predominately through a high level of dealer service, strong dealer relationships and by offering flexible loan terms.

No material part of C&F Finance's business is dependent upon any single dealer relationship, and the loss of any single dealer relationship would not have a materially adverse effect upon C&F Finance's business.

Regulation and Supervision

General

Bank holding companies and banks are extensively regulated under both federal and state law. The following summary briefly describes the more significant provisions of applicable federal and state laws and certain regulations and the potential impact of such provisions on the Corporation and the Bank. This summary is not complete, and we refer you to the particular statutory or regulatory provisions or proposals for more information. Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal regulation of financial institutions may change in the future and impact the Corporation's and the Bank's operations.

Regulation of the Corporation

The Corporation must file annual, quarterly and other periodic reports with the Securities and Exchange Commission (the SEC). The Corporation is directly affected by the corporate responsibility and accounting reform legislation signed into law on July 30, 2002, known as the Sarbanes-Oxley Act of 2002 (the SOX Act), and the related rules and regulations. The SOX Act includes provisions that, among other things: (1) require that periodic reports containing financial statements that are filed with the SEC be accompanied by chief executive officer and chief financial officer certifications as to their accuracy and compliance with law; (2) prohibit public companies, with certain limited exceptions, from making personal loans to their directors or executive officers; (3) require chief executive officers and chief financial officers to forfeit bonuses and profits if company financial statements are restated due to misconduct; (4) require audit committees to pre-approve all audit and non-audit services provided by an issuer's outside auditors, except for de minimis non-audit services; (5) protect employees of public companies who assist in investigations relating to violations of the federal securities laws from job discrimination; (6) require companies to disclose in plain English on a "rapid and current basis" material changes in their financial condition or operations, as well as certain other specified information; (7) require a public company's Section 16 insiders to make Form 4 filings with the SEC within two business days following the day on which purchases or sales of the

[Table of Contents](#)

company's equity securities were made; and (8) increased penalties for existing crimes and created new criminal offenses. While the Corporation has incurred additional expenses and we expect to continue to incur additional expenses in complying with the requirements of the SOX Act and related regulations adopted by the SEC and the Public Company Accounting Oversight Board, we anticipate that those expenses will not have a material effect on the Corporation's results of operations or financial condition.

The Corporation is also subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Federal Reserve Board has jurisdiction to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. The Bank Holding Company Act of 1956 (the BHCA) generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is closely related to banking or to managing or controlling banks.

Since September 1995, the BHCA has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks also are able to branch across state lines, provided certain conditions are met, including that applicable state laws expressly permit such interstate branching. Virginia permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

Federal law and regulatory policy impose a number of obligations and restrictions on bank holding companies and their depository institution subsidiaries to reduce potential loss exposure to the depositors and to the Federal Deposit Insurance Corporation (the FDIC) insurance funds. For example, a bank holding company must commit resources to support its subsidiary depository institutions. In addition, insured depository institutions under common control must reimburse the FDIC for any loss suffered or reasonably anticipated by the Deposit Insurance Fund (DIF) as a result of the default of a commonly controlled insured depository institution. The FDIC may decline to enforce the provisions if it determines that a waiver is in the best interest of the DIF. An FDIC claim for damage is superior to claims of stockholders of an insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt, other than affiliates, of the commonly controlled insured depository institution.

The Federal Deposit Insurance Act (the FDIA) provides that amounts received from the liquidation or other resolution of any insured depository institution must be distributed, after payment of secured claims, to pay the deposit liabilities of the institution before payment of any other general creditor or stockholder. This provision would give depositors a preference over general and subordinated creditors and stockholders if a receiver is appointed to distribute the assets of the Bank.

The Corporation also is subject to regulation and supervision by the State Corporation Commission of Virginia.

[Table of Contents](#)

Capital Requirements

The Federal Reserve Board and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to banking organizations they supervise. Under the risk-based capital requirements of these federal bank regulatory agencies, the Corporation and the Bank are required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of at least 4.0 percent. At least half of the total capital must be Tier 1 capital, which includes common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles and other adjustments. The remainder may consist of Tier 2 capital, such as a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments), other qualifying preferred stock and a limited amount of the general loan loss allowance. For the Corporation only, Tier 1 and total capital include trust preferred securities. At December 31, 2007, the total capital to risk-weighted asset ratio of the Corporation was 12.8 percent and the ratio of the Bank was 12.1 percent. At December 31, 2007, the Tier 1 capital to risk-weighted asset ratio was 11.2 percent for the Corporation and 10.8 percent for the Bank.

In addition, each of the federal regulatory agencies has established leverage capital ratio guidelines for banking organizations. These guidelines provide for a minimum Tier 1 leverage ratio of 4.0 percent for banks and bank holding companies. At December 31, 2007, the Tier 1 leverage ratio was 9.4 percent for the Corporation and 9.0 percent for the Bank. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions must maintain capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Limits on Dividends

The Corporation is a legal entity, separate and distinct from the Bank. A significant portion of the revenues of the Corporation result from dividends paid to it by the Bank. Both the Corporation and the Bank are subject to laws and regulations that limit the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and only (2) if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. In addition, the FDIA prohibits insured depository institutions such as the Bank from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute.

We do not expect that any of these laws, regulations or policies will materially affect the ability of the Corporation or the Bank to pay dividends. During the year ended December 31, 2007, the Bank declared \$19.4 million in dividends payable to the Corporation, which were used to fund the Corporation's share purchases, debt service and \$3.8 million in dividends payable to shareholders. The decline in the Bank's capital attributable to dividends paid to the Corporation was offset in part by the Corporation's additional investment in the Bank of the \$10.0 million proceeds from the issuance of trust preferred securities in December 2007.

[Table of Contents](#)

Regulation of the Bank and Other Subsidiaries

The Bank is subject to supervision, regulation and examination by the Virginia State Corporation Commission Bureau of Financial Institutions (VBFI) and the FDIC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, the incurrence of debt and the acquisition of financial institutions and other companies, and affect business practices, such as the payment of interest on deposits, the charging of interest on loans, the types of business conducted and the location of offices.

FDIA and Associated Regulations. Section 36 of the FDIA and associated regulations require management of every insured depository institution with total assets between \$500 million and \$1 billion at the beginning of a fiscal year to obtain an annual audit of its financial statements by an independent public accountant, report to the banking agencies on the institution's compliance with designated laws and regulations and establish an audit committee comprised of outside directors, at least a majority of whom must be independent of management. The Bank is subject to the annual audit, reporting and audit committee requirements of Section 36 of the FDIA.

Community Reinvestment Act. The Community Reinvestment Act (CRA) 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 assessed based on specified factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility. Following the Bank's most recent scheduled compliance examination in July 2006, it received a CRA performance evaluation of "satisfactory."

Insurance of Accounts, Assessments and Regulation by the FDIC. The Bank's deposits are insured up to applicable limits by the DIF of the FDIC. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 (FDIRA). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I, which contains the least risky depository institutions, contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points.

FDIRA also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit was \$297,000, of which \$210,000 has been applied to offset assessments in 2007. FDIRA also provided for the possibility that the FDIC may pay dividends to insured institutions if the DIF reserve ratio equals or exceeds 1.35 percent of estimated insured deposits.

Federal Home Loan Bank of Atlanta. The Bank is a member of the Federal Home Loan Bank (FHLB) of Atlanta, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each FHLB serves as a reserve, or central bank, for

[Table of Contents](#)

the members within its assigned region. Each is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. In 2004, the FHLB converted to its new capital structure, which established the minimum capital stock requirement for member banks as an amount equal to the sum of a membership requirement and an activity-based requirement. At December 31, 2007, the Bank owned \$4.4 million of FHLB stock.

USA Patriot Act. The USA Patriot Act, which became effective on October 26, 2001, amends the Bank Secrecy Act and is intended to facilitate information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA Patriot Act permits financial institutions, upon providing notice to the United States Department of the Treasury (Treasury Department), to share information with one another in order to better identify and report to the federal government activities that may involve money laundering or terrorists' activities. The USA Patriot Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Certain provisions of the USA Patriot Act impose the obligation to establish anti-money laundering programs, including the development of a customer identification program, and the screening of all customers against any government lists of known or suspected terrorists. Although it does create a reporting obligation and there is a cost of compliance, the USA Patriot Act does not materially affect the Bank's products, services or other business activities.

Reporting Terrorist Activities. The Federal Bureau of Investigation (FBI) has sent, and will send, banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank has been requested, and will be requested, to search its 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 Treasury Department and contact the FBI.

The Office of Foreign Assets Control (OFAC), which is a division of the Treasury Department, is responsible for helping to insure 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. OFAC sends banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report with the Treasury Department and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software that is updated each time a modification is made to the lists of Specially Designated Nationals and Blocked Persons provided by OFAC and other agencies.

Table of Contents

Mortgage Banking Regulation. In addition to certain of the Bank's regulations, the Corporation's Mortgage Banking segment is subject to the rules and regulations of, and examination by the Department of Housing and Urban Development (HUD), the FHA, the VA and state regulatory authorities with respect to originating, processing and selling mortgage loans. Those rules and regulations, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers and, in some cases, restrict certain loan features and fix maximum interest rates and fees. In addition to other federal laws, 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. These laws prohibit discrimination, 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.

Consumer Financing Regulation. The Corporation's Consumer Finance segment also is regulated by the VBFI. The VBFI regulates and enforces laws relating to consumer lenders and sales finance agencies such as C&F Finance. Such rules and regulations generally provide for licensing of sales finance agencies; limitations on amounts, duration and charges, including interest rates, for various categories of loans; requirements as to the form and content of finance contracts and other documentation; and restrictions on collection practices and creditors' rights.

Consumer Protection. The Fair and Accurate Credit Transactions Act of 2003, which amended the Fair Credit Reporting Act, requires financial institutions to implement policies and procedures that track identity theft incidents; provide identity-theft victims with evidence of fraudulent transactions upon request; block from reporting to consumer reporting agencies credit information resulting from identity theft; notify customers of adverse information concerning the customer in consumer reporting agency reports; and notify customers when reporting negative information concerning the customer to a consumer reporting agency.

Other Safety and Soundness Regulations

Prompt Correction Action. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon 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 regulating these institutions. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2007, the Bank was considered "well capitalized."

Check Clearing for the 21st Century Act (Check 21). Check 21 gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. The major provisions of Check 21 include: allowing check truncation without making it mandatory; demanding that every financial institution communicate to account holders in writing a description of its substitute check processing program and their rights under the law; legalizing substitutions for and replacements of paper checks without agreement from consumers; retaining in place the previously-mandated electronic collection and return of checks between financial institutions only when individual agreements are in place; requiring that when account holders request verification, financial institutions produce the original check (or a copy that accurately represents the

Table of Contents

original) and demonstrate that the account debit was accurate and valid; and requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred. This legislation has not significantly increased our capital spending.

Gramm-Leach-Bliley Act of 1999 (GLBA). The GLBA implemented major changes to the statutory framework for providing banking and other financial services in the United States. The GLBA, among other things, eliminated many of the restrictions on affiliations among banks and securities firms, insurance firms and other financial service providers. A bank holding company that qualifies and elects to be a financial holding company is permitted to engage in activities that are financial in nature or incident or complimentary to financial activities. The activities that the GLBA expressly lists as financial in nature include insurance underwriting, sales and brokerage activities, financial and investment advisory services, underwriting services and limited merchant banking activities.

To become eligible for these expanded activities, a bank holding company must qualify as a financial holding company. To qualify as a financial holding company, each insured depository institution controlled by the bank holding company must be well-capitalized, well-managed and have at least a satisfactory rating under the CRA. In addition, the bank holding company must file with the Federal Reserve a declaration of its intention to become a financial holding company. While the Corporation satisfies these requirements, the Corporation has not elected to be treated as a financial holding company under the GLBA.

The GLBA has not had a material adverse impact on the Corporation's or the Bank's operations. To the extent that it allows banks, securities firms and insurance firms to affiliate, the financial services industry may experience further consolidation. The GLBA may have the result of increasing competition that we face from larger institutions and other companies that offer financial products and services and that may have substantially greater financial resources than the Corporation or the Bank.

The GLBA and certain regulations issued by federal banking agencies also provide protections 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.

Available Information

The Corporation's SEC filings are filed electronically and are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. In addition, any document filed by the Corporation with the SEC can be read and copied at the SEC's public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of documents can be obtained at prescribed rates by writing to the Public Reference Section of the SEC 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 Corporation's SEC filings also are available through our web site at <http://www.cffc.com> under "About C&F/C&F Financial Corporation/SEC Filings" as of the day they are filed with the SEC. Copies of documents also can be obtained free of charge by writing to the Corporation's secretary at P.O. Box 391, West Point, VA 23181 or by calling 804-843-2360.

[Table of Contents](#)

ITEM 1A. **RISK FACTORS**

We are subject to interest rate risk and fluctuations in interest rates may negatively affect our financial performance.

Our profitability depends in substantial part on our net interest margin, which is the difference between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits and borrowings. Changes in interest rates will affect our net interest margin in diverse ways, including the pricing of loans and deposits, the levels of prepayments and asset quality. We are unable to predict actual fluctuations of market interest rates because many factors influencing interest rates are beyond our control. We attempt to minimize our exposure to interest rate risk, but we are unable to eliminate it. Based on our asset/liability position at December 31, 2007, we are vulnerable to continued decreases in short-term interest rates because of our asset-sensitive balance sheet profile. We believe that our current interest rate exposure is manageable and does not indicate any significant exposure to interest rate changes. However, the interest rate cuts made by the Federal Reserve Bank since September 2007 have immediately reduced our yield on variable-rate loans without a corresponding reduction in deposit costs, which will result in a decline in our net interest margin. We expect more pronounced net interest margin compression in 2008 if interest rates on our variable-rate loans continue to decline while competition for deposits hinders a decline in rates paid for deposits.

Periods of rising interest rates or a decline in real estate values in our market will adversely affect our income from our mortgage company.

One of the components of our strategic plan is to generate significant noninterest income from our mortgage company, C&F Mortgage. In periods of rising interest rates, consumer demand for new mortgages and refinancings may decrease, which in turn could adversely impact our mortgage company. In addition, rising interest rates could create higher debt burden and default risk for borrowers who have adjustable-rate mortgage loans that reset at higher interest rates. Because interest rates depend on factors outside of our control, we cannot eliminate the interest rate risk associated with our mortgage operations.

Certain credit markets have experienced difficult conditions and volatility during 2007 and there has been an increase in mortgage loan foreclosures throughout the United States. The majority of these foreclosures appear to involve borrowers who had financed home purchases or refinanced existing home mortgage loans with so-called subprime mortgage loans or alternative loan products. Mortgage loan foreclosures can result in increases in loan losses and require mortgage lenders to take ownership of the foreclosed real properties in order to mitigate potential loan losses, which can result in increased noninterest expenses.

The Corporation originates a variety of residential loan products for sale into the secondary market through C&F Mortgage. These products include conventional residential mortgages, which are generally considered prime loans, and alternative loan products. This latter category of loans includes loans with higher loan to value ratios and loans with no or limited verification of a borrower's income or assets stated on the loan application. The general market for these alternative loan products across the country has declined as a result of moderating real estate prices, increased payment defaults by borrowers and increased loan foreclosures. These factors may result in potential repurchase liability to our mortgage company on residential mortgage loans originated and sold into the secondary market. While we mitigate the risk of repurchase liability by underwriting to the purchasers' guidelines and do not believe that our exposure to this liability is significant at this time, we cannot be assured that a prolonged period of payment defaults and foreclosures will not result in an increase in requests for repurchases, which would adversely affect the Corporation's net income.

[Table of Contents](#)

Our business is subject to various lending and other economic risks that could adversely impact our results of operations and financial condition.

Changes in economic conditions, particularly an economic slowdown, could hurt our business. Our business is directly affected by general economic and market conditions; broad trends in industry and finance; legislative and regulatory changes; changes in governmental monetary and fiscal policies; and inflation, all of which are beyond our control. A deterioration in economic conditions, in particular an economic slowdown within our geographic region, could result in the following consequences, any of which could hurt our business materially: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decline in demand for our products and services; and a deterioration in the value of collateral for loans made by our various business segments.

Our level of credit risk is increasing due to the concentration of our loan portfolio in commercial loans and in consumer finance loans.

At December 31, 2007, 43 percent of our loan portfolio consisted of commercial, financial and agricultural loans. These loans generally carry larger loan balances and involve a greater degree of financial and credit risk than home equity and residential loans. The increased financial and credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and to borrowers in similar lines of business, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans.

At December 31, 2007, 27 percent of our loan portfolio consisted of consumer finance loans that provide automobile financing for customers in the non-prime market. During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses generally increase in this portfolio. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which we may sell repossessed automobiles or delay the timing of these sales. Because we focus on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and losses on these loans are higher than those experienced in the general automobile finance industry and could be dramatically affected by a general economic downturn. In addition, our servicing costs may increase without a corresponding increase in our finance charge income. While we manage the higher risk inherent in loans made to non-prime borrowers through our underwriting criteria and collection methods, we cannot guarantee that these criteria or methods will ultimately provide adequate protection against these risks.

If our allowance for loan losses becomes inadequate, the results of our operations may be adversely affected.

Making loans is an essential element of our business. The risk of nonpayment is affected by a number of factors, including but not limited to: the duration of the credit; credit risks of a particular customer; changes in economic and industry conditions; and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans may not be repaid. We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. Our allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, the opinions of our regulators, changes in the size and composition of the loan portfolio and industry information. Also included in our estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. Because any estimate of loan losses is necessarily subjective and the accuracy of

[Table of Contents](#)

any estimate depends on the outcome of future events, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income. Although we believe our allowance for loan losses is adequate to absorb probable losses in our loan portfolio, we cannot predict such losses or that our allowance will be adequate in the future.

Competition from other financial institutions and financial intermediaries may adversely affect our profitability.

We face substantial competition in originating loans and in attracting deposits. Our competition in originating loans and attracting deposits comes principally from other banks, mortgage banking companies, consumer finance companies, savings associations, credit unions, brokerage firms, insurance companies and other institutional lenders and purchasers of loans. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger clients. These institutions may be able to offer the same loan products and services that we offer at more competitive rates and prices. Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could adversely affect our profitability.

We rely heavily on our management team and the unexpected loss of key officers may adversely affect our operations.

We believe that our growth and future success will depend in large part on the skills of our executive officers. We also depend upon the experience of the officers of our subsidiaries and on their relationships with the communities they serve. The loss of the services of one or more of these officers could disrupt our operations and impair our ability to implement our business strategy, which could adversely affect our business, financial condition and results of operations. While the Corporation's Chief Operating Officer resigned effective February 29, 2008 because of family health considerations, he has agreed to assist management to assure a smooth transition.

The success of our growth strategy depends on our ability to identify and recruit individuals with experience and relationships in our primary markets.

The successful implementation of our business strategy will require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified management personnel is competitive. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy is often lengthy. Our inability to identify, recruit and retain talented personnel to manage new offices effectively and in a timely manner would limit our growth, which could materially adversely affect our business.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the beneficial aspects fostered by our culture, which could harm our business.

We believe that a critical contributor to our success has been our corporate culture, which focuses on building personal relationships with our customers. As our organization grows, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Corporation has no unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

The following describes the location and general character of the principal offices and other materially important physical properties of the Corporation.

The Corporation owns a building located at Eighth and Main Streets in the business district of West Point, Virginia. The building, originally constructed in 1923, has three floors totaling 15,000 square feet. This building houses the Bank's Main Office, the main office of C&F Investment Services and office space for certain of the Bank's administrative personnel.

The Corporation owns a building located at 3600 LaGrange Parkway in Toano, Virginia. The building was acquired in 2004 and has 85,000 square feet. Approximately 30,000 square feet were renovated in 2005 in order to house the Bank's operations center, which consists of the Bank's loan, deposit and administrative functions and staff.

The building owned by the Corporation and previously used for the Bank's deposit operations at Seventh & Main Streets in West Point Virginia, which is a 14,000 square foot building remodeled by the Corporation in 1991, has been leased to the Economic Development Authority of the Town of West Point, Virginia (Development Authority) for the purpose of housing and operating incubator businesses under the supervision of the Development Authority. The building owned by the Corporation and previously used for the Bank's loan operations at Sixth and Main Streets in West Point, Virginia, which is a 5,000 square foot building acquired and remodeled by the Corporation in 1998, has been retained as back-up facilities for the new operations center. Management has not yet determined the long-term utilization of these properties.

The Corporation owns a building located at 1400 Alverser Drive in Midlothian, Virginia. The building provides space for a branch office of the Bank and for a C&F Mortgage branch office, as well as C&F Mortgage's main administrative offices. This two-story building has 25,000 square feet and was constructed in 2001. Also at the Midlothian location, the Corporation owns an office condominium that houses a regional commercial lending office.

The Corporation owns 15 other Bank branch locations and leases one Bank branch location and one regional commercial lending office in Virginia. Rental expense for these leased locations totaled \$94,000 for the year ended December 31, 2007.

In connection with the opening of the Bank's Newport News branch in 2007, C&F Mortgage relocated from a leased facility to the second floor of the Bank branch building. The Corporation has 19 leased loan production offices, 12 in Virginia, three in Maryland, two in North Carolina and one each in Delaware and New Jersey, for C&F Mortgage. Rental expense for these leased locations totaled \$1.0 million for the year ended December 31, 2007.

Table of Contents

The Corporation owns a building located at 4660 South Laburnum Avenue in Richmond, Virginia. The building was acquired in June 2005 and has approximately 8,800 square feet. The building houses C&F Finance's headquarters and provides space for its loan and administrative functions and staff. In connection with the opening of the Bank's Hampton branch in 2006, the Hampton office of C&F Finance was relocated from a leased facility to the second floor of the Bank branch building. The Corporation has four leased offices, two in Virginia and one each in Maryland and Tennessee, for C&F Finance. Rental expense for these leased locations totaled \$54,000 for the year ended December 31, 2007.

All of the Corporation's properties are in good operating condition and are adequate for the Corporation's present and anticipated future needs.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Corporation or any of its subsidiaries is a party or to which the property of the Corporation or any of its subsidiaries is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of the Corporation through a solicitation of proxies or otherwise.

EXECUTIVE OFFICERS OF THE REGISTRANT

<u>Name (Age)</u> <u>Present Position</u>	<u>Business Experience</u> <u>During Past Five Years</u>
Larry G. Dillon (55) Chairman, President and Chief Executive Officer	Chairman, President and Chief Executive Officer of the Corporation and the Bank since 1989
Thomas F. Cherry (39) Executive Vice President, Chief Financial Officer and Secretary	Secretary of the Corporation and the Bank since 2002; Executive Vice President and Chief Financial Officer of the Corporation and the Bank since December 2004; Senior Vice President and Chief Financial Officer of the Corporation and the Bank from December 1998 to November 2004
Robert L. Bryant (57) Executive Vice President and Chief Operating Officer*	Executive Vice President and Chief Operating Officer of the Corporation since February 2005; Executive Vice President and Chief Operating Officer of the Bank since December 2004; Senior Vice President and Chief Operating Officer of the Bank from May 2004 to November 2004; President of Renaissance Resources, a business consulting practice located in Richmond, Virginia, from 1996 to 2004
Bryan E. McKernon (51)	President and Chief Executive Officer of C&F Mortgage since 1995

* Mr. Bryant resigned effective February 29, 2008 because of family health considerations. Mr. Bryant has agreed to assist management to assure a smooth transition.

[Table of Contents](#)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is traded on the over-the-counter market and is listed for trading on the NASDAQ Global Select Market of the NASDAQ Stock Market under the symbol "CFFI." As of February 25, 2008, there were approximately 2,000 shareholders of record. As of that date, the closing price of our common stock on the NASDAQ Global Select Stock Market was \$31.37. Following are the high and low sales prices as reported by the NASDAQ Stock Market, along with the dividends that were paid quarterly in 2007 and 2006.

Quarter	2007			2006		
	High	Low	Dividends	High	Low	Dividends
First	\$46.00	\$39.60	\$ 0.31	\$40.60	\$37.12	\$ 0.27
Second	45.00	36.10	0.31	41.99	38.09	0.29
Third	43.50	38.05	0.31	41.72	36.80	0.29
Fourth	42.98	30.25	0.31	42.50	38.50	0.31

Payment of dividends is at the discretion of the Corporation's board of directors and is subject to various federal and state regulatory limitations. For further information regarding payment of dividends, refer to Item 1, "Business," under the heading "Limits on Dividends" and Item 8, "Financial Statements and Supplementary Data," under the heading "Note 13: Regulatory Requirements and Restrictions."

Issuer Purchases of Equity Securities For the Quarter Ended December 31, 2007

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ¹	Maximum Number of Shares that May Yet Be Purchased Under the Program ¹
October 1-31, 2007	—	\$ —	—	107,700
November 1-30, 2007	—	—	—	107,700
December 1-31, 2007	12,500	35.47	12,500	95,200
Total	12,500	\$35.47	12,500	

¹ On November 4, 2006, the Corporation's board of directors authorized the purchase of up to 150,000 shares of the Corporation's common stock over the twelve months ending November 3, 2007. Through June 30, 2007, 149,855 shares were purchased under this authorization. On July 17, 2007, the Corporation's board of directors terminated this authorization and approved a new authorization to purchase up to 150,000 shares of the Corporation's common stock over the twelve months ending July 16, 2008. The stock may be purchased in the open market or through privately negotiated transactions, as management and the board of directors deem prudent.

[Table of Contents](#)

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL SUMMARY

(Dollars in thousands, except share and per share amounts)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Selected Year-End Balances:					
Total assets	\$ 785,596	\$ 734,468	\$ 671,957	\$ 609,122	\$ 573,546
Total shareholders' equity	65,224	68,006	60,086	69,899	65,384
Total loans (net)	585,881	517,843	465,039	394,471	350,170
Total deposits	527,571	532,835	495,438	447,134	427,635
Summary of Operations:					
Interest income	\$ 64,825	\$ 58,582	\$ 48,770	\$ 40,843	\$ 38,671
Interest expense	23,378	18,457	11,997	7,549	8,828
Net interest income	41,447	40,125	36,773	33,294	29,843
Provision for loan losses	7,130	4,625	5,520	4,026	3,167
Net interest income after provision for loan losses	34,317	35,500	31,253	29,268	26,676
Noninterest income	25,878	27,387	27,584	24,689	29,318
Noninterest expenses	48,371	45,328	41,868	37,753	36,748
Income before taxes	11,824	17,559	16,969	16,204	19,246
Income tax expense	3,344	5,430	5,181	5,006	6,327
Net income	\$ 8,480	\$ 12,129	\$ 11,788	\$ 11,198	\$ 12,919
Per share:					
Earnings per common share—basic	\$ 2.79	\$ 3.85	\$ 3.49	\$ 3.14	\$ 3.58
Earnings per common share—assuming dilution	2.68	3.71	3.36	3.00	3.42
Dividends	1.24	1.16	1.00	.90	.72
Weighted average number of shares—assuming dilution	3,161,023	3,273,429	3,507,912	3,729,128	3,781,843
Significant Ratios:					
Return on average assets	1.13%	1.75%	1.82%	1.91%	2.35%
Return on average equity	13.03	18.97	17.70	16.78	21.32
Dividend payout ratio	44.45	30.15	28.33	28.59	20.07
Average equity to average assets	8.69	9.21	10.30	11.38	11.01

[Table of Contents](#)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the Corporation's expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements may constitute "forward-looking statements" as defined by federal securities laws. These statements may address issues that involve estimates and assumptions made by management and risks and uncertainties. Actual results could differ materially from historical results or those anticipated by such statements. Factors that could have a material adverse effect on the operations and future prospects of the Corporation include, but are not limited to, changes in:

- interest rates
- general economic conditions
- the legislative/regulatory climate
- monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board
- the quality or composition of the loan or investment portfolios
- the level of net charge-offs on automobile loans
- demand for loan products
- deposit flows
- competition
- demand for financial services in the Corporation's market area
- technology
- reliance on third parties for key services
- the real estate market
- the Corporation's expansion and technology initiatives
- accounting principles, policies and guidelines

These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein. We caution readers not to place undue reliance on those statements, which speak only as of the date of this report.

The following discussion supplements and provides information about the major components of the results of operations, financial condition, liquidity and capital resources of the Corporation. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires us to make estimates and assumptions. Those accounting policies with the greatest uncertainty and that require our most difficult, subjective or complex judgments affecting the application of these policies, and the likelihood that materially different amounts would be reported under different conditions, or using different assumptions, are described below.

Allowance for Loan Losses: We establish the allowance for loan losses through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance when we believe that the collection of the principal is unlikely. Subsequent recoveries of losses previously charged against the allowance are credited to the allowance. The allowance represents an amount that, in our judgment, will be appropriate to absorb any losses on existing loans that may become uncollectible. Our judgment in determining the level of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as trends in

[Table of Contents](#)

delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay, overall portfolio quality and specific potential losses. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available.

Impairment of Loans: We measure impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan (or, as a practical expedient, at the loan's observable market price) or the fair value of the collateral if the loan is collateral dependent. We consider a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimate collection of all amounts due. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment.

Impairment of Securities: Impairment of investment securities results in a write-down that must be included in net income when a market decline below cost is other-than-temporary. We regularly review each investment security for impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer and our ability and intention with regard to holding the security to maturity.

Goodwill: Goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment using a two-step process that begins with an estimation of the fair value of the reporting unit. In assessing the recoverability of the Corporation's goodwill, all of which was recognized in connection with the Bank's acquisition of C&F Finance in September 2002, we must make assumptions in order to determine the fair value of the respective assets. Major assumptions used in determining impairment were increases in future income, sales multiples in determining terminal value and the discount rate applied to future cash flows. As part of the impairment test, we performed sensitivity analysis by increasing the discount rate, lowering sales multiples and reducing increases in future income. We completed the annual test for impairment during the fourth quarter of 2007 and determined there was no impairment to be recognized in 2007. If the underlying estimates and related assumptions change in the future, we may be required to record impairment charges.

Defined Benefit Pension Plan: The Bank maintains a non-contributory, defined benefit pension plan for eligible full-time employees as specified by the plan. Plan assets, which consist primarily of marketable equity securities and corporate and government fixed income securities, are valued using market quotations. The Bank's actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions include the discount rate, the estimated future return on plan assets and the anticipated rate of future salary increases. Changes in these assumptions in the future, if any, may impact pension assets, liabilities or expense.

Accounting for Income Taxes: Determining the Corporation's effective tax rate requires judgment. In the ordinary course of business, there are transactions and calculations for which the ultimate tax outcomes are uncertain. In addition, the Corporation's tax returns are subject to audit by various tax authorities. Although we believe that the estimates are reasonable, no assurance can be given that the final tax outcome will not be materially different than that which is reflected in the income tax provision and accrual.

For further information concerning accounting policies, refer to Item 8, "Financial Statements and Supplementary Data," under the heading "Note 1: Summary of Significant Accounting Policies."

[Table of Contents](#)

OVERVIEW

Our primary financial goals are to maximize the Corporation's earnings and to deploy capital in profitable growth initiatives that will enhance long-term shareholder value. We track three primary financial performance measures in order to assess the level of success in achieving these goals:

- 1) return on average assets (ROA)
- 2) return on average equity (ROE)
- 3) growth in earnings

In addition to these financial performance measures, we track the performance of the Corporation's three principal business activities:

- 1) retail banking
- 2) mortgage banking
- 3) consumer finance

We also actively manage our capital through:

- 1) growth
- 2) stock purchases
- 3) dividends

Financial Performance Measures

Net income for the Corporation decreased 30.1 percent to \$8.5 million in fiscal 2007. Earnings per share assuming dilution decreased 27.8 percent to \$2.68 in the same period. Net income for 2006 included \$728,000, after taxes, attributable to the recovery of past due interest and a reduction in the Corporation's loan loss allowance in connection with the pay-off of previously nonperforming loans of one commercial relationship. Excluding the after-tax effect of this loan pay-off, the Corporation's 2007 net income decreased 25.6 percent and earnings per share assuming dilution decreased 23.0 percent from 2006. Significant factors influencing 2007 earnings included interest rate fluctuations, loan growth, higher loan charge-offs, a decline in mortgage loan production and higher operating expenses associated with expansion initiatives. The degree to which these and other factors impacted each of our business segments varied and is discussed in "Principal Business Activities" below.

The Corporation's ROE and ROA were 13.03 percent and 1.13 percent, respectively, for the year ended December 31, 2007, compared to 18.97 percent and 1.75 percent, respective, for the year ended December 31, 2006 (17.83 percent and 1.64 percent, adjusted to exclude the effect of the commercial loan pay-off). The decline in these measures resulted from lower earnings in 2007 coupled with asset growth. We have continued to make significant investments in our retail branch network, operations facilities, technology and personnel in order to accommodate our strategic growth initiatives. These investments have increased our operating assets and expenses. However, we expect them to enhance long-term earnings, thus increasing shareholder value.

We expect the following factors to influence the Corporation's financial performance in 2008:

- **Retail Banking:** We expect changes in interest rates to affect the degree to which net interest margin compression occurs at C&F Bank. Interest rate cuts made by the Federal Reserve since September 2007 have immediately reduced the Bank's yields on variable rate loans without a corresponding reduction in deposit costs. We expect more pronounced net interest margin compression in 2008 if interest rates continue to decline while competition for deposits hinders a decline in rates paid for these funds. General economic trends, particularly an economic slowdown, in C&F Bank's markets can affect the quality of the loan portfolio. Managing the

[Table of Contents](#)

risks inherent in our loan portfolio will influence C&F Bank's performance during 2008. Our ability to achieve forecasted deposit and loan growth at our existing bank branches and in particular at our four new bank branches will be affected by both general economic conditions and the increasing level of competition in our markets.

- **Mortgage Banking:** We expect the ongoing effects of lower demand for home mortgage loans resulting from reduced demand in both the new and resale housing markets, the slowing national economy and the fallout from the subprime and alternative loan issues to result in lower origination volume at C&F Mortgage. While a decline in interest rates may spur refinance activity in 2008, the decline in housing market values, coupled with the availability of fewer mortgage loan products and tighter underwriting guidelines, will temper demand. In addition, there is potential repurchase liability to our mortgage company on residential mortgage loans originated and sold into the secondary market. While we mitigate the risk of repurchase liability by underwriting to the purchasers' guidelines and do not believe that our exposure to this liability is significant at this time, we cannot be assured that a prolonged period of payment defaults and foreclosures will not result in an increase in requests for repurchases, which would adversely affect the Corporation's net income.
- **Consumer Finance:** We expect changes in interest rates to be a primary factor influencing financial performance at C&F Finance in 2008. If interest rates decline, we expect net interest margin to improve because the majority of the funding for C&F Finance's fixed-rate loan portfolio is indexed to short-term interest rates and reprices each month. However, if an economic slowdown occurs in C&F Finance's markets, we would expect more delinquencies and repossessions. Higher gasoline prices, unstable real estate values, reset of adjustable rate mortgages to higher interest rates, increasing unemployment levels, general availability of consumer credit or other factors that impact consumer confidence or disposable income could increase loss frequency and may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage and increases the amount of loss in the event of default.

Principal Business Activities

An overview of the financial results for each of the Corporation's principal segments is presented below. A more detailed discussion is included in the section "Results of Operations."

Retail Banking: Pretax earnings for the Retail Banking segment were \$4.3 million for the year ended December 31, 2007, compared with \$8.7 million in 2006 (\$7.6 million, adjusted to exclude the effect of the commercial loan pay-off in 2006). The decline in earnings for 2007 included (1) the effects of margin compression and competition on net interest income, (2) a higher provision for loan losses attributable to loan growth, (3) the effects on operating expenses of the Peninsula and Richmond branch openings and the operations center relocation, (4) higher operational and administrative personnel costs to support growth and (5) the recognition of compensation expense, in accordance with accounting principles effective beginning in 2006, in connection with the Corporation's issuance of stock options to directors and the issuance of restricted stock to employees under existing plans. Net interest margin compression occurred at the Retail Banking segment as the cost of deposits continued to rise throughout most of 2007, while rates on interest-earning assets remained level through the third quarter of 2007 and began to decline in the fourth quarter of 2007. Approximately half of the Bank's loans are indexed to the prime interest rate. Therefore, interest income is immediately negatively affected when this index declines. However, the source of funding for these loans, primarily deposits, does not reprice simultaneously with the decline in loan interest rates. Compounding the effect of the deposit repricing disparity is the increased competition for deposits,

[Table of Contents](#)

which has prevented the cost of funds from falling as quickly as the drop in the prime rate index. Growth in the Retail Banking segment's operations and infrastructure have increased operating expenses, but over time we expect these expenditures will improve efficiency and enhance customer service. C&F Bank opened four new branches within a 15-month period beginning in January 2006. As a result, the Retail Banking segment is incurring operating expenses for these branches before they have generated sufficient new loan and deposit growth to become profitable. Even though these costs will affect the Corporation's short-term profits, we expect these branches will contribute to the Corporation's long-term profitability.

Mortgage Banking: Pretax earnings for the Mortgage Banking segment, which consists solely of C&F Mortgage Corporation and its subsidiaries, were \$2.8 million for the year ended December 31, 2007, compared with \$3.8 million in 2006. The decline in earnings for 2007 included (1) the effects of the downturn in the housing market on loan origination volume, which declined 12.3 percent in 2007, (2) an increase in the provision for loan losses as a result of three loans being placed on nonaccrual status and (3) higher operating expenses in 2007 related to new offices and higher business development costs in order to generate loan production. Gains on loan sales declined during 2007 due to lower volumes of loan sales accompanying the reduced origination volume. For 2007, loan originations at C&F Mortgage for refinancings declined to \$215 million from \$283 million in 2006. Loans originated for new and resale home purchases declined to \$613 million in 2007 from \$661 million in 2006. In addition to the decrease in loan volume, the Mortgage Banking segment experienced a decrease in net interest income resulting from a lower average balance of loans held for sale. We expect that future earnings for the Mortgage Banking segment may continue to be negatively affected if the overall condition of the housing market results in fewer new and resale home sales and loan refinancings. However, we plan to continue to look for expansion opportunities in new and existing markets that provide the potential for increased loan production.

Consumer Finance: Pretax earnings for the Consumer Finance segment, which consists solely of C&F Finance, totaled \$4.4 million for the year ended December 31, 2007, compared with pre-tax earnings of \$5.0 million in 2006. Earnings of the Consumer Finance segment have benefited from an increase in net interest income resulting from average loan growth of 22.6 percent in 2007. However, the Consumer Finance segment's net interest margin for 2007 declined as a result of an increase in the cost of variable-rate borrowings throughout most of 2007, without a corresponding increase in the fixed-rate loan portfolio. In addition, C&F Finance has entered into new markets and strengthened its position in existing markets in 2007 resulting in an increase in overhead expenses. We believe that the investments in new markets, technology and people at the Consumer Finance segment have established a platform with the capacity to support current operations and future growth. The provision for loan losses increased in 2007 as a result of higher charge-offs attributable to an increase in the number of vehicles repossessed in 2007, which was largely a result of a weaker economy, coupled with an increasing average balance per loan originated over the last several years. Future earnings at the Consumer Finance segment will be impacted by economic conditions including, but not limited to, the employment market, interest rate levels and the resale market for used automobiles.

[Table of Contents](#)

Capital Management

We have managed our capital through growth in assets, stock purchases and increases in dividends as evidenced by the decline in the ratio of average equity to average total assets over the past three years. Total shareholders' equity decreased \$2.8 million to \$65.2 million at December 31, 2007, compared to \$68.0 million at December 31, 2006. This decline was attributable to dividends to shareholders of \$3.8 million and the purchase of 204,520 shares of the Corporation's common stock totaling \$8.4 million during 2007, the effects of which were offset in part by earnings in 2007. The board of directors maintained the quarterly dividend level at 31 cents per share during 2007 despite the decline in earnings, resulting in a dividend payout ratio of 44.5 percent for 2007 compared to 30.2 percent for 2006. The share purchases were made under a board authorization on November 4, 2006 to purchase up to 150,000 shares over the twelve months ending November 3, 2007, which was terminated and replaced by an authorization on July 17, 2007 to purchase up to 150,000 shares of the Corporation's common stock over the twelve months ending July 16, 2008.

RESULTS OF OPERATIONS

NET INTEREST INCOME

The following table shows the average balance sheets for each of the years ended December 31, 2007, 2006 and 2005. The table also shows the amounts of interest earned on earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates. Loans include loans held for sale. Loans placed on a nonaccrual status are included in the balances and are included in the computation of yields, but had no material effect. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield if income taxes were paid using the federal corporate income tax rate of 35 percent in all three years presented).

[Table of Contents](#)

TABLE 1: Average Balances, Income and Expense, Yields and Rates

<i>(Dollars in thousands)</i>	2007			2006			2005		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Assets									
Securities:									
Taxable	\$ 11,659	\$ 544	4.66%	\$ 11,349	\$ 487	4.29%	\$ 12,989	\$ 527	4.06%
Tax-exempt	63,280	4,349	6.87	55,932	3,802	6.80	56,092	4,020	7.17
Total securities	74,939	4,893	6.53	67,281	4,289	6.37	69,081	4,547	6.58
Loans, net	601,685	60,977	10.13	555,517	55,196	9.94	507,447	45,118	8.89
Interest-bearing deposits in other banks	8,238	432	5.25	9,271	454	4.90	17,168	523	3.05
Fed funds sold	241	11	4.67	—	—	—	—	—	—
Total earning assets	685,103	66,313	9.68	632,069	59,939	9.48	593,696	50,188	8.45
Allowance for loan losses	(14,926)			(13,617)			(12,213)		
Total non-earning assets	78,217			75,863			65,107		
Total assets	<u>\$748,394</u>			<u>\$694,315</u>			<u>\$646,590</u>		
Liabilities and Shareholders' Equity									
Time and savings deposits:									
Interest-bearing deposits	\$ 82,109	912	1.11%	\$ 87,074	946	1.09%	\$ 81,885	732	0.89%
Money market deposit accounts	51,624	1,534	2.97	44,820	987	2.20	49,909	708	1.42
Savings accounts	45,452	301	0.66	49,644	353	0.71	54,656	388	0.71
Certificates of deposit, \$100 thousand or more	99,653	4,714	4.73	79,873	3,176	3.98	63,432	1,717	2.71
Other certificates of deposit	169,431	7,469	4.41	152,879	5,690	3.72	136,779	3,735	2.73
Total time and savings deposits	448,269	14,930	3.33	414,290	11,152	2.69	386,661	7,280	1.88
Borrowings	136,939	8,448	6.17	120,498	7,305	6.06	101,355	4,717	4.65
Total interest-bearing liabilities	585,208	23,378	3.99	534,788	18,457	3.45	488,016	11,997	2.46
Demand deposits	84,365			79,472			76,172		
Other liabilities	13,751			16,106			15,808		
Total liabilities	683,324			630,366			579,996		
Shareholders' equity	65,070			63,949			66,594		
Total liabilities and shareholders' equity	<u>\$748,394</u>			<u>\$694,315</u>			<u>\$646,590</u>		
Net interest income		<u>\$42,935</u>			<u>\$41,482</u>			<u>\$38,191</u>	
Interest rate spread			5.69%			6.03%			5.99%
Interest expense to average earning assets			3.41%			2.92%			2.02%
Net interest margin			6.27%			6.56%			6.43%

[Table of Contents](#)

Interest income and expense are affected by fluctuations in interest rates, by changes in the volume of earning assets and interest-bearing liabilities, and by the interaction of rate and volume factors. The following table shows the direct causes of the year-to-year changes in the components of net interest income on a taxable-equivalent basis. We calculated the rate and volume variances using a formula prescribed by the SEC. Rate/volume variances, the third element in the calculation, are not shown separately in the table, but are allocated to the rate and volume variances in proportion to the relationship of the absolute dollar amounts of the change in each. Loans include both nonaccrual loans and loans held for sale.

TABLE 2: Rate-Volume Recap

<i>(Dollars in thousands)</i>	2007 from 2006			2006 from 2005		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
Interest income:						
Loans	\$ 1,119	\$ 4,662	\$ 5,781	\$ 5,560	\$ 4,518	\$ 10,078
Securities:						
Taxable	43	14	57	29	(69)	(40)
Tax-exempt	42	505	547	(207)	(11)	(218)
Interest-bearing deposits in other banks	39	(61)	(22)	235	(304)	(69)
Fed funds sold	—	11	11	—	—	—
Total interest income	<u>1,243</u>	<u>5,131</u>	<u>6,374</u>	<u>5,617</u>	<u>4,134</u>	<u>9,751</u>
Interest expense:						
Time and savings deposits:						
Interest-bearing deposits	22	(56)	(34)	165	49	214
Money market deposit accounts	381	165	546	357	(78)	279
Savings accounts	(23)	(29)	(52)	1	(36)	(35)
Certificates of deposit, \$100M or more	667	871	1,538	940	519	1,459
Other certificates of deposit	1,121	658	1,779	1,476	479	1,955
Total time and savings deposits	<u>2,168</u>	<u>1,609</u>	<u>3,777</u>	<u>2,939</u>	<u>933</u>	<u>3,872</u>
Other borrowings	131	1,013	1,144	1,593	995	2,588
Total interest expense	<u>2,299</u>	<u>2,622</u>	<u>4,921</u>	<u>4,532</u>	<u>1,928</u>	<u>6,460</u>
Change in net interest income	<u><u>\$(1,056)</u></u>	<u><u>\$2,509</u></u>	<u><u>\$ 1,453</u></u>	<u><u>\$ 1,085</u></u>	<u><u>\$ 2,206</u></u>	<u><u>\$ 3,291</u></u>

2007 Compared to 2006

Net interest income, on a taxable-equivalent basis, for the year ended December 31, 2007 was \$42.9 million, compared to \$41.5 million for 2006. The net interest margin, on a taxable-equivalent basis, for the year ended December 31, 2007 was 6.27 percent, compared to 6.56 percent for 2006. The net interest margin of 6.56 percent for 2006 included \$870,000 of nonaccrued and default interest attributable to the repayment of previously nonperforming loans of one commercial relationship. Excluding the effect of the commercial loan pay-off, the adjusted net interest margin was 6.43 percent for 2006. An increase of 33 basis points in the adjusted yield on interest-earning assets during 2007 was offset by an increase of 54 basis points in the rate on interest-bearing liabilities.

Average loans held for investment increased \$55.8 million during 2007. The Retail Banking segment's average loan portfolio increased \$26.5 million compared to 2006. This increase was mainly attributable to commercial loan growth. The Consumer Finance segment's average loan portfolio increased \$27.3 million during 2007. This increase was attributable to overall growth at existing locations and expansion into new markets. The Mortgage Banking segment's average loan portfolio increased \$2.0 million during 2007. This increase was

[Table of Contents](#)

attributable to short-term bridge loans, a new product introduced in 2007. Average loans held for sale at the Mortgage Banking segment decreased \$9.6 million during 2007. The decrease in the average balances of loans held for sale occurred in response to loan demand, coupled with fluctuations in the timing of loan originations and sales within the periods. The overall yield on loans held for investment and loans held for sale increased as a result of a general increase in interest rates and an increase in higher-yielding Consumer Finance average loans relative to the overall loan portfolio.

Average securities available for sale increased \$7.7 million during 2007 and their average yield increased 16 basis points. The increase in securities available for sale occurred predominantly in the Retail Banking segment's municipal portfolio. Additions during 2007 focused on longer-term municipal securities. Yields for 2007 included the receipt of dividends from one preferred stock holding, for which dividend payments had been suspended throughout 2006.

Average interest-bearing deposits at other banks, primarily the FHLB, decreased \$1.0 million during 2007. Fluctuations in the average balance of these low-yielding deposits occurred in response to loan demand and an increase in the securities portfolio. The average yield on interest-earning deposits at other banks increased 35 basis points during 2007. The higher yields were due to increases in short-term interest rates through mid-2006.

Average interest-bearing deposits increased \$34.0 million during 2007. However, the increase in interest on deposits was influenced to a greater extent by the increase in deposit rates. The average cost of deposits increased 64 basis points due to the increase in short-term interest rates through mid-2006, coupled with the repricing of maturing certificates of deposit at higher interest rates, a decrease in the proportion of transaction accounts relative to total interest-bearing deposits, and the general competitive environment for core deposit growth.

Average borrowings increased \$16.4 million during 2007 primarily from increased use of the third-party line of credit by the Consumer Finance segment to fund loan growth and from increased use of short-term and long-term borrowings from the FHLB by the Retail Banking segment to fund subsidiaries. These borrowings are primarily indexed to short-term interest rates and reprice as short-term interest rates change. Accordingly, the average cost of borrowings increased 11 basis points for 2007 as the impact of rising short-term interest rates through mid-2006 more than offset the decline in rates in the fourth quarter of 2007. In addition, unpredictable fluctuations in LIBOR, which are believed to have been triggered in part by the funding crisis caused by the housing markets, temporarily increased the Consumer Finance segment's variable-rate borrowings during the third quarter of 2007.

Interest rates will continue to be a significant factor influencing the performance of all of the Corporation's business segments. We expect that net interest margin compression in the Retail Segment is likely to occur if interest rates continue to decline as variable rate loans reprice faster than core deposits. We also expect that declining economic conditions and the deteriorating housing and mortgage markets may result in lower overall loan growth and increased yield pressure.

[Table of Contents](#)

2006 Compared to 2005

Net interest income, on a taxable-equivalent basis, for the year ended December 31, 2006 was \$41.5 million, compared to \$38.2 million for 2005. The net interest margin of 6.56 percent for 2006 included \$870,000 of nonaccrued and default interest attributable to the repayment of previously nonperforming loans of one commercial relationship. Excluding the effect of the commercial loan pay-off, the adjusted net interest margin was 6.43 percent for 2006, which was level with the net interest margin for 2005. An increase of 103 basis points in the yield on interest-earning assets during 2006 was offset by an increase of 99 basis points in the rate on interest-bearing liabilities.

Average loans held for investment increased \$62.7 million during 2006. The Retail Banking segment's average loan portfolio increased \$46.2 million compared to 2005. This increase was mainly attributable to higher loan production in the Virginia Peninsula market and residential construction loan growth. The Consumer Finance segment's average loan portfolio increased \$16.5 million during 2006. This increase was attributable to overall growth at existing locations and the expansion into new markets in late 2006. Average loans held for sale at the Mortgage Banking segment decreased \$14.6 million during 2006. Mortgage interest rate trends during 2006 resulted in a 10.8 percent decline in 2006 loan origination volume at the Mortgage Banking segment. The yield on loans held for investment and loans held for sale increased as a result of a general increase in interest rates since mid-2004.

Average securities available for sale decreased \$1.8 million during 2006. In addition, their average yield declined 21 basis points. The decline in the average balance resulted from the utilization of proceeds from maturities and calls to partially fund the increase in loan demand. The yield decreases reflected the impact of the flat yield curve on long-term interest rates and thus the yield on securities purchased throughout 2006.

Average interest-bearing deposits at other banks, primarily the FHLB, decreased \$7.9 million during 2006. Fluctuations in the average balance of these low-yielding deposits occurred in response to loan demand. The average yield on interest-earning deposits at other banks increased 185 basis points during 2006. The higher yields were due to increases beginning in mid-2004 in short-term interest rates.

Although average time and savings deposits increased \$27.6 million during 2006, the increase in interest on deposits was influenced to a greater extent by the increase in deposit rates. The average cost of deposits increased 81 basis points for 2006 due to the increase in short-term interest rates, coupled with the repricing of maturing deposits at higher interest rates.

Average borrowings increased \$19.1 million during 2006 partially due to a new line of credit and the issuance of trust preferred capital securities in the third quarter of 2005 to fund the Corporation's purchase of 427,186 shares of its common stock in mid-2005. The increase in average borrowings during 2006 was also attributable to loan growth at the Consumer Finance segment, which was funded in part by a line of credit. The increase in interest on borrowings was influenced to a greater extent by a higher cost of funds, which increased 141 basis points during 2006. The majority of the Corporation's borrowings during 2006 were indexed to short-term interest rates and repriced as short-term interest rates changed.

[Table of Contents](#)

NONINTEREST INCOME

TABLE 3: Noninterest Income

<i>(Dollars in thousands)</i>	Year Ended December 31, 2007				Total
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	
Gains on sales of loans	\$ —	\$15,854	\$ —	\$ (21)	\$15,833
Service charges on deposit accounts	3,684	—	—	—	3,684
Other service charges and fees	1,364	2,572	84	—	4,020
Gains on calls of available for sale securities	21	—	—	—	21
Other income	342	218	506	1,254	2,320
Total noninterest income	\$5,411	\$18,644	\$ 590	\$ 1,233	\$25,878

<i>(Dollars in thousands)</i>	Year Ended December 31, 2006				Total
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	
Gains on sales of loans	\$ —	\$ 17,149	\$ —	\$ (51)	\$ 17,098
Service charges on deposit accounts	3,471	—	—	—	3,471
Other service charges and fees	1,200	3,656	245	—	5,101
Gains on calls of available for sale securities	105	—	—	—	105
Other income	393	22	294	903	1,612
Total noninterest income	\$ 5,169	\$ 20,827	\$ 539	\$ 852	\$ 27,387

<i>(Dollars in thousands)</i>	Year Ended December 31, 2005				Total
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	
Gains on sales of loans	\$ —	\$ 18,193	\$ —	\$ 1	\$ 18,194
Service charges on deposit accounts	2,812	—	—	—	2,812
Other service charges and fees	1,054	3,509	232	—	4,795
Gains on calls of available for sale securities	105	—	—	—	105
Other income	371	210	185	912	1,678
Total noninterest income	\$ 4,342	\$ 21,912	\$ 417	\$ 913	\$ 27,584

2007 Compared to 2006

Total noninterest income declined 5.5 percent to \$25.9 million in 2007. The decrease in noninterest income at the Mortgage Banking segment was attributable to lower gains on loan sales and lower ancillary fees due to the ongoing effects of lower demand for home mortgage loans, tightening secondary market underwriting criteria and increased competition. The decline in noninterest income at the Mortgage Banking segment was offset in part by an increase in noninterest income at (1) the Retail Banking segment attributable to higher service charges and fees on deposit accounts resulting from deposit account growth and the expansion of our overdraft protection services and (2) the Consumer Finance segment attributable to activity-based fees and service charges. Increased revenue from brokerage services further offset the decline in the Mortgage Banking segment.

2006 Compared to 2005

Total noninterest income declined slightly to \$27.4 million during 2006. The factors affecting the change in noninterest income during 2006 were essentially the same as those described above for 2007, albeit less pronounced. Namely, lower loan demand at the Mortgage Banking segment, which resulted in a decline in gains on loan sales, was offset in part by higher noninterest income at the Retail Banking and Consumer Finance segments. The expansion of our overdraft protection services began in mid-2006 at the Retail Banking segment and higher service charges and fees generated from loan processing and collections were recognized at the Consumer Finance segment.

[Table of Contents](#)

NONINTEREST EXPENSE

TABLE 4: Noninterest Expense

	Year Ended December 31, 2007				
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Total
<i>(Dollars in thousands)</i>					
Salaries and employee benefits	\$14,626	\$11,095	\$ 4,317	\$749	\$30,787
Occupancy expense	3,780	1,868	384	26	6,058
Other expenses	5,103	4,222	2,086	115	11,526
Total noninterest expense	\$23,509	\$17,185	\$ 6,787	\$890	\$48,371

	Year Ended December 31, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Total
<i>(Dollars in thousands)</i>					
Salaries and employee benefits	\$ 13,001	\$ 12,137	\$ 3,146	\$ 723	\$ 29,007
Occupancy expense	3,109	1,671	282	25	5,087
Other expenses	4,801	4,550	1,767	116	11,234
Total noninterest expense	\$ 20,911	\$ 18,358	\$ 5,195	\$ 864	\$ 45,328

	Year Ended December 31, 2005				
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Total
<i>(Dollars in thousands)</i>					
Salaries and employee benefits	\$ 11,368	\$ 13,457	\$ 2,766	\$ 686	\$ 28,277
Occupancy expense	2,292	1,356	198	25	3,871
Other expenses	4,303	3,656	1,601	160	9,720
Total noninterest expense	\$ 17,963	\$ 18,469	\$ 4,565	\$ 871	\$ 41,868

2007 Compared to 2006

Total noninterest expense increased 6.7 percent to \$48.4 million in 2007. The Retail Banking and the Consumer Finance segments reported increases in total noninterest expense that were primarily attributable to higher personnel and operating expenses to support growth and technology enhancements at both segments. Noninterest expense of the Retail Banking segment included operating expenses associated with our new Patterson Avenue and Chester retail banking branches in the Richmond, Virginia area, which opened in the first quarter of 2007, our Hampton and Yorktown retail banking branches on the Virginia Peninsula, which opened in 2006, and our new operations center, which opened in late 2005. Noninterest expenses of the Consumer Finance segment included costs associated with building depth in our sales force, entering new markets and increasing the administrative staff to support the increase in the loan portfolio. Total noninterest expense decreased at the Mortgage Banking segment because of lower production-based personnel expenses as a result of the decline in loan production.

[Table of Contents](#)

2006 Compared to 2005

Total noninterest expense increased \$3.5 million, or 8.3 percent, to \$45.3 million during 2006. The factors affecting the change in noninterest expense during 2006 were essentially the same as those described above for 2007. The Retail Banking and the Consumer Finance segments reported increases in total noninterest expense that were primarily attributable to higher personnel and operating expenses to support growth and technology enhancements at both segments. Total noninterest expense declined during 2006 for the Mortgage Banking segment because production-based costs decreased in tandem with lower origination volume. However, the decline was offset in part by higher overhead associated with opening new loan production offices in 2006 and 2005. Noninterest expenses of the Mortgage Banking segment in 2006 included \$108,000 of expenses, in excess of the Corporation's insurance coverage, associated with a \$2.2 million embezzlement perpetrated by two former employees of C&F Mortgage.

INCOME TAXES

Applicable income taxes on 2007 earnings amounted to \$3.3 million, resulting in an effective tax rate of 28.3 percent, compared with \$5.4 million, or 30.9 percent, in 2006 and \$5.2 million, or 30.5 percent, in 2005. The decline in the effective tax rate during 2007 resulted from higher tax-exempt income on securities and loans as a percentage of pretax income.

[Table of Contents](#)

ASSET QUALITY

Allowance and Provision for Loan Losses

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance. The following table presents the Corporation's loan loss experience for the periods indicated:

TABLE 5: Allowance for Loan Losses

<i>(Dollars in thousands)</i>	Year Ended December 31,				
	2007	2006	2005	2004	2003
Allowance, beginning of period	\$14,216	\$13,064	\$11,144	\$ 8,657	\$6,722
Provision for loan losses:					
Retail Banking and Mortgage Banking	400	(250)	400	200	525
Consumer Finance	6,730	4,875	5,120	3,826	2,642
Total provision for loan losses	7,130	4,625	5,520	4,026	3,167
Loans charged off:					
Real estate—residential	34	32	—	—	—
Commercial, financial and agricultural	2	97	20	7	15
Consumer	187	229	227	96	86
Consumer Finance	7,077	4,735	4,738	2,592	1,844
Total loans charged off	7,300	5,093	4,985	2,695	1,945
Recoveries of loans previously charged off:					
Real estate—residential	1	1	—	—	—
Commercial, financial and agricultural	125	69	49	68	34
Consumer	114	146	57	39	33
Consumer Finance	1,677	1,404	1,279	1,049	646
Total recoveries	1,917	1,620	1,385	1,156	713
Net loans charged off	5,383	3,473	3,600	1,539	1,232
Allowance, end of period	\$15,963	\$14,216	\$13,064	\$11,144	\$8,657
Ratio of net charge-offs to average total loans outstanding during period for					
Retail Banking and Mortgage Banking	—	.03%	.03%	—	.01%
Ratio of net charge-offs to average total loans outstanding during period for					
Consumer Finance	3.65%	2.76%	3.33%	1.78%	1.60%

During 2007, there was a \$417,000 increase in the allowance for loan losses at the combined Retail Banking and Mortgage Banking segments compared to December 31, 2006. This increase was attributable to loan growth at C&F Bank and an increase in nonaccrual loans at C&F Mortgage. The Mortgage Banking segment has a \$4.5 million portfolio of loans held for investment. Three loans totaling \$732,000 in this portfolio were on nonaccrual status at December 31, 2007. There were no nonaccrual loans at the Mortgage Banking segment at December 31, 2006. Therefore, the Mortgage Banking segment provided for a \$120,000 loan loss allowance in 2007. We believe that the current level of the allowance for loan losses at the combined Retail and Mortgage Banking segments is appropriate to absorb any losses on existing loans that may become uncollectible.

The Consumer Finance segment, consisting solely of C&F Finance, accounted for the majority of the activity in the allowance for loan losses during 2007. C&F Finance's allowance for loan losses increased to \$11.2 million at December 31, 2007 from \$9.9 million at December 31, 2006, and its provision for loan losses increased \$1.9 million. The increase in the provision for loan losses was primarily attributable to higher net charge-offs in 2007 resulting

[Table of Contents](#)

from an increase in the number of vehicles repossessed in 2007, coupled with an increasing average balance per loan originated over the last several years. We believe that the current level of the allowance for loan losses at the Consumer Finance segment is appropriate to absorb any losses on existing loans that may become uncollectible.

Loan Loss Allowance Methodology-Retail and Mortgage Banking. We conduct an analysis of the loan portfolio on a regular basis. We use this analysis to assess the sufficiency of the allowance for loan losses and to determine the necessary provision for loan losses. The review process generally begins with loan officers identifying problem loans to be reviewed on an individual basis for impairment. In addition to these loans, all commercial loans are considered for individual impairment testing. Impairment testing includes consideration of the current collateral value for each loan, as well as any known internal or external factors that may affect collectibility. When we identify a loan as impaired, we may establish a specific allowance based on the difference between the carrying value of the loan and its computed fair value. We segregate the loans meeting the criteria for special mention, substandard, doubtful and loss, as well as impaired loans, from performing loans within the portfolio. We then group loans by loan type (e.g., commercial, consumer) and by risk rating (e.g., substandard, doubtful). We assign each loan type an allowance factor based on the associated risk, complexity and size of the individual loans within the particular loan category. We assign classified loans a higher allowance factor than non-rated loans within a particular loan type based on our concerns regarding collectibility or our knowledge of particular elements surrounding the borrower. Our allowance factors increase with the severity of classification. Allowance factors used for unclassified loans are based on our analysis of charge-off history and our judgment based on the overall analysis of the lending environment including the general economic conditions. The allowance for loan losses is the aggregate of specific allowances, the calculated allowance required for classified loans by category and the general allowance for each portfolio type.

In conjunction with the methodology described above, we consider the following risk elements that are inherent in the loan portfolio:

- Residential real estate 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.
- 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 a Bank loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Commercial real estate loans may carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project.
- Commercial business loans carry risks associated with the successful operation of a business, which is usually the source of loan repayment, and the value of the collateral, which may depreciate over time and cannot be appraised with as much precision as real estate.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

[Table of Contents](#)

Loan Loss Allowance Methodology – Consumer Finance. The Consumer Finance segment's loans consist of non-prime automobile loans. These loans carry risks associated with (1) the continued credit-worthiness of borrowers who may be unable to meet the credit standards imposed by most traditional automobile financing sources and (2) the value of rapidly-depreciating collateral. These loans do not lend themselves to a classification process because of the short duration of time between delinquency and repossession. Therefore, the loan loss allowance review process generally focuses on the rates of delinquencies, defaults, repossessions and losses. Allowance factors also include an analysis of charge-off history and our judgment based on the overall analysis of the lending environment.

The allocation of the allowance at December 31 for the years indicated and the ratio of related outstanding loan balances to total loans are as follows:

TABLE 6: Allocation of Allowance for Loan Losses

<i>(Dollars in thousands)</i>	2007	2006	2005	2004	2003
Allocation of allowance for loan losses, end of year:					
Real estate—residential mortgage	\$ 684	\$ 502	\$ 402	\$ 337	\$ 615
Real estate—construction	267	136	202	129	112
Commercial, financial and agricultural ¹	3,384	3,031	3,776	3,736	3,175
Equity lines	143	134	124	92	98
Consumer	265	326	214	166	256
Consumer finance	11,220	9,890	8,346	6,684	4,401
Unallocated	—	197	—	—	—
Balance, December 31	<u>\$15,963</u>	<u>\$14,216</u>	<u>\$13,064</u>	<u>\$11,144</u>	<u>\$8,657</u>
Ratio of loans to total year-end loans:					
Real estate—residential mortgage	20%	22%	20%	21%	22%
Real estate—construction	5	2	4	3	3
Commercial, financial and agricultural ¹	43	44	45	46	46
Equity lines	4	5	5	5	4
Consumer	1	2	2	2	3
Consumer finance	27	25	24	23	22
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

¹ Includes loans secured by real estate

[Table of Contents](#)

Nonperforming Assets

Table 7 summarizes nonperforming assets at December 31, of each of the past five years.

TABLE 7: Nonperforming Assets

Retail and Mortgage Banking

<i>(Dollars in thousands)</i>	2007	2006	2005	2004	2003
Nonaccrual loans	\$ 1,227	\$ 955	\$ 4,083	\$ 4,336	\$ 1,993
Real estate owned	—	—	—	—	8
Total nonperforming assets	\$ 1,227	\$ 955	\$ 4,083	\$ 4,336	\$ 2,001
Accruing loans past due for 90 days or more	\$ 578	\$ 1,629	\$ 3,826	\$ 1,580	\$ 1,092
Allowance for loan losses	\$ 4,743	\$ 4,326	\$ 4,718	\$ 4,460	\$ 4,256
Nonperforming assets to total loans* and real estate owned	0.28%	0.24%	1.11%	1.39%	0.72%
Allowance for loan losses to total loans* and real estate owned	1.07	1.08	1.29	1.43	1.52
Allowance for loan losses to nonperforming assets	386.55	452.98	115.56	102.88	212.69

* Total loans above does not include consumer finance loans at C&F Finance, which are shown directly below.

Consumer Finance

<i>(Dollars in thousands)</i>	2007	2006	2005	2004	2003
Nonaccrual loans	\$ 1,388	\$ 880	\$ 1,819	\$ 1,330	\$ 1,149
Accruing loans past due for 90 days or more	\$ —	\$ 8	\$ 26	\$ 481	\$ 233
Allowance for loan losses	\$ 11,220	\$ 9,890	\$ 8,346	\$ 6,684	\$ 4,401
Nonaccrual consumer finance loans to total consumer finance loans	0.87%	0.66%	1.64%	1.42%	1.44%
Allowance for loan losses to total consumer finance loans	7.00%	7.44%	7.51%	7.15%	5.52%

Nonperforming assets of the combined Retail and Mortgage Banking segments at December 31, 2007 included \$732,000 of nonaccrual loans at the Mortgage Banking segment, which accounted for the increase in nonperforming assets. However, the ratio of nonperforming assets to total loans remains below one percent and we believe that the ratio of the allowance for loan losses to total loans and the coverage ratio are indicative of an appropriate reserve level at December 31, 2007.

Although increasing, nonaccrual loans of the Consumer Finance segment as a percentage of total consumer finance loans remains less than one percent at December 31, 2007. While the ratio of the allowance for loan losses to total loans declined 44 basis points since December 31, 2006, the overall allowance for loan losses increased to \$11.2 million at December 31, 2007 from \$9.9 million at December 31, 2006. A decline in the loan loss allowance ratio can occur during periods of significant loan growth, such as 2007, because the purchase of a contract does not necessarily simultaneously give rise to an allowance. We use historical charge-off experience factors, such as delinquency status when each charge-off occurs, to determine the amount of losses inherent in the portfolio at the reporting date. These assumptions are revised periodically and may be affected by actual performance of the loans or other factors. Based on our experience since acquiring C&F Finance, we believe the level of the allowance for loan losses is appropriate to cover probable losses currently inherent in our consumer finance portfolio. However, because the allowance for loan losses is based on estimates, there can be no assurance that actual charge-off amounts will not vary from such estimates.

In accordance with its policies and guidelines and consistent with industry practices, C&F Finance, at times, offers payment deferrals to borrowers, whereby the borrower is allowed to move up to two payments within a twelve-month rolling period to the end of the loan, generally by paying a fee. An account for which all delinquent

[Table of Contents](#)

payments are deferred is classified as current at the time the deferment is granted and therefore is not included as a delinquent account. Thereafter, such an account is aged based on the timely payment of future installments in the same manner as any other account. We evaluate the results of this deferment strategy based upon the amount of cash installments that are collected on accounts after they have been deferred versus the extent to which the collateral underlying the deferred accounts has depreciated over the same period of time. Based on this evaluation, we believe that payment deferrals granted according to our policies and guidelines are an effective portfolio management technique and result in higher ultimate cash collections from the portfolio. Payment deferrals may affect the ultimate timing of when an account is charged off. Increased use of deferrals may result in a lengthening of the loss confirmation period, which would increase expectations of credit losses inherent in the portfolio and therefore increase the allowance for loan losses and related provision for loan losses.

During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses generally increase at the Consumer Finance segment. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage and increases the amount of a loss in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which we may sell repossessed automobiles or delay the timing of these sales. Because C&F Finance focuses on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and losses on these loans are higher than those experienced in the general automobile finance industry and could be more dramatically affected by a general economic downturn. While we manage the higher risk inherent in loans made to non-prime borrowers through the underwriting criteria and collection methods employed by C&F Finance, we cannot guarantee that these criteria or methods will afford adequate protection against these risks. However, we believe that the current allowance for loan losses is appropriate to absorb any losses on existing Consumer Finance segment loans that may become uncollectible.

We generally place loans at the Retail Banking, Mortgage Banking and Consumer Finance segments on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if we determine we have adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. We would have recorded additional gross interest income of \$56,000 for 2007, \$70,000 for 2006 and \$270,000 for 2005 if nonaccrual loans had been current throughout these periods. Interest received on nonaccrual loans was \$219,000 in 2007, \$41,000 in 2006 (adjusted to exclude \$870,000 of nonaccrued and default interest collected on the commercial loan pay-off) and \$193,000 in 2005.

At the Consumer Finance segment, automobiles securing the loans are generally repossessed after a loan becomes more than 60 days delinquent. Repossessions are handled by independent repossession firms engaged by C&F Finance and must be approved by a collections representative. After the prescribed waiting period, the repossessed automobile is sold in a third-party auction. We credit the proceeds from the sale of the automobile, and any other recoveries, against the balance of the loan. Proceeds from the sale of the repossessed vehicle and other recoveries are usually not sufficient to cover the outstanding balance of the loan, and the resulting deficiency is charged off. The charge-off represents the difference between the actual net sale proceeds minus collections and repossession expenses and the principal balance of the delinquent loan. C&F Finance pursues collection of deficiencies when it deems such action to be appropriate.

[Table of Contents](#)

We measure impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. We consider a loan impaired when it is probable that we will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimate collectibility of all amounts due. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. The balance of impaired loans was \$291,000 and \$781,000 at December 31, 2007 and 2006, respectively, for which no specific valuation allowance was deemed necessary. The average balance of impaired loans was \$557,000 for 2007, \$2.24 million for 2006 and \$4.2 million for 2005.

FINANCIAL CONDITION

SUMMARY

A financial institution's primary sources of revenue are generated by its earning assets, while its major expenses are produced by the funding of those assets with interest-bearing liabilities. Effective management of these sources and uses of funds is essential in attaining a financial institution's maximum profitability while maintaining an acceptable level of risk.

At December 31, 2007, the Corporation had total assets of \$785.6 million compared to \$734.5 million at December 31, 2006. The increase was principally a result of an increase in loans held for investment at the Retail Banking and Consumer Finance segments and an increase in investment securities at the Retail Banking segment, which were offset in part by a decline in interest-bearing deposits in other banks used to partially fund loan growth and a decline in loans held for sale. Asset growth was primarily funded with increased borrowings.

LOAN PORTFOLIO

General

Through the Retail Banking segment, we engage in a wide range of lending activities, which include the origination, primarily in the Banking segment's market area, of (1) one-to-four family and multi-family residential mortgage loans, (2) commercial real estate loans, (3) construction loans, (4) land acquisition and development loans, (5) consumer loans and (6) commercial business loans. We engage in non-prime automobile lending through the Consumer Finance segment and in residential mortgage lending through the Mortgage Banking segment with loans sold to third-party investors. At December 31, 2007, the Corporation's loans held for investment in all categories totaled \$601.8 million and loans held for sale totaled \$34.1 million.

[Table of Contents](#)

Tables 8 and 9 present information pertaining to the composition of loans and maturity/repricing of loans.

TABLE 8: Summary of Loans Held for Investment

<i>(Dollars in thousands)</i>	December 31,				
	2007	2006	2005	2004	2003
Real estate—residential mortgage	\$122,705	\$115,557	\$ 96,423	\$ 85,080	\$ 77,878
Real estate—construction	26,719	13,650	20,222	13,315	9,591
Commercial, financial, and agricultural ¹	257,951	236,157	216,081	185,646	167,207
Equity lines	25,282	24,880	24,662	18,490	13,044
Consumer	8,991	8,951	9,574	9,620	11,405
Consumer finance	160,196	132,864	111,141	93,464	79,702
Total loans	601,844	532,059	478,103	405,615	358,827
Less allowance for loan losses	(15,963)	(14,216)	(13,064)	(11,144)	(8,657)
Total loans, net	\$585,881	\$517,843	\$465,039	\$394,471	\$350,170

¹ Includes loans secured by real estate

TABLE 9: Maturity/Repricing Schedule of Loans

<i>(Dollars in thousands)</i>	December 31, 2007	
	Commercial, Financial, and Agricultural	Real Estate Construction
Variable Rate:		
Within 1 year	\$ 160,124	\$ 12,388
1 to 5 years	—	—
After 5 years	—	—
Fixed Rate:		
Within 1 year	\$ 15,539	\$ 14,331
1 to 5 years	52,615	—
After 5 years	29,673	—

The increase in loans held for investment occurred predominantly in (1) the variable-rate categories of real estate and commercial loans and (2) the fixed-rate category of consumer loans at C&F Finance. Typically, growth in the variable-rate categories will negatively affect net interest margin in a declining rate environment. Fixed-rate consumer loans at C&F Finance are predominantly funded by variable rate borrowings; therefore, net interest margin will be favorably impacted in a declining interest rate environment.

Credit Policy

The Corporation's credit policy establishes minimum requirements and provides for appropriate limitations on overall concentration of credit within the Corporation. The policy provides guidance in general credit policies, underwriting policies and risk management, credit approval, and administrative and problem asset management policies. The overall goal of the Corporation's credit policy is to ensure that loan growth is accompanied by acceptable asset quality with uniform and consistently applied approval, administration, and documentation practices and standards.

Residential Mortgage Lending – Held for Sale

The Mortgage Banking segment's guidelines for underwriting conventional conforming loans comply with the underwriting criteria established by Fannie Mae and/or Freddie Mac. The guidelines for non-conforming conventional loans are based on the requirements of private investors and information provided by third-party investors. The guidelines used by C&F Mortgage to originate FHA-insured and VA-guaranteed loans comply with

[Table of Contents](#)

the criteria established by HUD and the VA. The conventional loans that C&F Mortgage originates or purchases that have loan-to-value ratios greater than 80 percent at origination are generally insured by private mortgage insurance. The borrower pays the cost of the insurance.

Residential Mortgage Lending – Held for Investment

The Retail Banking segment originates residential mortgage loans secured by properties located in its primary market area in southeastern and central Virginia. The Bank offers various types of residential mortgage loans in addition to traditional long-term, fixed-rate loans. The majority of such loans include 10 and 15 year amortizing mortgage loans with fixed rates of interest and fixed-rate mortgage loans with terms of 20, 25 and 30 years but subject to call after five years at the option of the Bank.

Loans associated with residential mortgage lending are included in the real estate—residential mortgage category in Table 8.

Construction Lending

The Retail Banking segment has an active construction lending program. The Bank makes loans primarily for the construction of one-to-four family residences and, to a lesser extent, multi-family dwellings. The Bank also makes construction loans for office and warehouse facilities and other nonresidential projects, generally limited to borrowers that present other business opportunities for the Bank.

The amounts, interest rates and terms for construction loans vary, depending upon market conditions, the size and complexity of the project, and the financial strength of the borrower and any guarantors of the loan. The term for the Bank's typical construction loan ranges from nine months to 15 months for the construction of an individual residence and from 15 months to a maximum of three years for larger residential or commercial projects. The Bank does not typically amortize its construction loans, and the borrower pays interest monthly on the outstanding principal balance of the loan. The interest rates on the Bank's construction loans are fixed and variable. The Bank does not generally finance the construction of commercial real estate projects built on a speculative basis. For residential builder loans, the Bank limits the number of models and/or speculative units allowed depending on market conditions, the builder's financial strength and track record and other factors. Generally, the maximum loan-to-value ratio for one-to-four family residential construction loans is 80 percent of the property's fair market value, or 85 percent of the property's fair market value if the property will be the borrower's primary residence. The fair market value of a project is determined on the basis of an appraisal of the project conducted by an appraiser acceptable to the Bank. For larger projects where unit absorption or leasing is a concern, the Bank may also obtain a feasibility study or other acceptable information from the borrower or other sources about the likely disposition of the property following the completion of construction.

Construction loans for nonresidential projects and multi-unit residential projects are generally larger and involve a greater degree of risk to the Bank than residential mortgage loans. The Bank attempts to minimize such risks (1) by making construction loans in accordance with the Bank's underwriting standards and to established customers in its primary market area and (2) by monitoring the quality, progress and cost of construction. Generally, the maximum loan-to-value ratio established by the Bank for non-residential projects and multi-unit residential projects is 80 percent; however, this maximum can be waived for particularly strong borrowers on an exception basis.

Loans associated with construction lending are included in the real estate—construction category in Table 8.

[Table of Contents](#)

Consumer Lot Lending

Consumer lot loans are loans made to individuals for the purpose of acquiring an unimproved building site for the construction of a residence that generally will be occupied by the borrower. Consumer lot loans are made only to individual borrowers, and each borrower generally must certify to the Bank his intention to build and occupy a single-family residence on the lot generally within three or five years of the date of origination of the loan. These loans typically have a maximum term of either three or five years with a balloon payment of the entire balance of the loan being due in full at the end of the initial term. The interest rate for these loans is fixed or variable at a rate that is slightly higher than prevailing rates for one-to-four family residential mortgage loans. We do not believe consumer lot loans bear as much risk as land acquisition and development loans because such loans are not made for the construction of residences for immediate resale, are not made to developers and builders, and are not concentrated in any one subdivision or community. The Bank also purchases lot loans originated by C&F Mortgage. These loans must satisfy the Bank's underwriting criteria, including loan-to-value and credit score guidelines.

Loans associated with consumer lot lending are included in the real estate—construction category in Table 8.

Commercial Real Estate Lending

The Bank's commercial real estate loans are primarily secured by the value of real property and the income arising from such property. The proceeds of commercial real estate loans are generally used by the borrower to finance or refinance the cost of acquiring and/or improving a commercial property. The properties that typically secure these loans are office and warehouse facilities, hotels, retail facilities, restaurants and other commercial properties. The Bank's present policy is generally to restrict the making of commercial real estate loans to borrowers who will occupy or use the financed property in connection with their normal business operations. However, the Bank also will consider making commercial real estate loans under the following two conditions. First, the Bank will consider making commercial real estate loans for other purposes if the borrower is in strong financial condition and presents a substantial business opportunity for the Bank. Second, the Bank will consider making commercial real estate loans to creditworthy borrowers who have substantially pre-leased the improvements to high-caliber tenants.

The Bank's commercial real estate loans are usually amortized over a period of time ranging from 15 years to 25 years and usually have a term to maturity ranging from five years to 15 years. These loans normally have provisions for interest rate adjustments after the loan is three to five years old. The Bank's maximum loan-to-value ratio for a commercial real estate loan is 80 percent; however, this maximum can be waived for particularly strong borrowers on an exception basis. Most commercial real estate loans are further secured by one or more unconditional personal guarantees.

In recent years, the Bank has structured some of its commercial real estate loans as mini-permanent loans. The amortization period, term and interest rates for these loans vary based on borrower preferences and the Bank's assessment of the loan and the degree of risk involved. If the borrower prefers a fixed rate of interest, the Bank usually offers a loan with a fixed rate of interest for a term of three to five years with an amortization period of up to 25 years. The remaining balance of the loan is due and payable in a single balloon payment at the end of the initial term. We believe that shorter maturities for commercial real estate loans are necessary to give the Bank some

[Table of Contents](#)

protection from changes in the borrower's business and income as well as changes in general economic conditions. In the case of fixed-rate commercial real estate loans, shorter maturities also provide the Bank with an opportunity to adjust the interest rate on this type of interest-earning asset in accordance with the Bank's asset and liability management strategies.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than residential mortgage loans. Because payments on loans secured by commercial real estate are usually dependent on successful operation or management of the properties securing such loans, repayment of such loans is subject to changes in both general and local economic conditions and the borrower's business and income. As a result, events beyond the control of the Bank, such as a downturn in the local economy, could adversely affect the performance of the Bank's commercial real estate loan portfolio. The Bank seeks to minimize these risks by lending to established customers and generally restricting its commercial real estate loans to its primary market area. Emphasis is placed on the income producing characteristics and capacity of the collateral.

Loans associated with commercial real estate lending are included in the commercial, financial and agricultural category in Table 8.

Land Acquisition and Development Lending

Land acquisition and development loans are made to builders and developers for the purpose of acquiring unimproved land to be developed for residential building sites, residential housing subdivisions, multi-family dwellings and a variety of commercial uses. The Bank's policy is to make land acquisition loans to borrowers for the purpose of acquiring developed lots for single-family, townhouse or condominium construction. The Bank will make both land acquisition and development loans to residential builders, experienced developers and others in strong financial condition to provide additional construction and mortgage lending opportunities for the Bank.

The Bank underwrites and processes land acquisition and development loans in much the same manner as commercial construction loans and commercial real estate loans. For land acquisition and development loans, the Bank uses lower loan-to-value ratios, which are a maximum of 65 percent for raw land, 75 percent for land development and improved lots and 80 percent of the discounted appraised value of the property as determined in accordance with the Bank's appraisal policies for developed lots for single-family or townhouse construction. The Bank can waive the maximum loan-to-value ratio for particularly strong borrowers on an exception basis. The term of land acquisition and development loans ranges from a maximum of two years for loans relating to the acquisition of unimproved land to, generally, a maximum of three years for other types of projects. All land acquisition and development loans generally are further secured by one or more unconditional personal guarantees. Because these loans are usually in a larger amount and involve more risk than consumer lot loans, the Bank carefully evaluates the borrower's assumptions and projections about market conditions and absorption rates in the community in which the property is located and the borrower's ability to carry the loan if the borrower's assumptions prove inaccurate.

Loans associated with land acquisition and development lending are included in the commercial, financial and agricultural category in Table 8.

Commercial Business Lending

Commercial business loan products include revolving lines of credit to provide working capital, term loans to finance the purchase of vehicles and equipment, letters of credit to guarantee payment and performance, and other commercial loans. In general, these credit facilities carry the unconditional guaranty of the owners and/or stockholders.

[Table of Contents](#)

Revolving and operating lines of credit are typically secured by all current assets of the borrower, provide for the acceleration of repayment upon any event of default, are monitored monthly or quarterly to ensure compliance with loan covenants, and are re-underwritten or renewed annually. Interest rates generally will float at a spread tied to the Bank's prime lending rate. Term loans are generally advanced for the purchase of, and are secured by, vehicles and equipment and are normally fully amortized over a term of two to five years, on either a fixed or floating rate basis.

Loans associated with commercial business lending are included in the commercial, financial and agricultural category in Table 8.

Home Equity and Second Mortgage Lending

The Bank offers its customers home equity lines of credit and second mortgage loans that enable customers to borrow funds secured by the equity in their homes. Currently, home equity lines of credit are offered with adjustable rates of interest that are generally priced at a spread to the prime lending rate. Second mortgage loans are offered with fixed and adjustable rates. Call option provisions are included in the loan documents for some longer-term, fixed-rate second mortgage loans, and these provisions allow the Bank to make interest rate adjustments for such loans. Second mortgage loans are granted for a fixed period of time, usually between five and 20 years, and home equity lines of credit are made on an open-end, revolving basis. Home equity loans, second mortgage loans and other consumer loans secured by a personal residence generally do not present as much risk to the Bank as other types of consumer loans. The Bank also purchases home equity lines of credit and second mortgage loans originated by C&F Mortgage. These loans must satisfy the Bank's underwriting criteria, including loan-to-value and credit score guidelines.

Loans associated with home equity and second mortgage lending are included in the equity lines category in Table 8.

Consumer Lending

The Bank offers a variety of consumer loans, including automobile, personal secured and personal unsecured, credit card, and loans secured by savings accounts or certificates of deposit. The shorter terms and generally higher interest rates on consumer loans help the Bank maintain a profitable spread between its average loan yield and its cost of funds. Consumer loans secured by collateral other than a personal residence generally involve more credit risk than residential mortgage loans because of the type and nature of the collateral or, in certain cases, the absence of collateral. However, the Bank believes the higher yields generally earned on such loans compensate for the increased credit risk associated with such loans.

Loans associated with consumer lending are included in the consumer category in Table 8.

Automobile Sales Finance

C&F Finance has an extensive automobile dealer network through which it purchases installment contracts throughout its markets. Branch personnel have a specific credit authority based upon their experience and historical loan portfolio results, as well as established underwriting criteria. Although the credit approval process is decentralized, C&F Finance's application processing system includes controls designed to ensure that credit decisions comply with its underwriting policies and procedures.

[Table of Contents](#)

Finance contract application packages completed by prospective borrowers are submitted by the automobile dealers electronically through a third-party online automotive sales and finance platform to C&F Finance's automated origination and application scoring system, which processes the credit bureau report, generates all relevant loan calculations and recommends the contract structure. C&F Finance personnel with credit authority review the system-generated recommendations and determine whether to approve or deny the application. The credit decision is based primarily on the applicant's credit history with emphasis on prior auto loan history, current employment status, income, collateral type and mileage, and the contract-to-value ratio.

C&F Finance's underwriting and collateral guidelines form the basis for the credit decision. Exceptions to credit policies and authorities must be approved by a designated credit officer. C&F Finance's typical borrowers have experienced prior credit difficulties. Because C&F Finance serves customers who are unable to meet the credit standards imposed by most traditional automobile financing sources, we expect C&F Finance to sustain a higher level of credit losses than traditional automobile financing sources. However, C&F Finance generally charges interest at higher rates than those charged by traditional financing sources. These higher rates should more than offset the increase in the provision for loan losses for this segment of the Corporation's loan portfolio.

Loans associated with automobile sales finance are included in the consumer finance category in Table 8.

SECURITIES

The investment portfolio plays a primary role in the management of the Corporation's interest rate sensitivity and generates substantial interest income. In addition, the portfolio serves as a source of liquidity and is used as needed to meet collateral requirements. The investment portfolio consists of securities available for sale, which may be sold in response to changes in market interest rates, changes in prepayment risk, increases in loan demand, general liquidity needs and other similar factors. These securities are carried at estimated fair value.

The following table sets forth the composition of the Corporation's securities available for sale in dollar amounts at fair value and as a percentage of the Corporation's total securities available for sale at the dates indicated:

<i>(Dollars in thousands)</i>	December 31, 2007		December 31, 2006	
	Amount	Percent	Amount	Percent
U.S. government agencies and corporations	\$ 7,467	9%	\$ 6,222	9%
Mortgage-backed securities	1,771	2	2,208	3
Obligations of states and political subdivisions	68,150	84	55,027	82
Total debt securities	77,388	95	63,457	94
Preferred stock	3,867	5	4,127	6
Total available for sale securities	<u>\$81,225</u>	<u>100%</u>	<u>\$67,584</u>	<u>100%</u>

The increase in securities available for sale occurred predominantly in the municipal portfolio. Additions since December 31, 2006 focused on longer-term municipal securities.

[Table of Contents](#)

Table 10 presents additional information pertaining to the composition of the securities portfolio by contractual maturity.

TABLE 10: Maturity of Securities

	Year Ended December 31,					
	2007		2006		2005	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<i>(Dollars in thousands)</i>						
U.S. government agencies and corporations:						
Maturing within 1 year	\$ 250	3.50%	\$ 498	2.97%	\$ —	— %
Maturing after 1 year, but within 5 years	1,998	4.19	2,747	4.46	2,740	4.25
Maturing after 5 years, but within 10 years	2,973	5.61	2,443	5.55	3,495	5.01
Maturing after 10 years	2,225	6.16	625	6.82	—	—
Total U.S. government agencies and corporations	<u>7,446</u>	<u>5.32</u>	<u>6,313</u>	<u>5.00</u>	<u>6,235</u>	<u>4.68</u>
Mortgage backed securities:						
Maturing within 1 year	154	5.34	38	3.39	348	5.91
Maturing after 1 year, but within 5 years	1,622	4.64	2,198	4.77	2,240	4.70
Total mortgage backed securities	<u>1,776</u>	<u>4.64</u>	<u>2,236</u>	<u>4.75</u>	<u>2,588</u>	<u>4.86</u>
States and municipals: ¹						
Maturing within 1 year	4,005	5.32	1,213	4.38	1,103	4.85
Maturing after 1 year, but within 5 years	18,595	6.24	16,254	6.06	11,192	6.03
Maturing after 5 years, but within 10 years	28,167	6.47	24,017	6.75	22,592	6.92
Maturing after 10 years	16,442	6.21	12,437	6.41	16,242	6.64
Total states and municipals	<u>67,209</u>	<u>6.27</u>	<u>53,921</u>	<u>6.41</u>	<u>51,129</u>	<u>6.60</u>
Total securities: ²						
Maturing within 1 year	4,409	5.21	1,749	3.95	1,451	5.10
Maturing after 1 year, but within 5 years	22,215	5.93	21,199	5.71	16,172	5.53
Maturing after 5 years, but within 10 years	31,140	6.39	26,460	6.64	26,087	6.67
Maturing after 10 years	18,667	6.21	13,062	6.42	16,242	6.64
Total securities	<u>\$76,431</u>	<u>6.14%</u>	<u>\$ 62,470</u>	<u>6.21%</u>	<u>\$ 59,952</u>	<u>6.33%</u>

¹ Yields on tax-exempt securities have been computed on a taxable-equivalent basis.

² Total securities excludes preferred stock at amortized cost of \$4.0 million at December 31, 2007; \$3.9 million at December 31, 2006; and \$4.1 million at December 31, 2005. (estimated fair value of \$3.9 million at December 31, 2007; \$4.1 million at December 31, 2006; and \$4.1 million at December 31, 2005).

DEPOSITS

The Corporation's predominant source of funds is depository accounts, which are comprised of demand deposits, savings and money market accounts, and time deposits. The Corporation's deposits are principally provided by individuals and businesses located within the communities served.

Deposits totaled \$527.6 million at December 31, 2007, compared to \$532.8 million at December 31, 2006. This decrease was primarily attributable to (1) the decrease in noninterest-bearing demand deposits, which totaled \$80.0 million at December 31, 2007, compared to \$90.3 million at December 31, 2006 and (2) the decrease in savings and interest-bearing demand deposits, which totaled \$184.6 million at December 31, 2007, compared to \$188.5 million at December 31, 2006, which were offset in part by the increase in time deposits to \$262.9 million at December 31, 2007 from \$254.1 million at December 31, 2006. The decrease in savings and interest-bearing demand deposits resulted primarily from a decrease in municipal deposit accounts, which was partially offset by strong money market deposit growth in the four new branches opened in 2006 and 2007. The increase in time deposits

[Table of Contents](#)

resulted from the effect of our competitive rate-setting strategies and the issuance of \$3.0 million of brokered certificates of deposit. Total deposits at December 31, 2006 increased \$37.4 million, or 7.5 percent, over December 31, 2005. Deposit growth in 2006 occurred in all of the Bank's market regions in 2006.

Table 11 presents the average deposit balances and average rates paid for the years 2007, 2006 and 2005.

TABLE 11: Average Deposits and Rates Paid

<i>(Dollars in thousands)</i>	Year Ended December 31,					
	2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	\$ 84,365		\$ 79,472		\$ 76,172	
Interest-bearing transaction accounts	82,109	1.11%	87,074	1.09%	81,885	0.89%
Money market deposit accounts	51,624	2.97	44,820	2.20	49,909	1.42
Savings accounts	45,452	0.66	49,644	0.71	54,656	0.70
Certificates of deposit, \$100M or more	99,653	4.73	79,873	3.98	63,432	2.71
Other certificates of deposit	169,431	4.41	152,879	3.72	136,779	2.74
Total interest-bearing deposits	448,269	3.33%	414,290	2.69%	386,661	1.88%
Total deposits	\$532,634		\$493,762		\$462,833	

Table 12 details maturities of certificates of deposit with balances of \$100,000 or more at December 31, 2007.

TABLE 12: Maturities of Certificates of Deposit with Balances of \$100,000 or More

<i>(Dollars in thousands)</i>	December 31, 2007
3 months or less	\$ 13,566
3-6 months	16,140
6-12 months	51,264
Over 12 months	16,036
Total	\$ 97,006

BORROWINGS

In addition to deposits, the Corporation utilizes short-term borrowings from the FHLB to fund its day-to-day operations. Short-term borrowings also include securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the day sold, an overnight fed funds line with a regional correspondent bank, as well as a short-term line of credit with a third-party lender for general corporate purposes. Long-term borrowings consist of advances from the FHLB and advances under a non-recourse revolving bank line of credit. All FHLB advances are secured by a blanket floating lien on all qualifying real estate loans. The bank line of credit is non-recourse and is secured by loans at C&F Finance.

In December, 2007, C&F Financial Statutory Trust II (Trust II), a wholly-owned subsidiary of the Corporation, was formed for the purpose of issuing trust preferred capital securities for general corporate purposes including the refinancing of existing debt. On December 14, 2007, Trust II issued \$10.0 million of trust preferred capital securities in a private placement to an institutional investor and \$310,000 in common equity to the Corporation. The principal asset of Trust II is \$10.3 million of the Corporation's trust preferred capital notes. In July 2005, C&F Financial Statutory Trust I (Trust I), a wholly-owned subsidiary of the Corporation, was formed for the purpose of issuing trust preferred capital securities to partially fund the Corporation's purchase of 427,186

[Table of Contents](#)

shares of its common stock. On July 21, 2005, Trust I issued \$10.0 million of trust preferred capital securities in a private placement to an institutional investor and \$310,000 in common equity to the Corporation. The principal asset of Trust I is \$10.3 million of the Corporation's trust preferred capital notes. For further information concerning the Corporation's borrowings, refer to Item 8, "Financial Statements and Supplementary Data," under the heading "Note 7: Borrowings."

OFF-BALANCE-SHEET ARRANGEMENTS

To meet the financing needs of customers, the Corporation is a party, in the normal course of business, to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit, commitments to sell loans and standby letters of credit. These instruments involve elements of credit and interest rate risk in addition to the amount on the balance sheet. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of these instruments. We use the same credit policies in making these commitments and conditional obligations as we do for on-balance-sheet instruments. We obtain collateral based on our credit assessment of the customer in each circumstance.

Loan commitments are agreements to extend credit to a customer provided that there are no violations of the terms of the contract prior to funding. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The total amount of unused loan commitments was \$98.0 million at December 31, 2007 and \$93.3 million at December 31, 2006.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The total contract amount of standby letters of credit, whose contract amounts represent credit risk, was \$7.1 million at December 31, 2007 and \$8.8 million at December 31, 2006.

At December 31, 2007, C&F Mortgage had rate lock commitments to originate mortgage loans aggregating \$22.8 million and loans held for sale of \$34.1 million. C&F Mortgage has entered into corresponding commitments with third party investors to sell loans of approximately \$56.9 million. Under the contractual relationship with these investors, C&F Mortgage is obligated to sell the loans only if the loans close. No other obligation exists. As a result of these contractual relationships with these investors, C&F Mortgage is not exposed to losses, nor will it realize gains, related to its rate lock commitments due to changes in interest rates.

C&F Mortgage sells substantially all of the residential mortgage loans it originates to third-party investors, some of whom require the repurchase of loans in the event of early default or faulty documentation. Mortgage loans and their related servicing rights are sold under agreements that define certain eligibility criteria for the mortgage loans. Recourse periods vary from 90 days up to one year and conditions for repurchase vary with the investor. We include recourse considerations in our calculation of the Corporation's capital adequacy. Payments made under these recourse provisions were \$84,000 in 2007, \$62,000 in 2006 and \$29,000 in 2005. Risks also arise from the possible inability of counterparties to meet the terms of their contracts. C&F Mortgage has procedures in place to evaluate the credit risk of investors and does not expect any counterparty to fail to meet its obligations.

[Table of Contents](#)

LIQUIDITY

The objective of the Corporation's liquidity management is to ensure the continuous availability of funds to satisfy the credit needs of our customers and the demands of our depositors, creditors and investors. Stable core deposits and a strong capital position are the components of a solid foundation for the Corporation's liquidity position. Additional sources of liquidity available to the Corporation include cash flows from operations, loan payments and payoffs, deposit growth, sales of securities, the issuance of brokered certificates of deposit and the capacity to borrow additional funds.

Liquid assets, which include cash and due from banks, interest-bearing deposits at other banks, federal funds sold and nonpledged securities available for sale, totaled \$58.5 million at December 31, 2007. The Corporation's funding sources consist of (1) an established federal funds line with a regional correspondent bank that had no outstanding balance under a total line of \$14.0 million as of December 31, 2007, (2) an established line with the FHLB that had \$66.9 million outstanding under a total line of \$124.6 million as of December 31, 2007, (3) a revolving line of credit with a third-party bank that had \$86.0 million outstanding under a total line of \$100.0 million as of December 31, 2007 and (4) a revolving line of credit with a third-party bank that had no outstanding balance under a total line of \$7.0 million as of December 31, 2007. We have no reason to believe these arrangements will not be renewed at maturity.

Certificates of deposit of \$100,000 or more maturing in less than a year totaled \$81.0 million at December 31, 2007; certificates of deposit of \$100,000 or more maturing in more than one year totaled \$16.0 million. The following table presents the Corporation's contractual obligations and scheduled payment amounts due at various intervals over the next five years and beyond as of December 31, 2007:

CONTRACTUAL OBLIGATIONS

<i>(Dollars in thousands)</i>	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank lines of credit	\$ 85,959	\$ —	\$85,959	\$ —	\$ —
FHLB advances ¹	66,900	19,400	—	17,500	30,000
Trust preferred capital notes	20,620	—	—	—	20,620
Securities sold under agreements to repurchase	2,568	2,568	—	—	—
Operating leases	2,883	1,043	1,182	658	—
Total	<u>\$178,930</u>	<u>\$ 23,011</u>	<u>\$87,141</u>	<u>\$18,158</u>	<u>\$ 50,620</u>

¹ FHLB advances include convertible advances of \$17.5 million maturing in 2012, \$12.5 million maturing in 2014 and \$17.5 million maturing in 2017. These advances have fixed rates of interest unless the FHLB exercises its option to convert the interest on these advances from fixed-rate to variable-rate (i.e., the conversion date). We can elect to repay the advances in whole or in part on their respective conversion dates and on any interest payment dates thereafter without the payment of a fee if the FHLB elects to convert the advances. However, we would incur a fee if we repay the advances prior to their respective conversion dates, if the FHLB does not convert the advance on the conversion date, or, after notification of conversion, on any date other than the conversion date or any interest payment date thereafter. For further information concerning the Corporation's FHLB borrowings, refer to Item 8, "Financial Statements and Supplementary Data," under the heading "Note 7: Borrowings."

[Table of Contents](#)

As a result of the Corporation's management of liquid assets and the ability to generate liquidity through liability funding, we believe that we maintain overall liquidity sufficient to satisfy the Corporation's operational requirements and contractual obligations.

CAPITAL RESOURCES

The assessment of capital adequacy depends on such factors as asset quality, liquidity, earnings performance, and changing competitive conditions and economic forces. We regularly review the adequacy of the Corporation's capital. We maintain a structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

During 2007, the Corporation purchased 54,800 shares of its common stock in negotiated and open-market transactions at prices ranging between \$32.50 and \$43.20 in accordance with a board-approved stock purchase program that will expire in July 2008. Purchases of 149,720 shares at prices between \$37.25 and \$45.07 per share were made in accordance with a board-approved stock purchase program, which was terminated in July 2007. The board of directors authorized these stock purchases because the Corporation's capital level exceeded its ongoing operational needs and regulatory requirements. While we will continue to look for opportunities to invest capital in profitable growth, share purchases are another tool that facilitates improving shareholder return, as measured by ROE and earnings per share.

The Corporation's capital position continues to exceed regulatory minimum requirements. The primary indicators relied on by bank regulators in measuring the capital position are the Tier 1 capital, total risk-based capital, and leverage ratios, as previously described in the "Regulation and Supervision" section of Item 1. The Corporation's Tier 1 capital to risk-weighted asset ratio was 11.2 percent at December 31, 2007, compared with 11.3 percent at December 31, 2006. The total capital to risk-weighted asset ratio was 12.8 percent at December 31, 2007, compared with 12.6 percent at December 31, 2006. The Tier 1 leverage ratio was 9.4 percent at December 31, 2007, compared with 9.6 percent at December 31, 2006. These ratios are in excess of the mandated minimum requirements. A portion of the trust preferred securities issued in December 2007 and July 2005 are treated as Tier 1 capital for regulatory capital adequacy determination purposes.

Shareholders' equity was \$65.2 million at year-end 2007 compared with \$68.0 million at year-end 2006. The dividend payout ratio was 44.5 percent in 2007, 30.2 percent in 2006 and 28.3 percent in 2005. During 2007, the Corporation declared dividends of \$1.24 per share, up 6.9 percent from \$1.16 per share per share in 2006.

We are not aware of any current recommendations by any regulatory authorities that, if implemented, would have a material effect on the Corporation's liquidity, capital resources or results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements affecting the Corporation are described in Item 8, "Financial Statements and Supplementary Data," under the heading "Note 1: Summary of Significant Accounting Policies-Recent Accounting Pronouncements."

[Table of Contents](#)

EFFECTS OF INFLATION

The effect of changing prices is typically different for financial institutions than for other entities because a financial institution's assets and liabilities are monetary in nature. Interest rates are significantly impacted by inflation, but neither the timing nor the magnitude of the changes is directly related to price-level indices. The consolidated financial statements reflect the impacts of inflation on interest rates, loan demands and deposits.

USE OF CERTAIN NON-GAAP FINANCIAL MEASURES

In addition to results presented in accordance with United States generally accepted accounting principles (GAAP), we have presented certain non-GAAP financial measures for the year ended December 31, 2006 throughout this Form 10-K, which are reconciled to GAAP financial measures below. We believe these non-GAAP financial measures provide information useful to investors in understanding the Corporation's performance trends and facilitate comparisons with its peers. Specifically, we believe the exclusion of a significant recovery of income recognized in a single accounting period permits a comparison of results for ongoing business operations, and it is on this basis that we internally assess the Corporation's performance for 2006 and establish goals for future periods. Although we believe the non-GAAP financial measures presented in this Form 10-K enhance investors' understandings of the Corporation's performance, these non-GAAP financial measures should not be considered a substitute for GAAP financial measures.

Reconciliation of Certain Non-GAAP Financial Measures

<i>(Dollars in thousands, except for per share data)</i>	*	For the Year Ended December 31,	
		2007	2006
Net Income and Earnings Per Share			
Net income (GAAP)	A	\$ 8,480	\$ 12,129
Nonaccrual and default interest attributable to loan transaction, net of income taxes (GAAP)		—	(565)
Reduction in loan loss allowance attributable to loan transaction, net of income taxes (GAAP)		—	(163)
Net income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B	<u>\$ 8,480</u>	<u>\$ 11,401</u>
Weighted average shares – assuming dilution (GAAP)	C	3,161	3,273
Weighted average shares – basic (GAAP)	D	3,039	3,152
Earnings per share – assuming dilution GAAP	A/C	\$ 2.68	\$ 3.71
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/C	\$ 2.68	\$ 3.48
Earnings per share – basic GAAP	A/D	\$ 2.79	\$ 3.85
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/D	\$ 2.79	\$ 3.62

[Table of Contents](#)

Reconciliation of Certain Non-GAAP Financial Measures (Continued)

<i>(Dollars in thousands, except for per share data)</i>	*	For the Year Ended December 31,	
		2007	2006
Return on Average Assets			
Average assets (GAAP)	E	\$ 748,394	\$ 694,315
Return on average assets GAAP	A/E	1.13%	1.75%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/E	1.13%	1.64%
Return on Average Equity			
Average equity (GAAP)	F	\$ 65,070	\$ 63,949
Return on average equity GAAP	A/F	13.03%	18.97%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/F	13.03%	17.83%
Retail Banking Segment Net Income			
Pretax income (GAAP)		\$ 4,335	\$ 8,731
Nonaccrual and default interest attributable to loan transaction, net of income taxes (GAAP)		—	(870)
Reduction in loan loss allowance attributable to loan transaction, net of income taxes (GAAP)		—	(250)
Pretax income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction		<u>\$ 4,335</u>	<u>\$ 7,611</u>
Net Interest Income and Net Interest Margin			
Net interest income (GAAP)		\$ 41,447	\$ 40,125
Taxable-equivalent adjustment		1,488	1,357
Taxable-equivalent net interest income (GAAP)	G	42,935	41,482
Nonaccrual and default interest attributable to loan transaction (GAAP)		—	(870)
Taxable-equivalent net interest income, excluding nonaccrual and default interest attributable to loan transaction	H	<u>\$ 42,935</u>	<u>\$ 40,612</u>
Average interest-earning assets (GAAP)	I	\$ 685,103	\$ 632,069
Net interest margin (GAAP)	G/I	6.27%	6.56%
Net interest margin, excluding nonaccrual and default interest attributable to loan transaction	H/I	6.27%	6.43%

* The letters included in this column are provided to show how the various ratios presented in the Reconciliation of Certain Non-GAAP Financial Measures are calculated.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary component of market risk is interest rate volatility. Fluctuations in interest rates will impact the amount of interest income and expense the Corporation receives or pays on a significant portion of its assets and liabilities and the market value of its interest-earning assets and interest-bearing liabilities, excluding those which have a very short term until maturity. The Corporation does not subject itself to foreign currency exchange rate risk or commodity price risk due to the current nature of its operations. The Corporation did not have any outstanding hedging transactions, such as interest rate swaps, floors or caps, at December 31, 2007.

[Table of Contents](#)

The primary objective of the Corporation's asset/liability management process is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent and appropriate. Thus the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

The Corporation assumes interest rate risk as a result of its normal operations. The fair values of most of the Corporation's financial instruments will change when interest rates change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

We use simulation analysis to assess earnings at risk and economic value of equity (EVE) analysis to assess economic value at risk. These methods allow management to regularly monitor both the direction and magnitude of the Corporation's interest rate risk exposure. These modeling techniques involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of both assets and liabilities, prepayments on amortizing assets, other embedded options, non-maturity deposit sensitivity and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of the Corporation's interest rate risk position over time.

Simulation analysis evaluates the potential effect of upward and downward changes in market interest rates on future net interest income. The analysis involves changing the interest rates used in determining net interest income over the next twelve months. The resulting percentage change in net interest income in various rate scenarios is an indication of the Corporation's shorter-term interest rate risk. The analysis utilizes a "static" balance sheet approach, which assumes changes in interest rates without any management response to change the composition of the balance sheet. The measurement date balance sheet composition is maintained over the simulation time period with maturing and repayment dollars being rolled back into like instruments for new terms at current market rates. Additional assumptions are applied to modify volumes and pricing under the various rate scenarios. These include prepayment assumptions on mortgage assets, the sensitivity of non-maturity deposit rates, and other factors that management deems significant.

The simulation analysis results are presented in the table below. These results, based on a measurement date balance sheet as of December 31, 2007, indicate that the Corporation would expect net interest income to decrease over the next twelve months 1.48 percent assuming an immediate downward shift in market interest rates of 200 basis points (BP) and to decrease 1.22 percent if rates shifted upward in the same manner.

[Table of Contents](#)

1-Year Net Interest Income Simulation (*dollars in thousands*)

Assumed Market Interest Rate Shift	Hypothetical Change in Net Interest Income for the Year Ended December 31, 2007	
	Dollars	Percentage
-200 BP shock	\$ (668)	(1.48)%
+200 BP shock	\$ (552)	(1.22)%

The EVE analysis provides information on the risk inherent in the balance sheet that might not be taken into account in the simulation analysis due to the shorter time horizon used in that analysis. The EVE of the balance sheet is defined as the discounted present value of expected asset cash flows minus the discounted present value of the expected liability cash flows. The analysis involves changing the interest rates used in determining the expected cash flows and in discounting the cash flows. The resulting percentage change in net present value in various rate scenarios is an indication of the longer term repricing risk and options embedded in the balance sheet.

The EVE analysis results are presented in the table below. These results as of December 31, 2007 indicate that the EVE would decrease 7.06 percent assuming an immediate downward shift in market interest rates of 200 BP and would decrease 7.07 percent if rates shifted upward in the same manner.

Static EVE Change (*dollars in thousands*)

Assumed Market Interest Rate Shift	Hypothetical Change in EVE	
	Dollars	Percentage
-200 BP shock	\$ (6,102)	(7.06)%
+200 BP shock	\$ (6,106)	(7.07)%

In the analyses above, net interest income and the EVE decline in both an immediate downward and upward shift in interest rates. In a rising rate environment, the Corporation's assets would take longer to reprice than what the Corporation pays on its borrowings and deposits primarily due to the longer maturity or repricing dates of its investment and loan portfolios. However, in a falling rate environment the analyses assume that adjustable-rate assets will continue to reprice downward and fixed-rate assets with prepayment or callable options will reprice at lower rates while certain deposits can not reprice any lower.

At C&F Mortgage, we enter into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitments). The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 days to 90 days. The Corporation protects itself from changes in interest rates by entering into loan purchase agreements with third party investors that provide for the investor to purchase loans at the same terms (including interest rate) as committed to the borrower. Under the contractual relationship with the purchaser of each loan, the Corporation is obligated to sell the loan to the purchaser only if the loan closes. No other obligation exists. As a result of these contractual relationships with purchasers of loans, the Corporation is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates.

We believe that our current interest rate exposure is manageable and does not indicate any significant exposure to interest rate changes.

[Table of Contents](#)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except for share and per share amounts)

	December 31,	
	2007	2006
Assets		
Cash and due from banks	\$ 11,115	\$ 11,496
Interest-bearing deposits in other banks	319	17,010
Federal funds sold	829	—
Total cash and cash equivalents	12,263	28,506
Securities—available for sale at fair value, amortized cost of \$80,425 and \$66,407, respectively	81,255	67,584
Loans held for sale, net	34,083	53,504
Loans, net of allowance for loan losses of \$15,963 and \$14,216, respectively	585,881	517,843
Federal Home Loan Bank stock	4,387	2,093
Corporate premises and equipment, net	32,854	33,189
Accrued interest receivable	5,069	4,432
Goodwill	10,724	10,724
Other assets	19,080	16,593
Total assets	<u>\$785,596</u>	<u>\$734,468</u>
Liabilities		
Deposits		
Noninterest-bearing demand deposits	\$ 80,002	\$ 90,260
Savings and interest-bearing demand deposits	184,620	188,450
Time deposits	262,949	254,125
Total deposits	527,571	532,835
Short-term borrowings	21,968	12,462
Long-term borrowings	133,459	92,284
Trust preferred capital notes	20,620	10,310
Accrued interest payable	2,115	1,915
Other liabilities	14,639	16,656
Total liabilities	<u>720,372</u>	<u>666,462</u>
Commitments and contingent liabilities	—	—
Shareholders' Equity		
Preferred stock (\$1.00 par value, 3,000,000 shares authorized)	—	—
Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,019,591 and 3,182,411 shares issued and outstanding, respectively)	2,979	3,159
Additional paid-in capital	—	324
Retained earnings	62,048	64,402
Accumulated other comprehensive income, net	197	121
Total shareholders' equity	<u>65,224</u>	<u>68,006</u>
Total liabilities and shareholders' equity	<u>\$785,596</u>	<u>\$734,468</u>

See notes to consolidated financial statements.

[Table of Contents](#)

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2007	2006	2005
Interest income			
Interest and fees on loans	\$60,938	\$55,112	\$45,035
Interest on money market investments	443	454	523
Interest and dividends on securities			
U.S. government agencies and corporations	296	255	281
Tax-exempt obligations of states and political subdivisions	2,608	2,335	2,379
Corporate bonds and other	540	426	552
Total interest income	64,825	58,582	48,770
Interest expense			
Savings and interest-bearing deposits	2,747	2,287	1,828
Certificates of deposit, \$100M or more	4,714	3,176	1,717
Other time deposits	7,469	5,690	3,735
Borrowings	7,724	6,640	4,447
Trust preferred capital notes	724	664	270
Total interest expense	23,378	18,457	11,997
Net interest income	41,447	40,125	36,773
Provision for loan losses	7,130	4,625	5,520
Net interest income after provision for loan losses	34,317	35,500	31,253
Noninterest income			
Gains on sales of loans	15,833	17,098	18,194
Service charges on deposit accounts	3,684	3,471	2,812
Other service charges and fees	4,020	5,101	4,795
Gain on calls of available for sale securities	21	105	105
Other income	2,320	1,612	1,678
Total noninterest income	25,878	27,387	27,584
Noninterest expenses			
Salaries and employee benefits	30,787	29,007	28,277
Occupancy expenses	6,058	5,087	3,871
Other expenses	11,526	11,234	9,720
Total noninterest expenses	48,371	45,328	41,868
Income before income taxes	11,824	17,559	16,969
Income tax expense	3,344	5,430	5,181
Net income	\$ 8,480	\$12,129	\$11,788
Earnings per common share—basic	\$ 2.79	\$ 3.85	\$ 3.49
Earnings per common share—assuming dilution	\$ 2.68	\$ 3.71	\$ 3.36

See notes to consolidated financial statements.

[Table of Contents](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance December 31, 2004	\$ 3,539	\$ 80		\$ 64,323	\$ 1,957	\$ 69,899
Purchase of common stock	(427)	(371)		(16,842)		(17,640)
Stock options exercised	29	474				503
Comprehensive income						
Net income			\$ 11,788	11,788		11,788
Other comprehensive income, net of tax						
Unrealized holding losses on securities, net of reclassification adjustment			(1,125)		(1,125)	(1,125)
Comprehensive income			\$ 10,663			
Cash dividends (\$1.00 per share)				(3,339)		(3,339)
Balance December 31, 2005	3,141	183		55,930	832	60,086
Purchase of common stock	(14)	(504)				(518)
Stock options exercised	32	548				580
Share-based compensation		97				97
Comprehensive income						
Net income			\$ 12,129	12,129		12,129
Other comprehensive income, net of tax						
Unrealized holding losses on securities, net of reclassification adjustment			(67)		(67)	(67)
Comprehensive income			\$ 12,062			
Adjustment to initially apply SFAS 158, net of tax					(644)	(644)
Cash dividends (\$1.16 per share)				(3,657)		(3,657)
Balance December 31, 2006	3,159	324		64,402	121	68,006
Purchase of common stock	(204)	(1,166)		(7,065)		(8,435)
Stock options exercised	24	543				567
Share-based compensation		299				299
Comprehensive income						
Net income			\$ 8,480	8,480		8,480
Other comprehensive income, net of tax						
Changes in defined benefit plan assets and benefit obligations, net of tax			301		301	301
Unrealized holding losses on securities, net of reclassification adjustment			(225)		(225)	(225)
Comprehensive income			\$ 8,556			
Cash dividends (\$1.24 per share)				(3,769)		(3,769)
Balance December 31, 2007	<u>\$2,979</u>	<u>\$ —</u>		<u>\$62,048</u>	<u>\$ 197</u>	<u>\$65,224</u>

Disclosure of reclassification amount for the year ended December 31:

	2007	2006	2005
Unrealized net holding (losses) gains arising during period	<u>\$(211)</u>	<u>\$ 1</u>	<u>\$(1,057)</u>
Less: reclassification adjustment for gains included in net income	<u>14</u>	<u>68</u>	<u>68</u>
Net unrealized losses on securities	<u>\$(225)</u>	<u>\$(67)</u>	<u>\$(1,125)</u>

See notes to consolidated financial statements.

[Table of Contents](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 8,480	\$ 12,129	\$ 11,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,563	2,007	1,549
Deferred income taxes	(1,112)	(970)	(1,115)
Provision for loan losses	7,130	4,625	5,520
Share-based compensation	299	97	—
Accretion of discounts and amortization of premiums on securities, net	50	35	12
Net realized gain on securities	(21)	(105)	(105)
Origination of loans held for sale	(828,379)	(944,300)	(1,058,804)
Sale of loans	847,800	930,473	1,067,693
Change in other assets and liabilities:			
Accrued interest receivable	(637)	(768)	(623)
Other assets	(1,106)	(2,580)	2,393
Accrued interest payable	200	609	692
Other liabilities	(1,554)	3,843	(377)
Net cash provided by operating activities	<u>33,713</u>	<u>5,095</u>	<u>28,623</u>
Investing activities:			
Proceeds from maturities and calls of securities available for sale	6,189	7,671	11,990
Purchase of securities available for sale	(20,235)	(9,987)	(6,142)
Net (purchases) redemptions of FHLB stock	(2,294)	(217)	154
Investment in statutory trust	(310)	—	(310)
Net increase in customer loans	(75,168)	(57,429)	(76,088)
Purchase of corporate premises and equipment	(2,251)	(6,120)	(12,461)
Disposal of corporate premises and equipment	23	71	69
Net cash used in investing activities	<u>(94,046)</u>	<u>(66,011)</u>	<u>(82,788)</u>
Financing activities:			
Net (decrease) increase in demand, interest-bearing demand and savings deposits	(14,088)	4,565	9,516
Net increase in time deposits	8,824	32,832	38,788
Net increase in borrowings	50,681	12,742	13,719
Issuance of trust preferred capital notes	10,310	—	10,310
Purchase of common stock	(8,435)	(518)	(17,640)
Proceeds from exercise of stock options	567	580	503
Cash dividends	(3,769)	(3,657)	(3,339)
Net cash provided by financing activities	<u>44,090</u>	<u>46,544</u>	<u>51,857</u>
Net decrease in cash and cash equivalents	(16,243)	(14,372)	(2,308)
Cash and cash equivalents at beginning of year	28,506	42,878	45,186
Cash and cash equivalents at end of year	<u>\$ 12,263</u>	<u>\$ 28,506</u>	<u>\$ 42,878</u>
Supplemental disclosure			
Interest paid	\$ 23,178	\$ 17,848	\$ 11,305
Income taxes paid	4,087	5,935	6,653
Supplemental disclosure of noncash investing and financing activities			
Unrealized (losses) on securities available for sale	\$ (347)	\$ (103)	\$ (1,731)
Pension adjustment	463	(990)	—

See notes to consolidated financial statements.

[Table of Contents](#)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of C&F Financial Corporation and its wholly owned subsidiary, Citizens and Farmers Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, C&F Financial Corporation owns C&F Financial Statutory Trust I and C&F Financial Statutory Trust II, which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as a liability of the Corporation. The accounting and reporting policies of C&F Financial Corporation and subsidiary (the Corporation) conform to accounting principles generally accepted in the United States of America and to predominant practices within the banking industry.

Nature of Operations: C&F Financial Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, Citizens and Farmers Bank (the Bank), which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. The Bank and its subsidiaries offer a wide range of banking and related financial services to both individuals and businesses.

The Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation and Subsidiaries (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Title Agency, Inc., C&F Investment Services, Inc. and C&F Insurance Services, Inc., all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, was formed to originate and sell residential mortgages and through its subsidiaries, Hometown Settlement Services LLC, Certified Appraisals LLC, Foundation Home Mortgage and C&F Reinsurance LTD, provides ancillary mortgage loan production services, such as loan settlements, title searches and residential appraisals. C&F Finance, acquired on September 1, 2002, is a regional finance company providing automobile loans principally in Virginia, Tennessee, Maryland, North Carolina, Ohio, Kentucky and West Virginia. C&F Title Agency, Inc., organized in October 1992, primarily sells title insurance to the mortgage loan customers of the Bank and C&F Mortgage. C&F Investment Services, Inc., organized in April 1995, is a full-service brokerage firm offering a comprehensive range of investment services. C&F Insurance Services, Inc., organized in July 1999, owns an equity interest in an insurance agency that sells insurance products to customers of the Bank, C&F Mortgage and other financial institutions that have an equity interest in the agency. Business segment data is presented in Note 16.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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, the projected benefit obligation under the defined benefit pension plan, the valuation of deferred taxes and goodwill impairment.

Significant Group Concentrations of Credit Risk: Substantially all of the Corporation's lending activities are with customers located in Virginia, Maryland and portions of Tennessee. Note 3 discusses the Corporation's lending activities. The Corporation invests in a variety of securities, principally obligations of U.S. government agencies and obligations of states and political subdivisions. Note 2 presents the Corporation's investment activities. The Corporation does not have any significant concentrations in any one industry or to any one customer.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, interest-bearing deposits in banks and federal funds sold, all of which mature within 90 days.

Securities: Investments in debt and equity securities with readily determinable fair values are classified as either held to maturity, available for sale, or trading, based on management's intent. Currently all of the Corporation's investment securities are classified as available for sale. Available for sale securities are carried at estimated fair value with the corresponding unrealized gains and losses excluded from earnings and reported in other comprehensive income. Gains or losses are recognized in earnings on the trade date using the amortized cost of the specific security sold.

[Table of Contents](#)

Loans Held for Sale: Loans held for sale are carried at the lower of cost or estimated fair value, determined in the aggregate. Fair value considers commitment agreements with investors and prevailing market prices. Substantially all loans originated by C&F Mortgage are held for sale to outside investors.

Loans: The Corporation makes mortgage, commercial and consumer loans to customers. 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 unpaid principal balances adjusted for charges-offs, unearned discounts, any deferred fees or costs on originated loans, and the allowance for loan losses. Interest on loans is credited to operations based on the principal amount outstanding. Unearned discounts on certain installment loans are recognized as income over the terms of the loans by a method that approximates the effective interest method. Loan fees and origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield using the level-yield method. The Corporation is amortizing these amounts over the contractual life of the related loans.

Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding.

The Corporation considers a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is expected. 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 Corporation does not separately identify individual consumer and residential loans for impairment disclosures. Consistent with the Corporation's method for nonaccrual loans, payments on impaired loans are first applied to principal outstanding.

Allowance for Loan Losses: The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Management's judgment in determining the level of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions which may affect a borrower's ability to repay, overall portfolio quality and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as loss, doubtful, substandard or special mention. For such loans that are also 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 and is based on historical loss experience adjusted for qualitative factors.

Off-Balance-Sheet Credit Related Financial Instruments: In the ordinary course of business, the Corporation has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

[Table of Contents](#)

Rate Lock Commitments: The Corporation enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitments). The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 90 days. The Corporation protects itself from changes in interest rates by entering into loan purchase agreements with third party investors that provide for the investor to purchase loans at the same terms (including interest rate) as committed to the borrower. Under the contractual relationship with the purchaser of each loan, the Corporation is obligated to sell the loan to the purchaser only if the loan closes. No other obligation exists. As a result of these contractual relationships with purchasers of loans, the Corporation is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates.

Federal Home Loan Bank Stock: Federal Home Loan Bank (FHLB) stock is carried at cost. No ready market exists for this stock and it has no quoted market value. For presentation purposes, such stock is assumed to have a market value that is equal to cost. In addition, such stock is not considered a debt or equity security in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Other Real Estate Owned: 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, management periodically performs valuations 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 are included in net expenses from foreclosed assets.

Corporate Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed using a straight-line method over the estimated useful lives of the assets. Estimated useful lives range from ten to forty years for buildings and from three to ten years for equipment, furniture and fixtures. Maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Upon sale or retirement of depreciable properties, the cost and related accumulated depreciation are netted against proceeds and any resulting gain or loss is reflected in income.

Goodwill: The Corporation adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002. Accordingly, goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment by applying a fair value based test. Additionally, under SFAS 142, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the asset can be sold, transferred, licensed, rented or exchanged, and are amortized over their useful life. The Corporation's goodwill was recognized in connection with the Bank's acquisition of C&F Finance in September 2002. The annual test for impairment was completed during the fourth quarter of 2007 and it was determined there was no impairment to be recognized in 2007.

Sale of Loans: Transfers of loans are accounted for as sales when control over the loans has been surrendered. Control over transferred loans is deemed to be surrendered when (1) the loans have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred loans and (3) the Corporation does not maintain effective control over the transferred loans through an agreement to repurchase them before their maturity.

Income Taxes: The Corporation determines deferred income tax assets and liabilities using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes,

[Table of Contents](#)

if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

Retirement Plan: The compensation cost of an employee's pension benefit under the Bank's defined benefit pension plan is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The funded status of a benefit plan is measured as the difference between plan assets at fair value and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS 158 also requires additional disclosure in the notes to financial statements about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The Corporation was required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employers' fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008.

The Bank has a non-contributory, defined benefit pension plan, which is subject to the provisions of SFAS 158. In connection with the implementation of SFAS 158 in 2006, the Corporation recognized a \$644,000 loss as a component of accumulated other comprehensive income. A valuation of the Bank's plan was performed as of October 1, 2007 and it was determined that the plan was underfunded. As a result, the Corporation has recognized a pension liability of \$269,000 at December 31, 2007 and has recognized a \$301,000 gain as a component of other comprehensive income.

Share-Based Compensation: At December 31, 2007, the Corporation has three share-based compensation plans, which are described more fully in Note 12. Effective January 1, 2006, the Corporation adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires that the Corporation recognize expense related to the fair value of share-based compensation awards in net income.

Prior to January 1, 2006, the Corporation accounted for its share-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, share-based compensation expense was not recognized in net income because all options granted under these plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. However, notes to prior financial statements included pro forma disclosures of the effect on net income and earnings per share as if the Corporation had applied the fair value recognition provision of SFAS No. 123, *Accounting for Stock-Based Compensation*, to share-based compensation. The following table presents the pro forma disclosures for the year ended December 31, 2005.

[Table of Contents](#)

	<u>Year Ended</u>
	<u>December 31, 2005</u>
<i>(Dollars in thousands, except per share amounts)</i>	
Net income, as reported	\$ 11,788
Total stock-based compensation expense determined under fair value based method for all awards	(2,305)
Pro forma net income	<u>\$ 9,483</u>
Earnings per share:	
Basic – as reported	\$ 3.49
Basic – pro forma	\$ 2.81
Diluted – as reported	\$ 3.36
Diluted – pro forma	\$ 2.70

The Corporation elected to follow the modified prospective transition method allowed by SFAS 123(R). Under the modified prospective transition method, compensation expense is recognized prospectively for all unvested options outstanding at January 1, 2006 and for all awards modified or granted after that date. On December 20, 2005, the Corporation accelerated the vesting of all unvested stock options outstanding under the Corporation's three share-based compensation plans. The board of directors accelerated the vesting of these options in order to eliminate the Corporation's recognition of compensation expense associated with these options under the SFAS 123(R) modified prospective transition method. Because there were no unvested options outstanding at January 1, 2006, no share-based compensation expense has been recognized in 2007 and 2006 for options granted prior to January 1, 2006.

Compensation expense for grants of restricted shares is accounted for using the fair market value of the Corporation's common stock on the date the restricted shares are awarded. Compensation expense for grants of stock options is accounted for using the Black-Scholes option-pricing model. Compensation expense for restricted shares and stock options is charged to income ratably over the vesting period. Compensation expense for the years ended December 31, 2007 and 2006 included \$299,000 (\$186,000 after tax) and \$97,000 (\$60,000 after tax), respectively, for options and restricted stock granted during 2007 and 2006. As of December 31, 2007, there was \$1.30 million of unrecognized compensation expense related to unvested stock options and restricted stock that will be recognized over the remaining vesting periods. SFAS 123(R) requires the Corporation to estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures in future periods, if any, will be recognized through a cumulative catch-up adjustment in the period of change, which will impact the amount of estimated unamortized compensation expense to be recognized in future periods.

Earnings Per Common Share: Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if potentially-dilutive 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 Corporation relate to outstanding stock options and unvested restricted shares and are determined using the treasury stock method. Earnings per share calculations are presented in Note 8.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and changes in defined benefit plan assets and liabilities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. These components are presented in the Corporation's Consolidated Statements of Shareholders' Equity.

Shareholders' Equity: During 2007, the Corporation purchased 54,800 shares of its common stock in negotiated and open-market transactions at prices ranging between \$32.50 and \$43.20 in accordance with a board-approved stock purchase program that will expire in July 2008. Purchases of 149,720 shares at prices between \$37.25 and \$45.07 per share were made in accordance with a board-approved stock purchase program, which was terminated in July 2007.

Table of Contents

During 2006, the Corporation purchased 13,257 shares of its common stock in open-market transactions. Purchases of 135 shares at prices between \$39.50 and \$39.99 per share were made in accordance with a board-approved stock purchase program, which was terminated in July 2007. Purchases of 13,122 shares at prices between \$37.75 and \$40.00 per share were made in accordance with a board-approved stock purchase program, which expired in November 2006.

On July 27, 2005, the Corporation completed a tender offer and purchased 427,186 shares of its common stock at \$41 per share. The total cost of the share purchase, including transaction costs, approximated \$17.64 million. Refer to Note 7 for a discussion of the issuance of trust preferred capital securities and the Corporation's related issuance of trust preferred capital notes to partially fund this purchase. In December 2005, the Corporation purchased 100 shares in an open-market transaction at \$37.27 per share under the previously-mentioned stock purchase program, which expired in November 2006.

Recent Accounting Pronouncements: In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The FASB approved a one-year deferral for the implementation of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Corporation does not expect the implementation of SFAS 157 to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Corporation is currently evaluating the effect SFAS 159 may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS 141(R) will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first year that begins after December 15, 2008. The Corporation does not expect the implementation of SFAS 141(R) to have a material effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51*. SFAS 160 will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008, with early adoption permitted. The Corporation does not expect the implementation of SFAS 160 to have a material effect on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. EITF 06-4 concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for

[Table of Contents](#)

future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007, with early application permitted. The Corporation does not expect the implementation of EITF 06-4 to have a material effect on its consolidated financial statements.

In November 2006, the EITF issued EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*. EITF 06-10 concludes that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with early application permitted. The Corporation does not expect the implementation of EITF 06-10 to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued FSP No. FAS 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88 and No. 106 and to the Related Staff Implementation Guides*. FSP No. FAS 158-1 provides conforming amendments to the illustrations in SFAS 87, 88, and 106 and to related staff implementation guides as a result of the issuance of SFAS 158. The conforming amendments made by this FSP are effective as of the effective dates of SFAS 158. The unaffected guidance that this FSP codifies into SFAS 87, 88, and 106 does not contain new requirements and therefore does not require a separate effective date or transition method. The Corporation does not expect the implementation of FSP No. FAS 158-1 to have a material effect on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*. SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Corporation does not expect the implementation of SAB 109 to have a material effect on its consolidated financial statements.

In December 2007, the SEC issued SAB No. 110, *Use of a Simplified Method in Developing Expected Term of Share Options*. SAB 110 expresses the current view of the staff that it will accept a company's election to use the simplified method discussed in SAB 107 for estimating the expected term of "plain vanilla" share options regardless of whether the company has sufficient information to make more refined estimates. The staff noted that it understands that detailed information about employee exercise patterns may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Corporation does not expect the implementation of SAB 110 to have a material effect on its consolidated financial statements.

[Table of Contents](#)

NOTE 2: Securities

Debt and equity securities are summarized as follows:

(Dollars in thousands)

	December 31, 2007			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale				
U.S. government agencies and corporations	\$ 7,446	\$ 36	\$ (15)	\$ 7,467
Mortgage-backed securities	1,776	11	(16)	1,771
Obligations of states and political subdivisions	67,209	1,032	(91)	68,150
Preferred stock	3,994	204	(331)	3,867
	<u>\$80,425</u>	<u>\$ 1,283</u>	<u>\$ (453)</u>	<u>\$81,255</u>

(Dollars in thousands)

	December 31, 2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale				
U.S. government agencies and corporations	\$ 6,313	\$ 3	\$ (94)	\$ 6,222
Mortgage-backed securities	2,236	6	(34)	2,208
Obligations of states and political subdivisions	53,921	1,165	(59)	55,027
Preferred stock	3,937	219	(29)	4,127
	<u>\$ 66,407</u>	<u>\$ 1,393</u>	<u>\$ (216)</u>	<u>\$ 67,584</u>

The amortized cost and estimated fair value of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	December 31, 2007	
	Amortized Cost	Estimated Fair Value
Available for Sale		
Due in one year or less	\$ 4,408	\$ 4,413
Due after one year through five years	22,215	22,497
Due after five years through ten years	31,140	31,636
Due after ten years	18,668	18,842
Preferred stock	3,994	3,867
	<u>\$80,425</u>	<u>\$81,255</u>

Proceeds from the maturities and calls of securities available for sale in 2007 were \$6.19 million, resulting in gross realized gains of \$21,000. Securities with an aggregate amortized cost of \$34.37 million and an aggregate fair value of \$35.00 million were pledged at December 31, 2007 to secure public deposits, Federal Reserve Bank treasury, tax and loan deposits and repurchase agreements.

Proceeds from the maturities and calls of securities available for sale in 2006 were \$7.67 million, resulting in gross realized gains of \$105,000. Securities with an aggregate amortized cost of \$40.47 million and an aggregate fair value of \$41.27 million were pledged at December 31, 2006 to secure public deposits, Federal Reserve Bank treasury, tax and loan deposits and repurchase agreements.

[Table of Contents](#)

Securities in an unrealized loss position at December 31, 2007, by duration of the period of the unrealized loss, are shown below.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(Dollars in thousands)</i>						
U.S. government agencies and corporations	\$ —	\$ —	\$1,235	\$ 15	\$ 1,235	\$ 15
Mortgage-backed securities	—	—	790	16	790	16
Obligations of states and political subdivisions	11,323	67	2,334	24	13,657	91
Subtotal-debt securities	11,323	67	4,359	55	15,682	122
Preferred stock	988	218	482	113	1,470	331
Total temporarily impaired securities	<u>\$12,311</u>	<u>\$ 285</u>	<u>\$4,841</u>	<u>\$ 168</u>	<u>\$17,152</u>	<u>\$ 453</u>

The primary cause of the temporary impairments in the Corporation's investment in debt securities was attributable to fluctuations in interest rates. There are 44 debt securities totaling \$15.68 million and five equity securities totaling \$1.47 million considered temporarily impaired at December 31, 2007. Because the Corporation has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2007 and no impairment has been recognized.

Securities in an unrealized loss position at December 31, 2006, by duration of the period of the unrealized loss, are shown below. No impairment has been recognized on any of the securities in a loss position because of management's intent and demonstrated ability to hold securities to scheduled maturity or call dates.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(Dollars in thousands)</i>						
U.S. government agencies and corporations	\$ 476	\$ 2	\$ 4,654	\$ 92	\$ 5,130	\$ 94
Mortgage-backed securities	1,246	33	427	1	1,673	34
Obligations of states and political subdivisions	2,284	10	4,530	49	6,814	59
Subtotal-debt securities	4,006	45	9,611	142	13,617	187
Preferred stock	585	10	1,178	19	1,763	29
Total temporarily impaired securities	<u>\$4,591</u>	<u>\$ 55</u>	<u>\$10,789</u>	<u>\$ 161</u>	<u>\$15,380</u>	<u>\$ 216</u>

[Table of Contents](#)

NOTE 3: Loans

Major classifications of loans are summarized as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Real estate—mortgage	\$123,239	\$115,885
Real estate—construction	26,719	13,650
Commercial, financial and agricultural	257,951	236,157
Equity lines	25,282	24,880
Consumer	8,991	8,951
Consumer finance	160,196	132,864
	602,378	532,387
Less unearned loan fees	(534)	(328)
	601,844	532,059
Less allowance for loan losses	(15,963)	(14,216)
	\$585,881	\$517,843

Consumer loans included \$231,000 and \$373,000 of demand deposit overdrafts at December 31, 2007 and 2006, respectively. Loans on nonaccrual status were \$2.62 million and \$1.84 million at December 31, 2007 and 2006, respectively. If interest income had been recognized on nonaccrual loans at their stated rates during fiscal years 2007, 2006 and 2005, interest income would have increased by approximately \$56,000, \$70,000 and \$270,000, respectively. Accruing loans past due for 90 days or more were \$578,000 and \$1.64 million at December 31, 2007 and 2006, respectively. The balance of impaired loans was \$291,000 and \$781,000 at December 31, 2007 and 2006, respectively, for which no specific valuation allowance was deemed necessary. The average balances of impaired loans for 2007, 2006 and 2005 were \$557,000, \$2.24 million and \$4.22 million, respectively.

NOTE 4: Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Balance at the beginning of year	\$14,216	\$13,064	\$11,144
Provision charged to operations	7,130	4,625	5,520
Loans charged off	(7,300)	(5,093)	(4,985)
Recoveries of loans previously charged off	1,917	1,620	1,385
Balance at the end of year	\$15,963	\$14,216	\$13,064

NOTE 5: Corporate Premises and Equipment

Major classifications of corporate premises and equipment are summarized as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Land	\$ 6,734	\$ 6,776
Buildings	26,321	25,642
Equipment, furniture and fixtures	20,153	18,641
	53,208	51,059
Less accumulated depreciation	(20,354)	(17,870)
	\$ 32,854	\$ 33,189

[Table of Contents](#)

NOTE 6: Time Deposits

Time deposits are summarized as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Certificates of deposit, \$100 or more	\$ 97,006	\$ 95,180
Other time deposits	165,943	158,945
	<u>\$262,949</u>	<u>\$254,125</u>

Remaining maturities on time deposits at December 31, 2007 are as follows (*dollars in thousands*):

2008	\$211,022
2009	38,407
2010	9,284
2011	2,321
2012	1,636
Thereafter	279
	<u>\$262,949</u>

Time deposits at December 31, 2007 included \$3.00 million of brokered deposits, which mature in 2008.

NOTE 7: Borrowings

Short-term borrowings include securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the day sold. Balances outstanding under repurchase agreements were \$2.57 million on December 31, 2007 and \$5.46 million on December 31, 2006. Short-term borrowings also include a \$14.0 million federal funds line with a regional correspondent bank, which had no outstanding balance on December 31, 2007 and 2006. Short-term borrowings also include a variable-rate, unsecured line of credit with a third-party lender that matures in June 2008. There was no outstanding balance under this line of credit on December 31, 2007. The balance outstanding under this line of credit was \$7.00 million on December 31, 2006. Short-term borrowings also include advances from the FHLB, which are secured by a blanket floating lien on all qualifying real estate loans. There was \$19.40 million of short-term FHLB advances outstanding on December 31, 2007. There were no short-term advances from the FHLB outstanding on December 31, 2006.

The table below presents selected information on short-term borrowings:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Balance outstanding at year end	\$21,968	\$12,462
Maximum balance at any month end during the year	\$78,735	\$42,165
Average balance for the year	\$26,395	\$25,236
Weighted average rate for the year	4.83%	4.80%
Weighted average rate on borrowings at year end	4.15%	4.56%
Estimated fair value at year end	\$21,968	\$12,462

Long-term borrowings at December 31, 2007 consist of advances under a non-recourse revolving bank line of credit secured by loans at C&F Finance and advances from the FHLB, which are secured by a blanket floating lien on all qualifying real estate loans. The interest rate on the revolving bank line of credit, which matures in 2010, floats at the one-month LIBOR rate plus 175 basis points, and the outstanding balance as of December 31, 2007 was \$85.96 million. C&F Finance's revolving bank line of credit agreement contains covenants regarding C&F Finance's capital adequacy, credit quality, adequacy of the allowance for loan losses and interest expense coverage. C&F Finance satisfied all such covenants during 2007. Long-term advances from the FHLB at December 31, 2007 consist of \$47.50 million of convertible advances. These advances have fixed rates of interest unless the FHLB exercises its option to convert the interest on these advances from fixed rate to variable rate. The table below presents selected information on these advances:

[Table of Contents](#)

(Dollars in thousands)

Balance Outstanding at December 31, 2007	Interest Rate	Maturity Date	Initial Conversion Option Date
\$5,000	3.90%	8/30/12	2/29/08
\$5,000	4.08	8/30/12	8/29/08
\$7,500	4.15	10/19/12	10/19/09
\$5,000	3.95	11/17/14	11/17/10
\$7,500	3.69	11/28/14	11/29/10
\$7,500	3.70	10/19/17	10/20/08
\$5,000	4.06	10/25/17	10/25/11
\$5,000	2.93	11/27/17	2/27/08

The contractual maturities of long-term borrowings, excluding conversion provisions, at December 31, 2007 are as follows:

(Dollars in thousands)	Fixed Rate	Floating Rate	Total
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	85,959	85,959
2011	—	—	—
2012	17,500	—	17,500
Thereafter	30,000	—	30,000
	<u>\$47,500</u>	<u>\$85,959</u>	<u>\$133,459</u>

The Corporation's unused lines of credit for future borrowings total approximately \$92.71 million at December 31, 2007, which consists of \$57.67 million available from the FHLB, \$14.04 million on C&F Finance's revolving bank line of credit, \$14.00 million under a federal funds agreement with a third party financial institution and \$7.00 million under a line of credit with a third-party lender.

In December 2007, C&F Financial Statutory Trust II (Trust II), a wholly-owned non-operating subsidiary of the Corporation, was formed for the purpose of issuing trust preferred capital securities for general corporate purposes including the refinancing of existing debt. On December 14, 2007, Trust II issued \$10.00 million of trust preferred capital securities in a private placement to an institutional investor and \$310,000 in common equity to the Corporation in exchange for cash. The securities mature in December 2037, are redeemable at the Corporation's option beginning after five years, and require quarterly distributions by Trust II to the holder of the securities at a fixed rate of 7.73% as to \$5.00 million of the securities and at a rate equal to the three-month LIBOR rate plus 3.15% as to the remaining \$5.00 million, which rate was 8.21% at December 31, 2007. The fixed rate portion of the securities converts to the three-month LIBOR rate plus 3.15% in December 2012. The principal asset of Trust II is \$10.31 million of the Corporation's trust preferred capital notes with like maturities and like interest rates to the trust preferred capital securities. The interest payments by the Corporation on the debt securities will be used by Trust II to pay the quarterly distributions payable by Trust II to the holders of the trust preferred capital securities.

In July 2005, C&F Financial Statutory Trust I (Trust I), a wholly-owned non-operating subsidiary of the Corporation, was formed for the purpose of issuing trust preferred capital securities to partially fund the Corporation's purchase of 427,186 shares of its common stock. On July 21, 2005, Trust I issued \$10.00 million of trust preferred capital securities in a private placement to an institutional investor and \$310,000 in common equity to the Corporation in exchange for cash. The securities mature in September 2035, are redeemable at the Corporation's option beginning after five years, and require quarterly distributions by Trust I to the holder of the securities at a fixed rate of 6.07% as to \$5.00 million of the securities and at a rate equal to the three-month LIBOR rate plus 1.57% as to the remaining \$5.00 million, which rate was 6.56% at December 31, 2007. The fixed rate portion of the securities converts to the three-month LIBOR rate plus 1.57% in September 2010. The principal asset of Trust I is \$10.31 million of the Corporation's trust preferred capital notes with like maturities and like interest rates to the trust preferred capital securities. The interest payments by the Corporation on the debt securities will be used by Trust I to pay the quarterly distributions payable by Trust I to the holders of the trust preferred capital securities.

[Table of Contents](#)

Subject to certain exceptions and limitations, the Corporation may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities.

NOTE 8: Earnings Per Share

The Corporation calculates its basic and diluted earnings per share ("EPS") in accordance with SFAS No. 128, *Earnings Per Share*. The components of the Corporation's EPS calculations are as follows:

<i>(Dollars in thousands)</i>	December 31,		
	2007	2006	2005
Net income available to common shareholders	<u>\$ 8,480</u>	<u>\$ 12,129</u>	<u>\$ 11,788</u>
Weighted average number of common shares used in earnings per common share—basic	<u>3,039,240</u>	3,151,860	3,375,153
Effect of dilutive securities:			
Share-based awards	<u>121,783</u>	121,569	132,759
Weighted average number of common shares used in earnings per common share—assuming dilution	<u>3,161,023</u>	<u>3,273,429</u>	<u>3,507,912</u>

Options on approximately 98,000, 133,000 and 157,000 shares were not included in computing diluted earnings per common share for the years ended December 31, 2007, 2006 and 2005, respectively, because they were anti-dilutive.

NOTE 9: Income Taxes

Principal components of income tax expense as reflected in the consolidated statements of income are as follows:

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Current taxes	<u>\$ 4,456</u>	\$ 6,400	\$ 6,296
Deferred taxes	<u>(1,112)</u>	(970)	(1,115)
	<u>\$ 3,344</u>	<u>\$ 5,430</u>	<u>\$ 5,181</u>

[Table of Contents](#)

The income tax provision is less than would be obtained by application of the statutory federal corporate tax rate to pre-tax accounting income as a result of the following items:

<i>(Dollars in thousands)</i>	Year Ended December 31,					
	2007	Percent of Pre-tax Income	2006	Percent of Pre-tax Income	2005	Percent of Pre-tax Income
Income tax computed at federal statutory rates	\$4,139	35.0%	\$6,146	35.0%	\$5,939	35.0%
Tax effect of exclusion of interest income on obligations of states and political subdivisions	(913)	(7.7)	(876)	(5.0)	(888)	(5.2)
Reduction of interest expense incurred to carry tax- exempt assets	115	1.0	84	0.5	59	0.3
State income taxes, net of federal tax benefit	248	2.1	302	1.7	339	2.0
Tax effect of dividends-received deduction on preferred stock	(72)	(0.6)	(48)	(0.3)	(75)	(0.5)
Tax credits	(101)	(0.9)	(98)	(0.6)	(74)	(0.4)
Other	(72)	(0.6)	(80)	(0.4)	(119)	(0.7)
	<u>\$3,344</u>	<u>28.3%</u>	<u>\$5,430</u>	<u>30.9%</u>	<u>\$5,181</u>	<u>30.5%</u>

Other assets include net deferred income taxes of \$6.64 million and \$5.57 million at December 31, 2007 and 2006, respectively. The tax effects of each type of significant item that gave rise to deferred taxes are:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Deferred tax asset		
Allowance for loan losses	\$ 6,043	\$ 5,409
Deferred compensation	1,476	1,367
Defined benefit plan	94	—
Share-based compensation	155	38
Interest on nonaccrual loans	10	28
Other	480	234
Deferred tax asset	<u>8,258</u>	<u>7,076</u>
Deferred tax liability		
Depreciation	(39)	(63)
Goodwill and other intangible assets	(1,260)	(952)
Other	(27)	(79)
Net unrealized gain on securities available for sale	(291)	(412)
Deferred tax liability	<u>(1,617)</u>	<u>(1,506)</u>
Net deferred tax asset	<u>\$ 6,641</u>	<u>\$ 5,570</u>

The Corporation files income tax returns in the U.S. federal jurisdiction and several states. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004. The Corporation adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 with no effect on the financial statements.

[Table of Contents](#)

NOTE 10: Employee Benefit Plans

The Bank maintains a Defined Contribution Profit-Sharing Plan (the Profit-Sharing Plan) sponsored by the Virginia Bankers Association. The Profit-Sharing Plan includes a 401(k) savings provision that authorizes a maximum voluntary salary deferral of up to 95% of compensation (with a partial company match), subject to statutory limitations. The Profit-Sharing Plan provides for an annual discretionary contribution to the account of each eligible employee based in part on the Bank's profitability for a given year and on each participant's yearly earnings. All salaried employees who have attained the age of eighteen and have at least three months of service are eligible to participate. Contributions and earnings may be invested in various investment vehicles offered through the Virginia Bankers Association. An employee is 20% vested in the Bank's contributions after two years of service, 40% after three years, 60% after four years, 80% after five years and fully vested after six years. The amounts charged to expense under this plan were \$420,000, \$564,000 and \$515,000 in 2007, 2006 and 2005, respectively.

C&F Mortgage maintains a Defined Contribution 401(k) Savings Plan that authorizes a voluntary salary deferral of from 1% to 100% of compensation (with a discretionary company match), subject to statutory limitations. Substantially all employees who have attained the age of eighteen are eligible to participate on the first day of the next month following employment date. The plan provides for an annual discretionary contribution to the account of each eligible employee based in part on C&F Mortgage's profitability for a given year, and on each participant's contributions to the plan. Contributions may be invested in various investment funds offered under the plan. An employee is vested 25% in the employer's contributions after two years of service, 50% after three years, 75% after four years, and fully vested after five years. The amounts charged to expense under this plan were \$182,000, \$211,000 and \$101,000 for 2007, 2006 and 2005, respectively.

In 2005, C&F Finance adopted a Defined Contribution Profit-Sharing Plan sponsored by the Virginia Bankers Association with plan features similar to the Profit-Sharing Plan of the Bank. The amounts charged to expense under this plan were \$94,000, \$99,000 and \$86,000 in 2007, 2006 and 2005, respectively.

Individual performance bonuses are awarded annually to certain members of management under a management incentive bonus policy adopted by the Bank effective January 1, 1987 and the Management Incentive Plan adopted by the Corporation on February 25, 2005. The Corporation's Compensation Committee recommends to the Corporation's board of directors the bonuses to be paid to the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of the Corporation, and recommends to the Bank's board of directors bonuses to be paid to certain other senior Bank officers. In addition, the Chief Executive Officer recommends bonuses to be paid to other officers of the Bank and C&F Finance. In determining the awards, performance, including the Corporation's growth rate, returns on average assets and equity, and absolute levels of income are considered. In addition, the Bank's board considers the individual performance of the members of management who may receive awards. The expense for these bonus awards is accrued in the year of performance. Expenses under these plans were \$780,000, \$683,000 and \$586,000 in 2007, 2006 and 2005, respectively. In accordance with employment agreements for certain senior officers of C&F Mortgage, performance bonuses of \$811,000, \$1.08 million and \$1.46 million were expensed in 2007, 2006 and 2005, respectively. Performance used in determining the awards is directly related to the profitability of C&F Mortgage.

The Corporation has a nonqualified defined contribution plan for certain executives. The plan allows for elective salary and bonus deferrals. The plan also allows for employer contributions to make up for limitations on covered compensation imposed by the Internal Revenue Code with respect to the Bank's Profit Sharing Plan and to enhance retirement benefits by providing supplemental contributions from time to time. Expenses under this plan were \$115,000, \$79,000 and \$62,000 in 2007, 2006 and 2005, respectively. Investments for this plan are held in a Rabbi trust. These investments are included in other assets and the related liability is included in other liabilities.

The Bank has a non-contributory, defined benefit pension plan for full-time employees over twenty-one years of age. Benefits are generally based upon years of service and average compensation for the five highest-paid consecutive years of service. The Bank funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. The following table summarizes the projected benefit obligations, plan assets, funded status and rate assumptions associated with the Bank's pension plan based upon actuarial valuations prepared as of October 1, 2007 and 2006.

[Table of Contents](#)

<i>(Dollars in thousands)</i>	Plan Year Ended September 30,	
	2007	2006
Change in benefit obligation		
Projected benefit obligation, beginning	\$ 6,438	\$ 6,029
Service cost	777	752
Interest cost	384	345
Actuarial loss	(190)	(460)
Benefits paid	(326)	(228)
Projected benefit obligation, ending	\$ 7,083	\$ 6,438
Change in plan assets		
Fair value of plan assets, beginning	\$ 6,438	\$ 5,084
Actual return on plan assets	702	400
Employer contributions ⁽¹⁾	—	1,182
Benefits paid	(326)	(228)
Fair value of plan assets, ending	\$ 6,814	\$ 6,438
Funded status	\$ (269)	\$ —
Amounts recognized as an other liability	\$ (269)	\$ —
Amounts recognized in accumulated other comprehensive income		
Net loss	\$ 472	\$ 932
Net obligation at transition	(22)	(27)
Prior service cost	78	85
Deferred taxes	(185)	(346)
Total recognized in accumulated other comprehensive income	\$ 343	\$ 644
Weighted-average assumptions for benefit obligation as of October 1		
Discount rate	6.3%	6.0%
Expected return on plan assets	8.5	8.5
Rate of compensation increase	4.0	4.0

⁽¹⁾ An employer contribution of \$1.18 million was made in December 2006 and was based on amounts determined in conjunction with the actuarial valuation prepared as of October 1, 2006.

The accumulated benefit obligation was \$4.60 million and \$4.20 million as of the actuarial valuation dates of October 1, 2007 and 2006, respectively.

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Components of net periodic benefit cost			
Service cost	\$ 777	\$ 752	\$ 550
Interest cost	384	345	294
Expected return on plan assets	(447)	(428)	(346)
Amortization of prior service cost	7	7	7
Amortization of net obligation at transition	(5)	(5)	(5)
Recognized net actuarial loss	16	45	45
Net periodic benefit cost	732	716	545
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Net (gain) loss	(461)	932	—
Net obligation at transition	—	(27)	—
Amortization of net obligation at transition	5	—	—
Prior service cost	—	85	—
Amortization of prior service costs	(7)	—	—
Deferred taxes	162	(346)	—
Total recognized in accumulated other comprehensive income	(301)	644	—
Total recognized in net periodic benefit cost and other comprehensive income	\$ 431	\$ 1,360	\$ 545

[Table of Contents](#)

The estimated net obligation at transition and prior service cost that will be (accreted to) amortized from accumulated other comprehensive income into net periodic benefit cost over the next year are \$(5,000) and \$7,000, respectively.

Weighted-average assumptions for net periodic benefit cost as of October 1 ⁽¹⁾	2006	2005	2004
Discount rate	6.0%	5.8%	6.0%
Expected return on plan assets	8.5	8.5	8.5
Rate of compensation increase	4.0	4.0	4.0

⁽¹⁾ Net periodic benefit cost for the current year is based on assumptions determined at the October 1 valuation date of the prior year.

The Corporation adopted the recognition provisions of SFAS 158 in its December 31, 2006 financial statements. The following table illustrates the incremental effect of applying SFAS 158 on individual line items in the Corporation's 2006 financial statements.

<i>(Dollars in thousands)</i>	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Prepaid pension	\$ 990	\$ (990)	\$ —
Deferred income taxes	5,224	346	5,570
Total assets	735,112	(644)	734,468
Accumulated other comprehensive income	765	(644)	121
Total shareholders' equity	68,650	(644)	68,006

The benefits expected to be paid by the plan in the next ten years are as follows *(dollars in thousands)*:

2008	\$ 76
2009	91
2010	95
2011	117
2012	135
2013 – 2017	1,323
	<u>\$1,837</u>

The Bank selects the expected long-term rate of return on assets in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust and for the trust itself. Undue weight is not given to recent experience, which may not continue over the measurement period. Higher significance is placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly within periodic costs).

The Bank's defined benefit pension plan's weighted average asset allocations as of September 30 by asset category are as follows:

	2007	2006
Mutual funds-fixed income	35%	30%
Mutual funds-equity	60	56
Cash and equivalents	5	14
	<u>100%</u>	<u>100%</u>

[Table of Contents](#)

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% equities. The investment advisor selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

NOTE 11: Related Party Transactions

Loans outstanding to directors and executive officers totaled \$1.08 million and \$1.22 million at December 31, 2007 and 2006, respectively. New advances to directors and officers totaled \$453,000 and repayments totaled \$589,000 in the year ended December 31, 2007. These loans were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management, do not involve more than normal risk or present other unfavorable features.

NOTE 12: Share-Based Plans

On April 20, 2004, the Corporation's shareholders approved the C&F Financial Corporation 2004 Incentive Stock Plan (the 2004 Plan). Under the 2004 Plan, options to purchase common stock and/or grants of restricted shares of common stock may be awarded to certain key employees of the Corporation. Options are issued to employees at a price equal to the fair market value of common stock at the date granted. Restricted shares are accounted for using the fair market value of the Corporation's common stock on the date the restricted shares are awarded. The maximum aggregate number of shares that may be issued pursuant to awards made under the 2004 Plan is 500,000. As a result of the accelerated vesting of all unvested options on December 20, 2005 and because no options were granted under the 2004 Plan in 2007 and 2006, all options outstanding under the 2004 Plan on December 31, 2007 are exercisable. All options expire ten years from the grant date.

Prior to the approval of the 2004 Plan, the Corporation granted options to purchase common stock under the Amended and Restated C&F Financial Corporation 1994 Incentive Stock Plan (the 1994 Plan). The 1994 Plan expired on April 30, 2004. The maximum aggregate number of shares that could be issued pursuant to awards made under the 1994 Plan was 500,000. Options were issued to employees at a price equal to the fair market value of common stock at the date granted. As a result of the accelerated vesting of all unvested options on December 20, 2005, all options outstanding under the 1994 Plan on December 31, 2007 are exercisable. All options expire ten years from the grant date.

In 1998, the Board of Directors authorized 25,000 shares of common stock for issuance under the C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan (the Director Plan). In 1999, the Director Plan was amended to authorize a total of 150,000 shares for issuance. Under the Director Plan, options to purchase common stock may be awarded to non-employee directors of the Bank. Options are issued to non-employee directors at a price equal to the fair market value of common stock at the date granted. As a result of the accelerated vesting of all unvested options on December 20, 2005 and the vesting of options granted in 2006, all options outstanding under the Director Plan on December 31, 2007, except for those granted in 2007, are exercisable. As of December 31, 2007, there was \$36,000 of total unrecognized compensation cost related to options granted under the Director Plan. The cost is expected to be recognized during 2008. All options expire ten years from the grant date.

In 1999, the Board of Directors authorized 25,000 shares of common stock for issuance under the C&F Financial Corporation 1999 Regional Director Stock Compensation Plan (the Regional Director Plan). Under this plan,

[Table of Contents](#)

options to purchase common stock are granted to regional directors of the Bank. Options are issued to regional directors at a price equal to the fair market value of common stock at the date granted. As a result of the accelerated vesting of all unvested options on December 20, 2005 and because no options were granted under the Regional Director Plan in 2007 and 2006, all options outstanding under the Regional Director Plan on December 31, 2007 are exercisable. All options expire ten years from the grant date.

Stock option transactions under the various plans for the periods indicated were as follows:

<i>(Dollars in thousands, except for per share amounts)</i>	2007			2006		2005	
	Shares	Exercise Price*	Intrinsic Value	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	530,167	\$31.54		564,067	\$ 30.65	473,667	\$ 27.58
Granted	13,500	37.17		13,500	39.60	137,900	37.72
Exercised	(24,000)	21.39		(32,000)	16.46	(29,600)	15.35
Canceled	(9,450)	31.65		(15,400)	37.13	(17,900)	29.29
Outstanding at end of year	<u>510,217</u>	<u>\$32.17</u>	<u>\$1,954</u>	<u>530,167</u>	<u>\$ 31.54</u>	<u>564,067</u>	<u>\$ 30.65</u>

* *Weighted average*

Options exercisable at year-end	496,717	\$1,954	516,667	564,067
Weighted-average fair value of options granted during the year	\$ 8.05		\$ 10.10	\$ 8.96

The total intrinsic value of in-the-money options exercised in 2007 was \$488,000. Cash received from option exercises during 2007 was \$513,000. The Corporation has a policy of issuing new shares to satisfy the exercise of stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2007	2006	2005
Dividend yield	3.3%	2.9%	3.4%
Dividend growth rate	5.0	5.0	8.0
Expected life (years)	8	8	8
Expected volatility	25.0%	25.0%	25.0%
Risk-free interest rate	4.7%	5.2%	4.5%

The dividend yield and growth rate assumptions are based on the Corporation's history and expectation of dividend payouts. The expected life is based on historical exercise experience. The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2007	Remaining Contractual Life*	Exercise Price*	Number Exercisable at December 31, 2007	Exercise Price*
\$15.75 to \$23.49	178,717	3.3	\$ 19.31	178,717	\$ 19.31
\$35.20 to \$39.60	256,700	7.6	38.32	243,200	38.38
\$40.50 to \$46.20	74,800	5.9	41.79	74,800	41.79
Total	<u>510,217</u>	5.8	\$ 32.17	<u>496,717</u>	\$ 32.03

* *Weighted average*

[Table of Contents](#)

As permitted under the 2004 Plan, the Corporation awards shares of restricted stock to employees. These restricted shares are subject to a five-year vesting period. As of December 31, 2007 a total of 40,500 shares of restricted stock were outstanding, which consisted of 18,000 shares issued in 2007 and 22,500 shares issued in 2006. Compensation is accounted for using the fair market value of the Corporation's common stock on the date the restricted shares are awarded, which averaged \$31.83 and \$39.01 per share for restricted stock issued in 2007 and 2006, respectively. Compensation expense is charged to income ratably over the vesting period. As of December 31, 2007, there was \$1.26 million of total unrecognized compensation cost related to restricted stock granted under the 2004 Plan. The cost is expected to be recognized through 2012.

NOTE 13: Regulatory Requirements and Restrictions

The Corporation (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 initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the Corporation's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and the Bank's capital amounts and classification are 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 Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (all as defined in the regulations). For both the Corporation and the Bank, Tier 1 capital consists of shareholders' equity excluding any net unrealized gain (loss) on securities available for sale, amounts resulting from the adoption and application of SFAS 158 and goodwill, and total capital consists of Tier 1 capital and a portion of the allowance for loan losses. For the Corporation only, Tier 1 and total capital include trust preferred securities. Risk-weighted assets for the Corporation and the Bank were \$644.55 million and \$638.41 million, respectively, at December 31, 2007 and \$592.67 million and \$587.40 million, respectively, at December 31, 2006. Management believes, as of December 31, 2007, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

[Table of Contents](#)

The Corporation's and the Bank's actual capital amounts and ratios are presented in the following table:

<i>(Dollars in thousands)</i>	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>As of December 31, 2007:</i>						
Total Capital (to Risk-Weighted Assets)						
Corporation	\$82,376	12.8%	\$ 51,564	8.0%	N/A	N/A
Bank	76,898	12.1	51,073	8.0	\$63,841	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Corporation	72,296	11.2	25,782	4.0	N/A	N/A
Bank	68,819	10.8	25,537	4.0	38,305	6.0
Tier 1 Capital (to Average Tangible Assets)						
Corporation	72,296	9.4	30,835	4.0	N/A	N/A
Bank	68,819	9.0	30,633	4.0	38,291	5.0
<i>As of December 31, 2006:</i>						
Total Capital (to Risk-Weighted Assets)						
Corporation	\$ 74,646	12.6%	\$ 47,413	8.0%	N/A	N/A
Bank	76,571	13.0	46,992	8.0	\$ 58,740	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Corporation	67,161	11.3	23,707	4.0	N/A	N/A
Bank	69,144	11.8	23,496	4.0	35,244	6.0
Tier 1 Capital (to Average Tangible Assets)						
Corporation	67,161	9.6	28,123	4.0	N/A	N/A
Bank	69,144	9.9	27,918	4.0	34,897	5.0

On December 14, 2007, the Corporation issued \$10.00 million of trust preferred securities through a statutory business trust for general corporate purposes including the refinancing of existing debt. On July 21, 2005, the Corporation issued \$10.00 million of trust preferred securities through a statutory business trust to partially fund the purchase of 427,186 shares of the Corporation's common stock at \$41 per share on July 27, 2005. These trust preferred securities may be treated as Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. Accordingly, \$18.07 million and \$10.00 million of the Corporation's trust preferred securities is included in Tier 1 capital in the Corporation's capital ratios presented above for 2007 and 2006, respectively. The remaining \$1.93 million of the Corporation's total trust preferred securities outstanding on December 31, 2007 is included in the Corporation's total capital ratios presented above for 2007 as a component of Tier 2 capital.

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10 percent of the Bank's capital stock and surplus on a secured basis.

[Table of Contents](#)

NOTE 14: Commitments and Financial Instruments with Off-Balance-Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commitments to sell loans, and standby letters of credit. These instruments involve elements of credit and interest rate risk in excess of the amount on the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of these instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral is obtained based on management's credit assessment of the customer.

Loan commitments are agreements to extend credit to a customer provided that there are no violations of the terms of the contract prior to funding. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The total amount of loan commitments was \$98.02 million and \$93.26 million at December 31, 2007 and 2006, respectively.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The total contract amount of standby letters of credit, whose contract amounts represent credit risk, was \$7.06 million and \$8.79 million at December 31, 2007 and 2006, respectively.

At December 31, 2007, C&F Mortgage had rate lock commitments to originate mortgage loans amounting to approximately \$22.79 million and loans held for sale of \$34.08 million. C&F Mortgage has entered into corresponding commitments with third party investors to sell loans of approximately \$56.87 million. Under the contractual relationship with these investors, C&F Mortgage is obligated to sell the loans only if the loans close. No other obligation exists. As a result of these contractual relationships with these investors, C&F Mortgage is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates.

C&F Mortgage sells substantially all of the residential mortgage loans it originates to third-party investors, some of whom require the repurchase of loans in the event of early default or faulty documentation. Mortgage loans and their related servicing rights are sold under agreements that define certain eligibility criteria for the mortgage loans. Recourse periods vary from 90 days up to one year and conditions for repurchase vary with the investor. Risks also arise from the possible inability of counterparties to meet the terms of their contracts. C&F Mortgage has procedures in place to evaluate the credit risk of investors and does not expect any counterparty to fail to meet its obligations.

The Corporation is committed under noncancelable operating leases for certain office locations. Rent expense associated with these operating leases was \$1.19 million, \$911,000 and \$786,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

[Table of Contents](#)

Future minimum lease payments due under these leases as of December 31, 2007 are as follows (*dollars in thousands*):

2008	\$1,043
2009	661
2010	521
2011	490
2012	168
Thereafter	—
	<u>\$2,883</u>

As of December 31, 2007, the Corporation had \$6.44 million in deposits in financial institutions in excess of amounts insured by the FDIC, the majority of which was on deposit at a correspondent bank.

NOTE 15: Fair Market Value of Financial Instruments and Interest Rate Risk

The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and short-term investments. The nature of these instruments and their relatively short maturities provide for the reporting of fair value equal to the historical cost.

Securities. The fair value of investment securities is based on quoted market prices.

Loans. The estimated fair value of the loan portfolio is based on present values using discount rates equal to the market rates currently charged on similar products.

Loans held for sale. The fair value of loans held for sale is estimated based on commitments into which individual loans will be delivered.

Deposits and borrowings. The fair value of all demand deposit accounts is the amount payable at the report date. For all other deposits and borrowings, the fair value is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products.

Accrued interest. The carrying amount of accrued interest approximates fair value.

Letters of credit. The estimated fair value of letters of credit is based on estimated fees the Corporation would pay to have another entity assume its obligation under the outstanding arrangements. These fees are not considered material.

Unused portions of lines of credit. The estimated fair value of unused portions of lines of credit is based on estimated fees the Corporation would pay to have another entity assume its obligation under the outstanding arrangements. These fees are not considered material.

[Table of Contents](#)

	December 31,			
	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<i>(Dollars in thousands)</i>				
Financial assets:				
Cash and short-term investments	\$ 12,263	\$ 12,263	\$ 28,506	\$ 28,506
Securities	81,255	81,255	67,584	67,584
Net loans	585,881	583,467	517,843	517,000
Loans held for sale, net	34,083	35,073	53,504	54,913
Accrued interest receivable	5,069	5,069	4,432	4,432
Financial liabilities:				
Demand deposits	264,622	267,193	278,710	277,310
Time deposits	262,949	263,152	254,125	255,360
Borrowings	176,047	173,351	115,056	113,869
Accrued interest payable	2,115	2,115	1,915	1,915

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Corporation's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to manage interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

NOTE 16: Business Segments

The Corporation operates in a decentralized fashion in three principal business segments: Retail Banking, Mortgage Banking and Consumer Finance. Revenues from Retail Banking operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from Consumer Finance consist primarily of interest earned on automobile loans.

The Corporation's other segments include:

- an investment company that derives revenues from brokerage services,
- an insurance company that derives revenues from insurance services, and
- a title company that derives revenues from title insurance services.

The results of these other segments are not significant to the Corporation as a whole and have been included in "Other."

[Table of Contents](#)

<i>(Dollars in thousands)</i>	Year Ended December 31, 2007					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	\$ 40,203	\$ 2,482	\$ 26,060	\$ —	\$ (3,920)	\$ 64,825
Gains on sales of loans	—	15,854	—	—	(21)	15,833
Other noninterest income	5,411	2,790	590	1,254	—	10,045
Total operating income	45,614	21,126	26,650	1,254	(3,941)	90,703
Expenses:						
Interest expense	17,490	992	8,708	181	(3,993)	23,378
Salaries and employee benefits	14,626	11,095	4,317	720	29	30,787
Other noninterest expenses	9,163	6,210	9,200	141	—	24,714
Total operating expenses	41,279	18,297	22,225	1,042	(3,964)	78,879
Income before income taxes	\$ 4,335	\$ 2,829	\$ 4,425	\$ 212	\$ 23	\$ 11,824
Total assets	\$634,722	\$44,841	\$167,400	\$ 40	\$ (61,407)	\$ 785,596
Goodwill	\$ —	\$ —	\$ 10,724	\$ —	\$ —	\$ 10,724
Capital expenditures	\$ 1,711	\$ 273	\$ 267	\$ —	\$ —	\$ 2,251

<i>(Dollars in thousands)</i>	Year Ended December 31, 2006					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	\$ 37,743	\$ 2,737	\$ 21,384	\$—	\$ (3,282)	\$ 58,582
Gains on sales of loans	—	17,149	—	—	(51)	17,098
Other noninterest income	5,169	3,678	539	903	—	10,289
Total operating income	42,912	23,564	21,923	903	(3,333)	85,969
Expenses:						
Interest expense	13,520	1,428	6,849	—	(3,340)	18,457
Salaries and employee benefits	13,001	12,137	3,146	668	55	29,007
Other noninterest expenses	7,660	6,221	6,924	141	—	20,946
Total operating expenses	34,181	19,786	16,919	809	(3,285)	68,410
Income before income taxes	\$ 8,731	\$ 3,778	\$ 5,004	\$ 94	\$ (48)	\$ 17,559
Total assets	\$591,573	\$60,022	\$140,024	\$ 51	\$ (57,202)	\$ 734,468
Goodwill	\$ —	\$ —	\$ 10,724	\$—	\$ —	\$ 10,724
Capital expenditures	\$ 5,485	\$ 425	\$ 207	\$ 3	\$ —	\$ 6,120

Table of Contents

<i>(Dollars in thousands)</i>	Year Ended December 31, 2005					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	\$ 30,857	\$ 3,178	\$ 17,799	\$—	\$ (3,064)	\$ 48,770
Gains on sales of loans	—	18,193	—	—	1	18,194
Other noninterest income	4,342	3,719	417	912	—	9,390
Total operating income	<u>35,199</u>	<u>25,090</u>	<u>18,216</u>	<u>912</u>	<u>(3,063)</u>	<u>76,354</u>
Expenses:						
Interest expense	8,712	1,532	4,880	—	(3,127)	11,997
Salaries and employee benefits	11,368	13,457	2,766	568	118	28,277
Other noninterest expenses	6,995	5,012	6,919	185	—	19,111
Total operating expenses	<u>27,075</u>	<u>20,001</u>	<u>14,565</u>	<u>753</u>	<u>(3,009)</u>	<u>59,385</u>
Income before income taxes	\$ 8,124	\$ 5,089	\$ 3,651	\$ 159	\$ (54)	\$ 16,969
Total assets	\$571,091	\$47,574	\$119,113	\$ 19	\$ (65,840)	\$ 671,957
Goodwill	\$ —	\$ —	\$ 10,724	\$—	\$ —	\$ 10,724
Capital expenditures	\$ 11,830	\$ 459	\$ 172	\$—	\$ —	\$ 12,461

The Retail Banking segment extends a warehouse line of credit to the Mortgage Banking segment, providing the funds needed to originate mortgage loans. The Retail Banking segment charges the Mortgage Banking segment interest at the daily FHLB advance rate plus 50 basis points. The Retail Banking segment also provides the Consumer Finance segment with a portion of the funds needed to originate loans and charges the Consumer Finance segment interest at one-month LIBOR plus 175 basis points. The Retail Banking segment acquires certain lot and permanent loans, second mortgage loans and home equity lines of credit from the Mortgage Banking segment at prices similar to those paid by third-party investors. These transactions are eliminated to reach consolidated totals. Certain corporate overhead costs incurred by the Retail Banking segment are not allocated to the Mortgage Banking, Consumer Finance and Other segments.

NOTE 17: Parent Company Condensed Financial Information

Financial information for the parent company is as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2007	2006
Balance Sheets		
Assets		
Cash	\$ 147	\$ 122
Securities available for sale	3,867	4,127
Other assets	2,087	1,343
Investments in subsidiary	79,821	79,865
Total assets	<u>\$85,922</u>	<u>\$85,457</u>
Liabilities and shareholders' equity		
Short-term borrowings	\$ —	\$ 7,000
Trust preferred capital notes	20,620	10,310
Other liabilities	78	141
Shareholders' equity	65,224	68,006
Total liabilities and shareholders' equity	<u>\$85,922</u>	<u>\$85,457</u>

[Table of Contents](#)

(Dollars in thousands)

Statements of Income	Year Ended December 31,		
	2007	2006	2005
Interest income on securities	\$ 292	\$ 194	\$ 306
Interest income on loans	—	—	27
Interest expense on borrowings	(874)	(1,106)	(448)
Dividends received from bank subsidiary	19,394	4,038	2,492
Equity in undistributed net income of subsidiary	(10,325)	8,681	9,354
Other income	584	518	227
Other expenses	(591)	(196)	(170)
Net income	<u>\$ 8,480</u>	<u>\$12,129</u>	<u>\$11,788</u>

(Dollars in thousands)

Statements of Cash Flows	Year Ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 8,480	\$12,129	\$ 11,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	10,325	(8,681)	(9,354)
Stock-based compensation	299	97	—
Net gain on securities	—	(19)	(36)
Increase in other assets	(391)	(187)	(100)
Increase (decrease) in other liabilities	4	(21)	(38)
Net cash provided by operating activities	<u>18,717</u>	<u>3,318</u>	<u>2,260</u>
Investing activities:			
Proceeds from maturities and calls of securities	500	152	1,077
Purchase of securities	(555)	—	(185)
Investment in bank subsidiary	(10,000)	—	—
Investment in statutory trust	(310)	—	(310)
Net cash (used in) provided by investing activities	<u>(10,365)</u>	<u>152</u>	<u>582</u>
Financing activities:			
Net (decrease) increase in borrowings	(7,000)	—	7,000
Issuance of trust preferred capital notes	10,310	—	10,310
Purchase of common stock	(8,435)	(518)	(17,640)
Cash dividends	(3,769)	(3,657)	(3,339)
Proceeds from exercise of stock options	567	580	503
Net cash used in financing activities	<u>(8,327)</u>	<u>(3,595)</u>	<u>(3,166)</u>
Net increase (decrease) in cash and cash equivalents	25	(125)	(324)
Cash at beginning of year	122	247	571
Cash at end of year	<u>\$ 147</u>	<u>\$ 122</u>	<u>\$ 247</u>

[Table of Contents](#)**NOTE 18: Quarterly Condensed Statements of Income—Unaudited**

<i>Dollars in thousands (except per share amounts)</i>	2007 Quarter Ended			
	March 31	June 30	September 30	December 31
Total interest income	\$15,299	\$15,970	\$ 16,821	\$ 16,735
Net interest income after provision for loan losses	8,510	8,751	8,936	8,120
Other income	5,798	7,162	6,446	6,472
Other expenses	11,482	12,383	12,197	12,309
Income before income taxes	2,826	3,530	3,185	2,283
Net income	2,011	2,462	2,284	1,723
Earnings per common share—assuming dilution	0.62	0.77	0.73	0.56
Dividends per common share	0.31	0.31	0.31	0.31

<i>Dollars in thousands (except per share amounts)</i>	2006 Quarter Ended			
	March 31	June 30	September 30	December 31
Total interest income	\$ 13,493	\$ 15,050	\$ 14,763	\$ 15,276
Net interest income after provision for loan losses	8,285	9,682	8,793	8,740
Other income	5,986	6,882	7,189	7,330
Other expenses	10,630	11,139	11,434	12,125
Income before income taxes	3,641	5,425	4,548	3,945
Net income	2,526	3,726	3,112	2,765
Earnings per common share—assuming dilution*	0.77	1.14	0.95	0.84
Dividends per common share	0.27	0.29	0.29	0.31

* The total of quarterly EPS amounts differs from EPS for the year ended December 31, 2006 due to rounding.

[Table of Contents](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
C&F Financial Corporation
West Point, Virginia

We have audited the accompanying balance sheets of C&F Financial Corporation and Subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2007, 2006 and 2005. We also have audited C&F Financial Corporation and Subsidiary's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). C&F Financial Corporation and Subsidiary's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits.

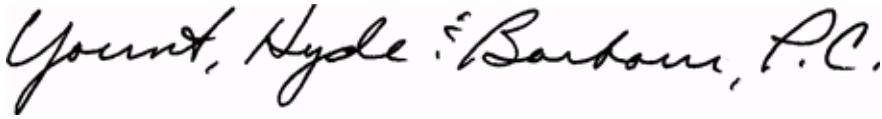
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

[Table of Contents](#)

Because of its inherent limitations, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of C&F Financial Corporation and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years ended December 31, 2007, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, C&F Financial Corporation and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



Winchester, Virginia
February 26, 2008

[Table of Contents](#)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Corporation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and regulations and that such information is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Corporation's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Corporation or its subsidiary to disclose material information otherwise required to be set forth in the Corporation's periodic reports.

Management's Report on Internal Control over Financial Reporting. Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance to the Corporation's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2007, the Corporation's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007 has been audited by Yount, Hyde & Barbour, P.C., the independent registered public accounting firm who also audited the Corporation's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour, P.C.'s attestation report on the Corporation's internal control over financial reporting appears on pages 84 through 85 hereof.

Table of Contents

Changes in Internal Controls. There were no changes in the Corporation's internal control over financial reporting during the Corporation's fourth quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the directors of the Corporation is contained on pages 3 through 4 of the 2008 Proxy Statement under the caption, "Election of Directors," and is incorporated herein by reference. The information regarding the Section 16(a) reporting requirements of the directors and executive officers is contained on page 28 of the 2008 Proxy Statement under the caption, "Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference. The information concerning executive officers of the Corporation is included after Item 4 of this Form 10-K under the caption, "Executive Officers of the Registrant." The Corporation has adopted a Code of Business Conduct and Ethics that applies to its directors, executives and employees including the principal executive officer, principal financial officer, principal accounting officer and controller. The Corporation's Code is attached hereto as Exhibit 14.

The board of directors of the Corporation has a standing Audit Committee, which is comprised of four directors who satisfy all of the following criteria: (i) meet the independence requirements of the NASDAQ Stock Market's (NASDAQ) listing standards, (ii) have not accepted directly or indirectly any consulting, advisory, or other compensatory fee from the Corporation or any of its subsidiaries, (iii) are not an affiliated person of the Corporation or any of its subsidiaries and (iv) are competent to read and understand financial statements. In addition, at least one member of the Audit Committee has past employment experience in finance or accounting or comparable experience that results in the individual's financial sophistication. The members of the Audit Committee are Messrs. J. P. Causey Jr., Barry R. Chernack, C. Elis Olsson and William E. O'Connell Jr. The board of directors has determined that the chairman of the Audit Committee, Mr. Barry R. Chernack, qualifies as an "audit committee financial expert" within the meaning of applicable regulations of the SEC, promulgated pursuant to the SOX Act. Mr. Chernack is independent of management based on the independence requirements set forth in the NASDAQ's listing standards' definition of "independent director."

The Corporation provides an informal process for security holders to send communications to its board of directors. Security holders who wish to contact the board of directors or any of its members may do so by addressing their written correspondence to C&F Financial Corporation, Board of Directors, c/o Corporate Secretary, P.O. Box 391, West Point, Virginia 23181. Correspondence directed to an individual board member will be referred, unopened, to that member. Correspondence not directed to a particular board member will be referred, unopened, to the Chairman of the Board.

[Table of Contents](#)

ITEM 11. EXECUTIVE COMPENSATION

The information contained on pages 9 through 20 of the 2008 Proxy Statement under the captions, “Compensation Committee Interlocks and Insider Participation,” “Executive Compensation” and “Compensation Committee Report,” and the information on pages 20 through 25 of the 2008 Proxy Statement are incorporated herein by reference. The information regarding director compensation contained on pages 7 through 8 of the 2008 Proxy Statement under the caption, “Director Compensation,” is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained on pages 2 through 3 of the 2008 Proxy Statement under the caption, “Security Ownership of Certain Beneficial Owners and Management,” is incorporated herein by reference.

The information contained on page 36 of the 2008 Proxy Statement under the caption, “Equity Compensation Plan Information,” is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained on pages 8 through 9 of the 2008 Proxy Statement under the caption, “Interest of Management in Certain Transactions,” is incorporated herein by reference. The information contained on pages 4 through 5 of the 2008 Proxy Statement under the caption, “Director Independence,” is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained on pages 27 through 28 of the 2008 Proxy Statement under the captions, “Principal Accountant Fees” and “Audit Committee Pre-Approval Policy,” is incorporated herein by reference.

[Table of Contents](#)

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits:

- 3.1 Articles of Incorporation of C&F Financial Corporation (incorporated by reference to Exhibit 3.1 to Form 10-KSB filed March 29, 1996)
- 3.2 Amended and Restated Bylaws of C&F Financial Corporation, as adopted October 16, 2007 (incorporated by reference to Exhibit 3.2 to Form 8-K filed October 22, 2007)

Certain instruments relating to trust preferred securities not being registered have been omitted in accordance with Item 601(b)(4) (iii) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.

- *10.1 Change in Control Agreement dated December 16, 1997 between C&F Financial Corporation and Larry G. Dillon (incorporated by reference to Exhibit 10 to Form 10-K filed March 23, 1998)
- *10.1.1 Amendment to Change in Control Agreement dated July 23, 2003 between C&F Financial Corporation and Larry G. Dillon (incorporated by reference to Exhibit 10.1.1 to Form 10-Q filed November 13, 2003)
- *10.3 Amended and Restated Change in Control Agreement dated February 15, 2005 between C&F Financial Corporation and Thomas F. Cherry (incorporated by reference to Exhibit 10.3 to Form 10-K filed March 3, 2005)
- *10.4 Restated VBA Executives' Non-Qualified Deferred Compensation Plan for C&F Financial Corporation
- *10.4.1 Adoption Agreement for the Restated VBA Executives' Non-Qualified Deferred Compensation Plan for C&F Financial Corporation dated as of January 1, 2008
- *10.4.2 Attachment to the Adoption Agreement for the Restated VBA Executives' Non-Qualified Deferred Compensation Plan for C&F Financial Corporation dated as of January 1, 2008
- *10.5 Restated VBA Directors' Deferred Compensation Plan for C&F Financial Corporation
- *10.5.1 Adoption Agreement for the Restated VBA Director's Deferred Compensation Plan for C&F Financial
- *10.6 Amended and Restated C&F Financial Corporation 1994 Incentive Stock Plan
- *10.7 Amended and Restated C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan
- *10.8 Amended and Restated C&F Financial Corporation 1999 Regional Director Stock Compensation Plan
- *10.9 C&F Financial Corporation Management Incentive Plan dated February 25, 2005, as amended March 6, 2006 (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 9, 2006)
- *10.10 Amended and Restated C&F Financial Corporation 2004 Incentive Stock Plan

Table of Contents

- *10.11 Form of C&F Financial Corporation Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K filed December 29, 2004)
- *10.12 Employment Agreement dated April 16, 2002 between C&F Mortgage Corporation and Bryan McKernon, as amended December 19, 2006 (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 9, 2007)
- *10.13 Amended and Restated Change in Control Agreement dated February 15, 2005 between C&F Financial Corporation and Robert L. Bryant (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 3, 2005)
- *10.14 Amended and Restated Change in Control Agreement dated February 15, 2005 between C&F Financial Corporation and Bryan McKernon (incorporated by reference to Exhibit 10.13 to Form 10-K filed March 3, 2005)
- *10.15 Schedule of C&F Financial Corporation Non-Employee Directors' Annual Compensation (incorporated by reference to Exhibit 10.14 to Form 10-K filed March 3, 2005)
- *10.16 Base Salaries for Named Executive Officers of C&F Financial Corporation
- *10.17 Form of C&F Financial Corporation Restricted Stock Agreement (incorporated by reference to Exhibit 10.16 to Form 8-K filed December 18, 2006)
- 10.19 Loan and Security Agreement by and between Wells Fargo Financial Preferred Capital, Inc. and C&F Finance Company dated as of August 1, 2005 (incorporated by reference to Exhibit 10.19 to Form 10-Q filed August 5, 2005)
- 10.20 First Amendment to the Loan and Security Agreement by and between Wells Fargo Financial Preferred Capital, Inc. and C&F Finance Company dated as of December 1, 2006 (incorporated by reference to Exhibit 10.20 to Form 10-K filed March 9, 2007)
- 10.21 Second Amendment to the Loan and Security Agreement by and between Wells Fargo Financial Preferred Capital, Inc. and C&F Finance Company dated as of March 16, 2007 (incorporated by reference to Exhibit 10.21 to Form 10-Q filed May 9, 2007)
- 10.22 Third Amendment to the Loan and Security Agreement by and between Wells Fargo Financial Preferred Capital, Inc. and C&F Finance Company dated as of June 18, 2007 (incorporated by reference to Exhibit 10.22 to Form 10-Q filed August 3, 2007)
- 10.23 Fourth Amendment to the Loan and Security Agreement by and between Wells Fargo Financial Preferred Capital, Inc. and C&F Finance Company dated as of October 31, 2007
- 14 C&F Financial Corporation Code of Business Conduct and Ethics
- 21 Subsidiaries of the Registrant
- 23 Consent of Yount, Hyde & Barbour, P.C.
- 31.1 Certification of CEO pursuant to Rule 13a-14(a)
- 31.2 Certification of CFO pursuant to Rule 13a-14(a)
- 32 Certification of CEO/CFO pursuant to 18 U.S.C. Section 1350

* Indicates management contract

[Table of Contents](#)

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.

C&F FINANCIAL CORPORATION
(Registrant)

Date: March 5, 2008

By: /s/ Larry G. Dillon
Larry G. Dillon
Chairman, President and Chief Executive Officer (Principal Executive Officer)

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/ Larry G. Dillon Date: March 5, 2008
Larry G. Dillon, Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Thomas F. Cherry Date: March 5, 2008
Thomas F. Cherry, Executive Vice President,
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

/s/ J. P. Causey Jr. Date: March 5, 2008
J. P. Causey Jr., Director

/s/ Barry R. Chernack Date: March 5, 2008
Barry R. Chernack, Director

/s/ Audrey D. Holmes Date: March 5, 2008
Audrey D. Holmes, Director

/s/ James H. Hudson III Date: March 5, 2008
James H. Hudson III, Director

/s/ Joshua H. Lawson Date: March 5, 2008
Joshua H. Lawson, Director

/s/ William E. O'Connell Jr. Date: March 5, 2008
William E. O'Connell Jr., Director

/s/ C. Elis Olsson Date: March 5, 2008
C. Elis Olsson, Director

/s/ Paul C. Robinson Date: March 5, 2008
Paul C. Robinson, Director

[\(Back To Top\)](#)

Section 2: EX-10.4 (RESTATED VBA EXECUTIVES' NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR C&F)

FOR EXECUTIVES

(As Restated Effective January 1, 2008)

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	
<u>Definition of Terms</u>	
1.1 Act	1
1.2 Administrator	1
1.3 Adoption Agreement	1
1.4 Affiliate	1
1.5 Beneficiary	2
1.6 Benefit Commencement Date	2
1.7 Board	2
1.8 Change in Control	2
1.9 Code	2
1.10 Compensation	2
1.11 Deferral Account or Deferral Accounts	2
1.11(a) Employee Deferral Account	2
1.11(b) Employer Deferral Account	2
1.11(c) Predecessor Plan Account	3
1.12 Deferral Benefit	3
1.13 Deferred Compensation Election	3
1.14 Deferral Contributions	3
1.15 Effective Date	3
1.16 Eligible Employee	3
1.17 Employee	3
1.18 Employer	3
1.19 Fund	4
1.20 Participant	4
1.21 Plan	4
1.22 Plan Sponsor	4
1.23 Plan Year	4
1.24 Rabbi Trust	4
1.25 Restated Plan	4
1.26 Separation from Service	4
1.27 Termination of Employment	4
1.28 Trustee	4
1.29 Valuation Date	5
1.30 VBA Plan	5
ARTICLE II	
<u>Eligibility and Participation</u>	
2.1 Eligibility	5
2.2 Notice and Election Regarding Active Participation	5
2.3 Deferred Compensation Election	6
2.4 Automatic Cancellation of Deferred Compensation Election upon Receipt of Hardship Withdrawal	8

2.5	Cancellation of Election upon Occurrence of Disability	8
2.6	Length of Participation	9
2.7	Termination of Active Participation	9

ARTICLE III
Determination of Deferral Benefits

3.1	Deferral Benefit	9
3.2	Deferral Account	9
3.3	Contributions by Participants	10
3.4	Employer Contribution Allocations	10
3.5	Subtractions from Deferral Account	10
3.6	Crediting of Deemed Earnings to Deferral Account	10
3.7	Expenses Charged to Accounts	11
3.8	Equitable Adjustment in Case of Error Omission	11
3.9	Statement of Benefits	11

ARTICLE IV
Vesting

4.1	Vesting in Employee Deferral Account and Predecessor Plan Account	11
4.2	Vesting in Employer Non-Elective Deferral Account	11
4.3	Vesting in Employer Matching Deferral Account	12
4.4	Forfeiture of Benefits	12
4.5	No Restoration of Forfeited Benefits	13

ARTICLE V
Beneficiary Designation and Death Benefit

5.1	Death after Benefit Commencement	13
5.2	Death before Benefit Commencement	13
5.3	Beneficiary Designation	13

ARTICLE VI
Retirement Dates

6.1	Normal Retirement Date	14
6.2	Delayed Retirement Date	14
6.3	Early Retirement Date	14
6.4	Disability Retirement Date	14
6.5	Use of Retirement Date Definitions	14

ARTICLE VII
Time and Form of Payment

7.1	Time of Payment of Deferral Benefit	15
7.2	Form of Payment of Deferral Benefit	15
7.3	Permissible Changes to Benefit Commencement Date and/or Form of Payment	15

7.4	Transition Election Changes	16
7.5	Lump Sum Payments and Periodic Installments	16
7.6	Permissible Cash-Out by Lump Sum Payment	16
7.7	Benefit Determination and Payment Procedure	17
7.8	Payments to Minors and Incompetents	18
7.9	Distribution of Benefit When Distributee Cannot Be Located	18
7.10	Claims Procedure	18

ARTICLE VIII

Withdrawals

8.1	Hardship Withdrawals	22
8.2	No Other Withdrawals Permitted	23

ARTICLE VII

Funding

9.1	Funding	23
9.2	Use of Rabbi Trust Permitted	23
9.3	Fund Divisions	23
9.4	Participant Investment Directions	24

ARTICLE IX

Plan Administrator

10.1	Appointment of Plan Administrator	24
10.2	Plan Sponsor as Plan Administrator	24
10.3	Procedures if a Committee	24
10.4	Action by Majority Vote if a Committee	25
10.5	Appointment of Successors	25
10.6	Duties and Responsibilities of Plan Administrator	25
10.7	Power and Authority	25
10.8	Availability of Records	25
10.9	No Action with Respect to Own Benefit	25

ARTICLE Xi

Amendment and Termination of Plan

11.1	Amendment or Termination of the Plan	26
11.2	Effect of Employer Merger, Consolidation or Liquidation	26

ARTICLE XII

Participation by Additional Employers

12.1	Adoption by Additional Employers	26
12.2	Termination Events with Respect to Employers Other Than the Plan Sponsor	26

ARTICLE XII
Miscellaneous

13.1	Nonassignability	27
13.2	Right to Require Information and Reliance Thereon	27
13.3	Notices and Elections	27
13.4	Delegation of Authority	27
13.5	Service of Process	28
13.6	Governing Law	28
13.7	Binding Effect	28
13.8	Severability	28
13.9	No Effect on Employment Agreement	28
13.10	Gender and Number	28
13.11	Titles and Captions	28
13.12	Construction	28
13.13	Nonqualified Deferred Compensation Plan Omnibus Provision	28
13.14	Distributions in the Event of Income Inclusion	29

**VIRGINIA BANKERS ASSOCIATION
MODEL NON-QUALIFIED DEFERRED COMPENSATION PLAN
FOR EXECUTIVES
(As Restated Effective January 1, 2008)**

An Employer desiring to adopt the Plan should complete the necessary information in the Adoption Agreement. The Virginia Bankers Association cannot guarantee that any Plan adopted by an Employer will be deemed to satisfy, or will actually satisfy, the requirements of the Internal Revenue Code or ERISA applicable to non-qualified "top-hat" deferred compensation plans. Employers considering the use of the Plan must recognize that neither the Virginia Bankers Association nor its employees or representatives can give any legal advice as to the acceptability or application of the Plan in any particular situation, and that Employers should consult their own attorney for such advice. The establishment, operation, and the related tax consequences of the adoption and maintenance of a non-qualified "top-hat" deferred compensation plan are the responsibilities of the Employer and its own legal counsel.

Any plan restatement using the form of this Model Non-Qualified Deferred Compensation Plan affects amounts that were deferred or that became vested on or after January 1, 2005. The terms of this document are effective January 1, 2008. The plan has operated in good faith compliance with the requirements of Code Section 409A between January 1, 2005 and December 31, 2007. Unless otherwise elected by the Employer in Option 3(b)(2)(C), all amounts deferred and vested prior to January 1, 2005 remain subject to the terms of the plan document as effective December 31, 2004.

The form of this Model Non-Qualified Deferred Compensation Plan has been designed to be an unfunded, deferred compensation plan for a select group of management or highly compensated employees as described in Sections 201(2), 301(a)(3) and 401(a)(1) of the Act. The Plan is also intended to satisfy the requirements of Section 409A of the Code and the guidance issued thereunder and all provisions of the Plan shall be interpreted in a manner to satisfy such requirements.

**ARTICLE I
Definition of Terms**

The following words and terms as used in this Plan shall have the meaning set forth below, unless a different meaning is clearly required by the context:

1.1 **"Act"**: The Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, or the corresponding sections of any subsequent legislation which replaces it, and, to the extent not inconsistent therewith, the regulations issued thereunder.

1.2 **"Administrator"**: The Plan Administrator named and serving in accordance with ARTICLE X hereof, and any successor or additional Administrator appointed and serving in accordance herewith, all as selected in Option 2(b) of the Adoption Agreement or as appointed, resigned or removed by separate instrument attached thereto.

1.3 **"Adoption Agreement"**: The adoption agreement, and any amendment thereto, which sets forth certain elections and representations of the Employer and by execution of which the Employer adopts the Plan.

1.4 **"Affiliate"**: The Employer and each of the following business entities or other organizations (whether or not incorporated) which during the relevant period is treated (but only for the portion of the period so treated and for the purpose and to the extent required to be so treated) together with the Employer as a single employer pursuant to the following sections of the Code (as modified where applicable by Section 415(h) of the Code):

(i) Any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Employer,

(ii) Any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Employer,

1.5 **“Beneficiary”**: The person or persons designated by a Participant or otherwise entitled pursuant to ARTICLE VII to receive benefits under the Plan attributable to such Participant after the death of such Participant.

1.6 **“Benefit Commencement Date”**: The date or dates designated or provided for in Option 8 of the Adoption Agreement. If earlier than any Benefit Commencement Date designated or elected, a Participant’s Benefit Commencement Date shall be the date such Participant is determined to be Disabled as that term is defined in subparagraph 6.4(b).

1.7 **“Board”**: The present and any succeeding Board of Directors of the Plan Sponsor, unless such term is used with respect to a particular Employer and its Employees or Participants, in which event it shall mean the present and any succeeding Board of Directors of that Employer.

1.8 **“Change in Control”**: A change in the ownership of the Plan Sponsor as defined in Treasury Regulation Section 1.409A-3(i)(5) or its successor or as otherwise defined as a special provision in the Option 3(b)(2)(C) of the Adoption Agreement.

1.9 **“Code”**: The Internal Revenue Code of 1986, as the same may be amended from time to time, or the corresponding section of any subsequent Internal Revenue Code, and, to the extent not inconsistent therewith, regulations issued thereunder.

1.10 **“Compensation”**: A Participant’s (i) annual base salary as more specifically designated by the Employer in Option 4(a) of the Adoption Agreement (referred to as “Salary”) and (ii) bonuses and incentive pay as more specifically designated by the Employer in Option 4(a) of the Adoption Agreement (collectively referred to as “Bonus”) including that portion of such compensation which is electively deferred under this Plan or any other plan of the Corporation such as a 401(k) plan for such Plan Year or reduced pursuant to a salary reduction election permitted under Section 125 of the Code, but excluding any such compensation deferred from a prior period, expense reimbursement and allowances and benefits not normally paid in cash to the Participant.

1.11 **“Deferral Account” or “Deferral Accounts”**: The unfunded, bookkeeping account(s) maintained on the books of the Employer for a Participant which reflects his interest in amounts attributable to Deferral Contributions under the Plan made by or on behalf of the Participant and the earnings attributable thereto consisting of the following:

1.11(a) **“Employee Deferral Account”**: The account or accounts of a Participant under the Plan attributable to his Employee Deferral Contributions to the Plan and the earnings attributable thereto. A separate subdivision of each account shall be maintained for each Plan Year.

1.11(b) **“Employer Deferral Account”**: The account or accounts of a Participant under the Plan attributable to Employer Non-Elective Contributions and Employer Matching Contributions made by the Employer on the Participant’s behalf consisting of his Employer Non-Elective Deferral Account and his Employer Matching Deferral Account as follows:

(i) **“Employer Non-Elective Deferral Account”**: The Participant’s account in the Fund attributable to the Employer Non-Elective Deferral Contributions made pursuant to Option 5 of the Adoption Agreement and Paragraph 3.4 of the Plan on his

behalf and the earnings attributable thereto. If applicable, a subdivision of the Employer Non-Elective Deferral Account shall be maintained to reflect the Employer Contributions and the earnings attributable thereto until such time as the account becomes fully vested.

(ii) **“Employer Matching Deferral Account”**: The Participant’s account in the Fund attributable to the Employer Matching Deferral Contributions made pursuant to Option 5 of the Adoption Agreement and Paragraph 3.4 of the Plan on his behalf and the earnings attributable thereto. If applicable, a subdivision of the Employer Matching Deferral Account shall be maintained to reflect the Employer Contributions and the earnings attributable thereto until such time as the account becomes fully vested.

1.11(c) **“Predecessor Plan Account”**: The account or accounts of a Participant attributable to any elective or non-elective deferral of remuneration by or on behalf of the Participant under any “top-hat” deferred compensation plan previously maintained by the Employer that is merged into or transferred to the Plan.

1.11(d) Each Deferral Account shall be divided into subdivisions reflecting deferral amounts and the earnings attributable thereto for each separate Plan Year.

1.11(e) For purposes of this restatement of the Plan, unless elected by the Plan Sponsor in Option 3(b)(2)(C) of the Adoption Agreement, Deferral Accounts do not include accounts under the Plan attributable to amounts deferred and vested before January 1, 2005. Such accounts are considered grandfathered and are subject to the rules of Plan as in effective December 31, 2004.

1.12 **“Deferral Benefit”**: The sum of the vested balances of Participant’s Deferral Accounts under the Plan as of the most recent Valuation Date (or as otherwise provided herein).

1.13 **“Deferred Compensation Election”**: The election made by the Participant pursuant to paragraph 2.3 of the Plan.

1.14 **“Deferral Contributions”**: That portion of a Participant’s Compensation which is deferred under the Plan and/or the non-elective deferrals of remuneration made by the Employer under the Plan on the Participant’s behalf.

1.15 **“Effective Date”**:

1.15(a) The **“Effective Date of the Plan”** with respect to each Employer shall be that date or dates specified in Option 3(a) (or in Option 1(f), in the case of an adopting Employer) of the Adoption Agreement.

1.15(b) The **“Effective Date of the Restatement of the Plan”** with respect to each Employer shall be that date or dates specified in Option 3(b) of the Adoption Agreement.

1.16 **“Eligible Employee”**: Any Employee included within the definition of Eligible Employee as specified in Option 4(b) of the Adoption Agreement; provided, however, in order to be an Eligible Employee the Employee must be in the “highly compensated group”. The term “highly compensated group” means a select group of management or highly compensated employees as described and used in Sections 201(2), 301(a)(3), 401(a)(1) of the Act.

1.17 **“Employee”**: Any individual employed in the service of the Employer as a common law employee of the Employer.

1.18 **“Employer”**: The Plan Sponsor and those Employers all Affiliates, named in Option 1(f) of the Adoption Agreement adopting the Plan, collectively, unless the context indicates otherwise.

1.19 **“Fund”**:

1.19(a) If a trust fund is established and maintained for the Plan, that trust fund, which shall consist of the Fund divisions described in paragraph 9.3. Notwithstanding the foregoing, any reference to the Fund is intended only for purposes of providing a measurement of benefits and account balances under the Plan and is not intended to segregate assets or identify assets that may or must be used to satisfy benefit liabilities under the Plan.

1.19(b) If a trust fund is not established and maintained for the Plan pursuant to a Trust Agreement, that separate bookkeeping account maintained by the Plan Sponsor to make deemed investments of contributions to the Plan, which shall consist of the Fund divisions described in paragraph 9.3.

1.20 **“Participant”**: An Eligible Employee or other person qualified to participate in the Plan for so long as he is considered a Participant as provided in ARTICLE II hereof.

1.21 **“Plan”**: This Agreement, including the Appendices hereto, as contained herein or duly amended all as adopted by the Employer through the Adoption Agreement.

1.22 **“Plan Sponsor”**: The Employer named in Option 1(a) of the Adoption Agreement.

1.23 **“Plan Year”**: The twelve consecutive month period commencing upon the first day of January of each year provided, however in the event that this is a Restated Plan which was maintained previously on the basis of a different Plan Year, the prior Plan Year and short Plan Year needed to effect the Plan Year change shall be as set forth in Option 4(c) of the Adoption Agreement.

1.24 **“Rabbi Trust”**: A trust fund described in paragraph 9.2 and established or maintained for the Plan.

1.25 **“Restated Plan”**: The Plan, if it is indicated in Option 3(b) of the Adoption Agreement that the Plan is adopted as an amendment or restatement of a “top-hat” deferred compensation plan previously maintained by the Employer.

1.26 **“Separation from Service”**: The death, retirement or other Termination of Employment with the Employer and Affiliates (whether or not the Affiliate is an adopting Employer) for reasons other than Disability as defined in subparagraph 6.4(b). For purposes hereof the employment relationship is treated as continuing intact while the individual is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six (6) months, so long as the individual’s right to reemployment is provided either by statute or by contract. If the period exceeds six (6) months and the individual’s right to reemployment is not provided by contract or statute, then the employment relationship is deemed to terminate on the first date immediately following such six-month period.

1.27 **“Termination of Employment”**: Facts and circumstances indicating a date beyond which the Employer does not intend for the Employee to provide more than insignificant services for the Employer (regardless of whether provided as an Employee or as an independent contractor) and Affiliates (whether or not the Affiliate is a participating Employer). For purposes hereof, whether any services are more than insignificant will be determined in accordance with the provisions of Section 409A of the Code. With respect to a Participant who provides services for the Employer both as an Employee and a member of the Board, to the extent permitted in Section 409A of the Code, services as a member of the Board shall not be taken into account in determining whether a Participant has experienced a Separation from Service under this Plan.

1.28 **“Trustee”**: The person(s) serving from time to time as trustee of the Fund pursuant to any Rabbi Trust.

1.29 “**Valuation Date**”: Each business day (based on the days the underlying investment funds are valued and transactions are effectuated in the applicable financial markets) of the Plan Year (which Valuation Date is sometimes referred to as a “daily” Valuation Date), or such other dates as the Administrator may designate from time to time.

1.30 “**VBA Plan**”: The Virginia Bankers Association Master Defined Contribution Plan and Trust.

ARTICLE II
Eligibility and Participation

2.1 **Eligibility**. Each Eligible Employee shall be eligible to participate in the Plan effective as provided for in Option 4(d) of the Adoption Agreement.

2.2 **Notice and Election Regarding Active Participation**.

2.2(a) The Administrator shall give notice of eligibility to each Eligible Employee who is anticipated to be eligible to make Deferral Contributions to the Plan within a reasonable period of time prior to the effective date of eligibility for coverage as described in paragraph 2.1.

2.2(b) With respect to the Plan Year in which the Effective Date or the effective date of coverage as described in Option 4(d) of the Adoption Agreement occurs (“first year of eligibility”), in order to make Employee Deferral Contributions with respect to such Plan Year, an Eligible Employee who is a newly Eligible Employee must file a Deferred Compensation Election with the Administrator within 30 days of such Effective Date or effective date of coverage. The Deferred Compensation Election shall be effective to defer Compensation for services performed in pay periods after the pay period in which it is filed. For this purpose:

(i) Compensation based on a performance period (such as an annual bonus) is deemed earned ratably throughout the period for which earned.

(ii) An Eligible Employee’s first year of eligibility is the year in which he first becomes eligible to participate in any account balance type deferred compensation plan within the meanings of Section 409A of the Code maintained by the Employer or any Affiliate.

(iii) If all amounts owed the Eligible Employee from all account balance plans maintained by the Plan Sponsor and its Affiliates subject to Section 409A of the Code have been paid to the Eligible Employee and if the Eligible Employee has become ineligible to accrue further benefits, then if he thereafter becomes an Eligible Employee, the year in which he again becomes an Eligible Employee may be treated as his first year of eligibility.

(iv) If a Participant is not an Eligible Employee for at least twenty-four (24) consecutive months, then if he thereafter becomes an Eligible Employee, the year in which he again becomes an Eligible Employee may be treated as his first year of eligibility.

2.2(c) With respect to Plan Years beginning on or after the first year of eligibility as described in subparagraph 2.2(b), in order to make Employee Deferral Contributions of Salary with respect to such a Plan Year, an Eligible Employee must file a Deferred Compensation Election with the Administrator prior the annual filing deadline established by the Administrator, which deadline must be in the calendar year immediately preceding the year in which the Salary relates. The Deferred Compensation Election for Salary shall be effective as of the first day of the Plan Year in which the services that give rise to the Salary to be deferred are rendered.

2.2(d) With respect to Plan Years beginning on or after the first year of eligibility as described in subparagraph 2.2(b), in order to make Employee Deferral Contributions of Bonus with respect to the Plan Year, an Eligible Employee must file a Deferred Compensation Election with the Administrator prior to the annual filing deadline established by the Administrator, which deadline must be in the calendar year or, if different and permitted by the Administrator (as evidenced by the applicable Deferred Contribution Election form) where the Bonus is earned on the basis of the Plan Sponsor's fiscal year, the Plan Sponsor's fiscal year immediately preceding the applicable year in which the period to which the Bonus relates commences.

2.2(e) Notwithstanding subparagraph 2.2(d), if elected in Option 4(e) of the Adoption Agreement, the Administrator may permit a Deferred Contribution Election relating to a Bonus which is Performance-Based Compensation (within the meaning of Code Section 409A(a)(4)(B)(iii)) based on services performed over a period of at least twelve (12) consecutive months to be made prior to the annual filing deadline established by the Administrator, which deadline must be not later than six (6) months prior to the end of the period for which the Bonus is earned so long as the Eligible Employee has been continuously employed by the Employer from the later of the date the performance criteria are established or the performance period begins through the date of the election. For this purpose, performance-based compensation must be based on pre-established organizational or individual performance criteria for which the outcome is substantially uncertain at the time of establishment, that are established in writing no later than ninety (90) days after the beginning of the period of service to which the Bonus and performance relate and that are not substantially certain to be met at the time the criteria are established as more specifically defined in Treas. Reg. 1.409A-1(e).

2.3 Deferred Compensation Election.

2.3(a) Subject to the restrictions and conditions hereinafter provided, an Eligible Employee shall be entitled to elect to defer, as an Employee Deferral Contribution with respect to a Plan Year, an amount of his Compensation which is specified by and in accordance with his direction in his Deferred Compensation Election for such Plan Year. Any such election must be filed with the Administrator at the time required under paragraph 2.2.

2.3(b) Deferred Compensation Elections shall be subject to the following rules:

- (i) A separate Deferred Compensation Election must be filed for each Plan Year;
- (ii) Each Deferred Compensation Election must specify the following:
 - (A) The amount or percentage of the Employee Deferral Contribution for the applicable period;
 - (B) The Compensation from which the Employee Deferral Contribution shall be withheld, if appropriate;
 - (C) If Option 8(a)(2) of the Adoption Agreement is selected, the Benefit Commencement Date, which date (I) may be one of the dates permitted in Option 8(a)(2) of the Adoption Agreement, and (II) shall be irrevocable;
 - (D) If Option 8(b)(2) of the Adoption Agreement is selected, the form of payment and if periodic installments are elected, the duration and frequency of the installments which (I) shall be the same for all Employee Deferral Contributions made and Deferral Benefits payable with respect to a Plan Year, and (II) shall be irrevocable;

(E) If permitted in Option 8(a)(2)(A)(vi), whether the Benefit Commencement Date to be applicable to the Deferral Account related to the Plan Year shall be upon a Change in Control, if a Change in Control occurs prior to the Benefit Commencement Date otherwise elected;

(F) The Plan Year to which it relates; and

(G) Such other information as the Administrator may require.

(iii) A Participant shall have no unilateral right to change or terminate his Deferred Contribution Election for a year once the election filing deadline has passed.

(iv) The Benefit Commencement Date and form of payment election made in the Deferred Compensation Election for any Plan Year shall apply to each subdivision of the Employer Deferral Account for the same Plan Year.

2.3(c) Each Employee Deferral Contribution is intended to be an elective salary reduction amount which shall be deducted from a Participant's Compensation otherwise payable to him for a Plan Year by way of Salary or Bonus. Unless otherwise approved by the Administrator:

(i) Employee Deferral Contribution of Salary shall be withheld from annual salary on a pro rata basis throughout the Plan Year (or remainder of the Plan Year, in the case of an Employee who first becomes a Participant during the Plan Year as of a date other than the first day of the Plan Year, in the case of the Plan Year which contains the Effective Date of the Plan which is a date other than the first day of a Plan Year) to which the Employee Deferral Contributions of Salary relate; and

(ii) Unless otherwise specifically stated in the Deferred Compensation Election filed by the Participant, Employee Deferral Contributions of Bonus shall be withheld on a first dollar basis from the Bonus before any part is paid to the Participant. However, the Deferred Compensation Election filed by the Participant may, if permitted by the Administrator, provide that the Employee Deferral Contribution of Bonus be withheld after a threshold level of Bonus has been paid to the Participant in cash.

2.3(d) Notwithstanding any provision of the Plan to the contrary, if the Employer has indicated in Option 3(c) of the Adoption Agreement that this Plan is intended to be paired with a qualified deferred compensation plan indicated in Option 3(c) of the Adoption Agreement, then the Employee Deferral Contribution and the associated Employer Matching Contribution for a Plan Year of a Participant who is also a participant in such qualified plan shall be transferred to the qualified deferred compensation plan by the Employer no later than March 15 following the Plan Year, subject to the following provisions:

(i) The election to participate in a paired arrangement must be made in the Deferred Compensation Election for the Plan Year and shall be irrevocable.

(ii) The amount of the Employee Deferral Contribution transferred shall not exceed the lesser of the limit with respect to elective deferrals under Section 402(g)(1)(A), (B) and (C) imposed on the qualified deferred compensation plan or amount of the elective deferral permitted after applicable of the actual deferral percentage limitation or any other applicable limitation in such qualified plan.

(iii) The amount of the Employer Matching Deferral Contribution transferred shall not exceed the lesser of the limit with respect to elective deferrals under Section 402(g)(1)(A), (B) and (C) imposed on the qualified deferred compensation plan or the amount of the matching contributions permitted after applicable of the actual contribution percentage limitation or any other applicable limitation in such qualified plan.

2.3(e) Employment taxes required to be withheld on an Employee Deferral shall be withheld from Compensation that is not being deferred in a manner determined by the Employer. However, if necessary the Administrator may reduce the Employee Deferral Contribution as needed to comply with applicable employment tax withholding requirements.

2.4 Automatic Cancellation of Deferred Compensation Election upon Receipt of Hardship Withdrawal.

2.4(a) A Participant's Deferred Compensation Election in effect at the time of an unforeseen emergency withdrawal from the Plan shall be cancelled (rather than postponed or delayed) prospectively so that no further deferrals from his Salary or Bonus shall be made during the remainder of the Plan Year in which the withdrawal occurred.

2.4(b) A Participant's Deferred Compensation Election in effect at the time of a 401(k) hardship withdrawal shall be cancelled (rather than postponed or delayed) prospectively so that no further deferrals from his Salary or Bonus shall be made during the remainder of the Plan Year in which the withdrawal occurred. Any Deferred Compensation Election for the succeeding Plan Year shall not be effective until the 401(k) required cancellation period ends.

2.4(c) The Participant whose Deferred Compensation Election is cancelled pursuant to this paragraph must file a new Deferral Election in order to commence or recommence making deferrals under the Plan from his Salary or Bonuses.

2.4(d) For purposes hereof, the following terms have the following meanings:

(i) A "401(k) hardship withdrawal" is a hardship withdrawal from the any 401(k) Plan which requires a suspension of employee contributions and elective deferrals as a result of receipt of the hardship withdrawal in order to satisfy the regulations under Code Section 401(k).

(ii) The "401(k) required cancellation period" means a six month period (or other stated period in the applicable 401(k) plan) during which employee contributions and elective deferrals must be suspended as a result of receipt of a 401(k) hardship withdrawal in order to satisfy the regulations under Code Section 401(k).

(iii) A "401(k) Plan" means the any other deferred compensation plan intended to meet the requirements of Code Section 401(k) and maintained by the Employer or any other business entity or other organization (whether or not incorporated) which during the relevant period is treated (but only for the portion of the period so treated and for the purpose and to the extent required to be so treated) as a single employer with the Employer or any affiliate under Code Section 414(b), (c), (m) or (o).

2.5 Cancellation of Election upon Occurrence of Disability.

2.5(a) If elected in Option 4(f) of the Adoption Agreement, a Participant's Deferred Compensation Election in effect at the time of the commencement of a Disability as defined in this paragraph shall be cancelled (rather than postponed or delayed) prospectively so that no further deferrals from his Salary or Bonus shall be made during the remainder of the Plan Year provided such cancellation occurs by the later of the end of the Participant's taxable year or the fifteenth (15th) day of the third (3rd) month following the date the Participant incurs the Disability.

2.5(b) For purposes hereof, Disability shall mean any medically determinable physical or mental impairment which results in the Participant's inability to perform the duties of his position or any substantially similar position and can be expected to result in death or to last for a continuous period of not less than six (6) months. The determination of disability shall be made by the Administrator, on the advice of one or more physicians appointed and approved by the Employer, and the Administrator shall have the right to require further medical examinations from time to time to determine whether there has been any change in the Participant's physical condition.

2.6 **Length of Participation.** Each Eligible Employee shall automatically become a Participant in the Plan upon his timely filing a Deferred Compensation Election or other election to participate and remain a Participant as long as he is entitled to future benefits under the terms of the Plan.

2.7 **Termination of Active Participation.** Subject to compliance with Section 409A of the Code and paragraphs 2.4 or 2.5, a Participant who is an active Participant for an applicable contribution election period (that is, the calendar year generally or the period for which Bonuses are determined, as applicable) shall cease to be an active Participant for the applicable year or period, as the case may be, if and when he ceases to be an Eligible Employee during the applicable year or period, in which case he may not again become an active Participant until a subsequent calendar year or period for which Bonuses are determined, as applicable. A leave of absence (whether paid or unpaid) which does not result in a Separation from Service shall not be considered cessation of status as an Eligible Employee for this purpose.

ARTICLE III **Determination of Deferral Benefits**

3.1 **Deferral Benefit.** For purposes hereof, a Participant's Deferral Benefit shall be the sum of the vested balances in his Employee Deferral Account and, if applicable, his Employer Deferral Account and his Predecessor Plan Account at the time in question.

3.2 Deferral Account.

3.2(a) The Employer shall establish and maintain on its books Deferral Accounts (and appropriate subdivisions thereof) for each Participant to reflect the Participant's benefits under the Plan.

3.2(b) The balance in the Employee Deferral Account of a Participant shall consist of his Employee Deferral Contributions made to the Plan pursuant to paragraph 3.3, subtractions pursuant to paragraph 3.5, and deemed earnings or losses thereon determined pursuant to paragraph 3.6.

3.2(c) The balance in the Employer Non-Elective Deferral Account of a Participant shall consist of Employer Non-Elective Contributions, if any, made to the Plan on the Participant's behalf pursuant to paragraph 3.4, subtractions pursuant to paragraph 3.5, and deemed earnings or losses thereon determined pursuant to paragraph 3.6.

3.2(d) The balance in the Employer Matching Deferral Account of a Participant shall consist of Employer Matching Contributions, if any, made to the Plan on the Participant's behalf pursuant to paragraph 3.4, subtractions pursuant to paragraph 3.5, and deemed earnings or losses thereon determined pursuant to paragraph 3.6.

3.2(e) The balance in the Predecessor Plan Account of a Participant shall consist of balances transferred to the Plan on the Participant's behalf, subtractions pursuant to paragraph 3.5, and deemed earnings or losses thereon determined pursuant to paragraph 3.6.

3.2(f) Unless otherwise elected in Option 3(b)(2)(C) of the Adoption Agreement, the Employer shall segregate the Deferral Accounts of its Participants attributable to contributions that are vested as of December 31, 2004 from the Deferral Accounts of its Participants attributable contributions that are not vested as of December 31, 2004 and contributions made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to contributions not vested as of December 31, 2004 and to contributions made on and after January 1, 2005.

3.3 Contributions by Participants.

3.3(a) An active Participant shall elect to make Employee Deferral Contributions from his Compensation equal to that portion of his Compensation as is permitted to be contributed and as is specified by him in his Deferred Compensation Election.

3.3(b) Each Employee Deferral Contribution is intended to be an elective salary reduction contribution which shall be withheld from a Participant's Compensation otherwise payable to him for the applicable contribution election period.

3.3(c) Employee Deferral Contributions made by a Participant shall be credited to his Employee Deferral Account as of the date an amount equal to each Employee Deferral Contribution is credited on the accounting records of the Plan as directed by the Administrator, which date shall be no later than the end of the calendar month following the month the Compensation from which such contribution is deducted would otherwise have been paid to him and may be as soon as the date as of which the amount is otherwise payable to the Participant.

3.4 Employer Contribution Allocations.

3.4(a) If elected in Option 5(a)(2) of the Adoption Agreement, the Employer Non-Elective Deferral Contributions for each Plan Year shall be allocated to the Employer Non-Elective Deferral Accounts of Participants described in Option 5(a)(2) of the Adoption Agreement in the manner and as of the date set forth in Option 5(a)(2) of the Adoption Agreement.

3.4(b) If elected in Option 5(a)(3) of the Adoption Agreement, the Employer Matching Deferral Contributions for each Plan Year shall be allocated to the Employer Matching Deferral Accounts of Participants described in Option 5(a)(3) of the Adoption Agreement in the manner and as of the date set forth in Option 5(a)(3) of the Adoption Agreement.

3.4(c) Notwithstanding anything to the contrary herein, each Deferral Contribution of the Employer is not intended to be an actual contribution by the Employer, but rather is only a bookkeeping amount credited for benefit determination purposes under the Plan.

3.4(d) The Employer may from time to time make a discretionary contribution to the Plan on behalf of one or a group of Participants. At the time the contribution is made the Employer will specify how such amounts are allocated among the Participants accounts and the timing of such allocation.

3.4(e) Employment taxes required to be withheld on an Employer Deferral Contributions shall be withheld from Compensation that is not being deferred in a manner determined by the Employer. However, if necessary the Administrator may reduce the Employer Deferral Contribution as needed to comply with applicable employment tax withholding requirements.

3.5 **Subtractions from Deferral Account.** All distributions (including any withheld income or other taxes) and withdrawals shall be subtracted from a Participant's Deferral Account and the applicable subdivision thereof when made. All Plan and Fund administrative expenses charged to a Participant's Deferral Account shall be subtracted as directed by the Administrator.

3.6 Crediting of Deemed Earnings to Deferral Account.

3.6(a) As of each Valuation Date, there shall be credited to each Participant's Deferral Account an amount representing deemed earnings or loss on the "valuation balance" of each such account in accordance with procedures adopted for the Plan by the Administrator from time to time.

3.6(b) Such deemed earnings or loss shall be determined as follows:

(i) For periods during which a Fund is maintained and Plan benefits may be paid therefrom because the Plan Sponsor or any other Employer is not insolvent, such earnings or loss shall be based on the net investment rate of return or loss of the Fund division(s) in which the Participant's Deferral Benefit under the Plan is considered invested for the period, determined separately for each Fund division and the portion of the Participant's Deferred Benefit considered invested in each such Fund division, based on the Participant's applicable or deemed investment directions pursuant to paragraph 9.4. The net investment rate of return or loss means earnings or loss (including valuation changes and charges for expenses) for the period of the Fund compared to the aggregate valuation balances sharing in those earnings or loss.

(ii) For periods during which the Fund is not maintained or Plan benefits may not be paid therefrom because the Plan Sponsor or any other Employer is insolvent, such earnings or loss shall be based on an annual rate determined for each Plan Year and equal to the 1 year U.S. Treasury Rate as of the December 31 immediately preceding the Plan Year.

3.6(c) Notwithstanding the other provisions of this ARTICLE III, whenever the Plan accounting is based on daily Valuation Dates, the valuation adjustments to Participants' accounts shall be effected on such basis and subject to such rules and procedures as the Administrator may determine to reflect daily accounting.

3.7 **Expenses Charged to Accounts.** Notwithstanding any other provision of the Plan to the contrary, expenses incurred in the administration of the Plan and the Rabbi Trust may be charged to Deferral Accounts on either a pro rata basis or a per capita basis, and/or may be charged to the Deferral Account of the affected Participant(s) and Beneficiary(ies) (which term is intended to include any alternate payee(s)) on a usage basis (rather than to all Deferral Accounts), as directed by the Administrator. Without limiting the foregoing, some or all of the reasonable expenses attendant to the determinations needed with respect to and making of withdrawals, the calculation of benefits payable under different Plan distribution options and the distribution of Plan benefits may be charged directly to the Deferral Account of the affected Participant and Beneficiary, and different rules (i.e., pro rata, per capita, or direct charge to Deferral Accounts) may apply to different groupings of Participants and Beneficiaries.

3.8 **Equitable Adjustment in Case of Error or Omission.** Where an error or omission is discovered in the Deferral Account of a Participant, the Administrator shall be authorized to make such equitable adjustment as the Administrator deems appropriate.

3.9 **Statement of Benefits.** Within a reasonable time after the end of each calendar quarter and at the date a Participant's Deferral Benefit or Death Benefit becomes payable under the Plan, the Administrator shall provide to each Participant (or, if deceased, to his Beneficiary) a statement of the benefit under the Plan.

ARTICLE IV **Vesting**

4.1 **Vesting in Employee Deferral Account and Predecessor Plan Account.** A Participant's rights to the balance in his Employee Deferral Account and, unless provided otherwise in Option 3(b)(2)(C) of the Adoption Agreement, in his Predecessor Plan Account shall be fully vested and nonforfeitable at all times, and his Separation from Service shall not diminish the amount payable to the Participant or his Beneficiary.

4.2 **Vesting in Employer Non-Elective Deferral Account.** A Participant shall have a vested interest in a percentage of his Employer Non-Elective Deferral Account determined in accordance with the vesting provisions selected by the Employer in Option 6(a)(1) of the Adoption Agreement.

4.3 **Vesting in Employer Matching Deferral Account.** A Participant shall have a vested interest in a percentage of his Employer Matching Deferral Account determined in accordance with the vesting provisions selected by the Employer in Option 6(a)(2) of the Adoption Agreement.

4.4 **Forfeiture of Benefits.**

4.4(a) Notwithstanding any contrary provision hereof, the Employer Deferral Account of a Participant shall be forfeited upon the occurrence of any the following events (as defined in subparagraph 4.4(b)):

(i) The Participant's termination of employment with the Employer for "cause";

(ii) The Participant's entering into "competition", or his making an "unauthorized disclosure of confidential information", after his termination of or retirement from employment of the Employer, in which case all payments to or with respect to the Participant shall cease and all payments made to the Participant or his Beneficiary under the Plan since the occurrence of such event of forfeiture shall be returned to the Employer (provided however, forfeiture shall not occur upon a Participant's entering into competition following a Change in Control); or

(iii) The discovery after the Participant's termination of or retirement from employment of the Employer or death, of "cause" for his termination or of his "unauthorized disclosure of confidential information" prior to his termination, retirement or death before termination or retirement, in which case all payments under the Plan to or with respect to the Participant shall cease and all payments previously made to the Participant or his Beneficiary under the Plan shall be returned to the Employer.

All determinations hereunder shall be made by the Administrator.

4.4(b) For purposes of this paragraph:

(i) "Cause" means the willful gross misconduct of the Participant which is materially injurious to the Employer or any Affiliate, including but not limited to the Participant's knowingly or intentionally providing the Employer with materially false reports concerning the Participant's business interests or employment-related activities, making materially false representations relied on by the Employer in furnishing information to shareholders and the Securities Exchange Commission, willfully concealing unauthorized material conflicts of interest in the discharge of duties owed by the Participant to the Employer, willfully causing a serious violation by the Employer of state or federal laws, theft or misappropriation the assets of the Employer, or conviction of a felony (excluding traffic violations and similar misdemeanors).

(ii) "Competition" means engaging by the Participant, without the written consent of the Board or a person authorized thereby, in a business as a more than one percent (1%) stockholder, an officer, a director, an employee, a partner, an agent, a consultant, or any other individual or representative capacity (unless the Participant's duties, responsibilities, and activities, including supervisory activities, for or on behalf of such business, are not related in any way to such "competitive activity") if it involves:

(A) Engaging in, or entering into services or providing advice pertaining to, any line of business that the Employer or any Affiliate actively conducts or develops in competition with the Employer or any Affiliate in the same geographic area (generally, within a one hundred (100) mile radius of the Employer's principal place of business) as such line of business is then conducted, or

(B) Employing or soliciting for employment any employees of the Employer or any Affiliate.

(iii) "Unauthorized disclosure of confidential information" means the disclosure by the Participant, without the written consent of the Board or a person authorized thereby, to any person other than as required by law or court order, or other than to an authorized employee of the Employer or an Affiliate, or to a person to whom disclosure is necessary or appropriate in connection with the performance by the Participant of his duties as an employee or director of the Employer or an Affiliate (including, but not limited to, disclosure to the Employer's or an Affiliate's outside counsel, accountants or bankers of financial data properly requested by such persons and approved by an authorized officer of the Employer), any confidential information of the Employer or any Affiliate with respect to any of the products, services, customers, suppliers, marketing techniques, methods or future plans of the Employer or any Affiliate; provided, however, that:

(A) Confidential information shall not include any information known generally to the public (other than as a result of unauthorized disclosure by the Participant) or any information of a type not otherwise considered confidential by persons engaged in the same business or a business similar to that conducted by the Employer or any Affiliate; and

(B) The Participant shall be allowed to disclose confidential information to his attorney solely for the purpose of ascertaining whether such information is confidential within the intent of the Plan, but only so long as the Participant both discloses to his attorney the provisions of this paragraph and agrees not to waive the attorney client privilege with respect thereto.

4.5 **No Restoration of Forfeited Benefits.** There shall be no restoration of forfeited benefits.

ARTICLE V

Beneficiary Designation and Death Benefit

5.1 **Death after Benefit Commencement.** Upon the death of a Participant after his benefit becomes payable in periodic installments, the amounts of any periodic installments remaining unpaid shall be paid to his Beneficiary over the remaining term certain for such installments.

5.2 **Death before Benefit Commencement.** If a Participant dies before his vested Deferral Benefit has begun to be paid to him, his vested Deferral Benefit under the Plan shall be paid to his Beneficiary at the time and in the manner described in ARTICLE VII.

5.3 Beneficiary Designation.

5.3(a) Each Participant shall be entitled to designate a Beneficiary hereunder by filing a designation in writing with the Administrator on the form provided for such purpose. Any Beneficiary designation made hereunder shall be effective only if signed and dated by the Participant and delivered to the Administrator prior to the time of the Participant's death. Any Beneficiary designation hereunder shall remain effective until changed or revoked hereunder.

5.3(b) Any Beneficiary designation may include multiple, contingent or successive Beneficiaries and may specify the proportionate distribution to each Beneficiary.

5.3(c) A Beneficiary designation may be changed by the Participant at any time, or from time to time, by filing a new designation in writing with the Administrator.

5.3(d) If a Participant dies without having designated a Beneficiary, or if the Beneficiary so designated has predeceased the Participant or cannot be located by the Administrator, then the Participant's spouse or, if none, the executor or the administrator of his estate shall be deemed to be his Beneficiary.

5.3(e) If a Beneficiary of the Participant shall survive the Participant but shall die before the Participant's entire benefit under the Plan has been distributed, then, absent any other provision by the Participant, the unpaid balance thereof shall be distributed to the such other beneficiary named by the deceased Beneficiary to receive his interest or, if none, to the estate of the deceased Beneficiary. If multiple beneficiaries are designated, absent any other provision by the Participant, those named or the survivor of them shall share equally in any amounts payable hereunder.

ARTICLE VI **Retirement Dates**

6.1 **Normal Retirement Date.** The Normal Retirement Date of a Participant as designated by the Employer in Option 7(a) of the Adoption Agreement.

6.2 **Delayed Retirement Date.** A Participant who continues in the active employment of the Employer beyond his Normal Retirement Date shall continue to participate in the Plan, and his Delayed Retirement Date shall be the first day of the calendar month coinciding with or next following the date of his Termination of Employment with the Employer.

6.3 **Early Retirement Date.** If elected in Option 7(b) of the Adoption Agreement, a Participant who has satisfied the age and service requirements selected by the Employer in Option 7(b) of the Adoption Agreement, may retire from the employment of the Employer prior to his Normal Retirement Date and his Early Retirement Date shall be the first day of the calendar month coinciding with or next following the date of such retirement.

6.4 Disability Retirement Date.

6.4(a) If elected in Option 7(c) of the Adoption Agreement, a Participant who, while an Eligible Employee, is totally and permanently disabled, as hereinafter determined, and who has satisfied the age and service requirements selected by the Employer in Option 7(c) of the Adoption Agreement, may retire from the employment of the Employer prior to his Normal Retirement Date and his Disability Retirement Date shall be the first day of the calendar month coinciding with or next following the date as of which he is determined to be totally and permanently disabled.

6.4(b) A Participant shall be totally and permanently disabled upon the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. The determination of total and permanent disability shall be made by the Administrator, on the advice of one or more physicians appointed and approved by the Employer, and the Administrator shall have the right to require further medical examinations from time to time to determine whether there has been any change in the Participant's physical condition. A Participant shall be deemed Disabled if determined to be totally disabled by the Social Security Administration.

6.5 **Use of Retirement Date Definitions.** Retirement Date definitions, other than Normal Retirement Date are set forth in the Plan for the sole purpose of defining Participants entitled to share in Employer Contributions if elected in Option 5(a)(2)(B) or 5(a)(3)(B) of the Adoption Agreement.

ARTICLE VII
Time and Form of Payment

7.1 Time of Payment of Deferral Benefit.

7.1(a) A Participant's Deferral Benefit, if any, shall become payable to the Participant, if then alive, on his Benefit Commencement Date.

7.1(b) In the event of the Participant's death before his Benefit Commencement Date, the Participant's Deferral Benefit shall become payable to the Beneficiary on the first day of the calendar quarter following the date of the Participant's death.

7.1(c) If Option 8(a)(1) of the Adoption Agreement is selected, the Benefit Commencement date shall be the first day of the calendar quarter next following the date selected in Option 8(a)(1) of the Adoption Agreement.

7.1(d) If Option 8(a)(2) of the Adoption Agreement is selected, the Participant may select the Benefit Commencement Date within the guidelines set forth in Option 8(a)(2) of the Adoption Agreement. The Benefit Commencement Date for any subdivision of the Employer Deferral Account related to a Plan Year shall be the same as that provided for or elected under the Plan for the subdivision of a Participant's Employee Deferral Account related to the same Plan Year.

7.2 Form of Payment of Deferral Benefit.

7.2(a) If Option 8(b)(1) of the Adoption Agreement is selected, a Participant shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 7.1, in the form selected by the Employer in Option 8(b)(1) of the Adoption Agreement and, if applicable, over a period selected by the Employer in Option 8(b)(1) of the Adoption Agreement.

7.2(b) If Option 8(b)(2) of the Adoption Agreement is selected, a Participant shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 7.1, in the form selected by the Participant within the guidelines set forth in Option 8(b)(2) of the Adoption Agreement.

7.2(c) If Option 8(c)(1) of the Adoption Agreement is selected, in the event of the Participant's death before his Benefit Commencement Date, the Beneficiary shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 7.1, in the form selected by the Employer in Option 8(c)(1) of the Adoption Agreement and, if applicable, over a period selected by the Employer in Option 8(c)(1) of the Adoption Agreement.

7.2(d) If Option 8(c)(2) of the Adoption Agreement is selected, in the event of the Participant's death before his Benefit Commencement Date, the Beneficiary shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 7.1, in the form selected by the Participant within the guidelines set forth in Option 8(c)(2) of the Adoption Agreement.

7.3 Permissible Changes to Benefit Commencement Date and/or Form of Payment. Any election of a Benefit Commencement Date applicable to a subdivision of a Deferral Account or a form of payment applicable to a subdivision of a Deferral Account may be changed only if the election to change: (a) is not effective until at least twelve (12) months after the date filed, (b) delays the Benefit Commencement Date for at least 5 years, and (c) is filed at least twelve (12) months before benefits would otherwise commence. For purposes of changes to the time or form of payment, in the event a Participant elects to receive payment of his benefit in periodic installments, the installment payment as a whole will be treated as a single payment.

7.4 **Transition Election Changes.** If permitted by the Plan Sponsor in Option 11 of the Adoption Agreement, prior to December 31, 2007, a Participant who made a Deferral Election for the Plan Year 2005, 2006 and/or 2007 may elect a new Benefit Commencement Date and/or a different form of payment applicable to a subdivision of his Deferral Account related to any or all of such Plan Years in accordance with the following provisions:

7.4(a) No such change may accelerate payments into the 2007 Plan Year that were not otherwise scheduled to be made during such year.

7.4(b) No such change may delay payment into a later Plan Year that were otherwise scheduled to be paid during the 2007 Plan Year.

7.4(c) A separate change election may be made for the subdivision of his Deferral Account related to each of the Plan Years or one change election shall be applicable to the subdivisions of his Deferral Account related to all three Plan Years, as selected by the Plan Sponsor in Option 11 (a)(2).

7.4(d) The Benefit Commencement Date and the form of payment that may be elected shall be one that is permitted under the provisions of this restatement of the Plan.

7.4(e) If a Participant does not file an election to change the Benefit Commencement Date and/or the form of payment, then the provisions of the original deferral election shall govern the time and form of payment, subject to clause (i) of subparagraph 7.6(c).

7.5 **Lump Sum Payments and Periodic Installments.**

7.5(a) If a lump sum payment is permitted under the Plan, the amount of a lump sum payment to or with respect to a Participant shall be determined by reference to the Deferral Benefit as of the last Valuation Date (or other time of valuation hereunder) immediately preceding the date of payment.

7.5(b) If periodic installment payments are permitted under the Plan, the amount of each periodic installment payment shall be the lesser of:

(i) The quotient obtained by dividing (A) the amount of such Participant's vested Deferral Account held in the applicable subdivision, determined as though a lump sum payment were being made as of the last Valuation Date of the calendar quarter preceding the date of payment of such installment, by (B) the number of installment payments then remaining to be made; or

(ii) The amount of such vested Deferral Benefit at such time.

7.5(c) In the event that a Participant who has begun to receive periodic installment payments again becomes an Employee of the Employer, his periodic installments shall continue regardless of his return to employment with the Employer.

7.6 **Permissible Cash-Out by Lump Sum Payment.** Notwithstanding the time and form of benefit payment provisions of paragraphs 7.1 and 7.2, a Participant's vested Deferral Benefit may be cashed-out in a lump sum payment in an amount equal to the vested balance in the Participant's Deferral Accounts if (i) the payment will constitute a payout of the Participant's entire interest in this Plan and all similar arrangements that would constitute a nonqualified deferred compensation plan under Treasury Regulation 1.409A-1(c); (ii) the payment is made on or before the later of December 31 of the calendar year in which the Participant's Separation from Service occurs, or the fifteenth (15th) day of the third (3rd) month following the Participant's Separation from Service; and (iii) the payment of the entire vested Deferral Benefit is not over the limit set forth in Code Section 402(g) applicable to the Plan Year in which the cash-out occurs.

7.7 Benefit Determination and Payment Procedure.

7.7(a) The Administrator shall make all determinations concerning eligibility for benefits under the Plan, the time or terms of payment, and the form or manner of payment to the Participant or the Participant's Beneficiary, in the event of the death of the Participant. The Administrator shall promptly notify the Employer and, where payments are to be made from a Rabbi Trust, the trustee thereof of each such determination that benefit payments are due and provide to the Employer and, where applicable, such trustee all other information necessary to allow the Employer or such trustee, as the case may be, to carry out said determination, whereupon the Employer or such trustee, as the case may be, shall pay such benefits in accordance with the Administrator's determination.

7.7(b) Benefit payments shall normally be made from the Fund to such payee(s), in such amounts, at such times and in such manner as the Administrator shall from time to time direct; provided, however, that the Employer may advance any payment due subject to a right of reimbursement from the Fund. The payor may reserve such reasonable amount as it shall deem necessary, based upon information provided by the Administrator upon which the payor may rely, to pay any income or other taxes attributable to the payment or required to be withheld from the payment. If any payment is returned unclaimed, the payor shall notify the Administrator and shall dispose of the payment as the Administrator shall direct.

7.7(c) Notwithstanding the foregoing provisions of this paragraph:

(i) Payment to a Participant shall be delayed as required by Section 409A of the Code in the case of a Participant who, with respect to the Employer, is a "specified employee" of a corporation any stock of which is publicly traded on an established securities market or otherwise as provided in Section 409A(2)(B)(i) of the Code. For this purpose, specified employees shall be identified on the date and the identification shall be effective as provided in Option 4(g)(1) of the Adoption Agreement. The delayed payment requirement will be applied as provide in Option 4(g)(2).

(ii) Payment may be delayed for a reasonable period in the event the payment is not administratively practical due to events beyond the recipient's control such as where the recipient is not competent to receive the benefit payment, there is a dispute as to amount due or the proper recipient of such benefit payment, additional time is needed to calculate the payment, or the payment would jeopardize the solvency of the Employer.

(iii) Payment shall be delayed in the following circumstances:

(A) Where the Administrator reasonably anticipates that a delay in payment is necessary to comply with Federal securities laws or other applicable laws; or

(B) Where the Administrator reasonably determines that a delay is permissible for other events or conditions under applicable published guidance of the Internal Revenue Service for Section 409A of the Code;

provided that any payment delayed by operation of this clause (iii) will be made at the earliest date at which the Administrator reasonably anticipates that the payment will not be limited or will cease to be so delayed.

7.7(d) Notwithstanding any other provision of the Plan, the Administrator shall delay any benefit payment (including any withdrawal pursuant to ARTICLE VIII) if in the Administrator's judgment the payment would not be deductible under Section 162(m) of the Code and the delay will permit the deductibility of the payment, in which case the delayed payment shall be made as soon as it is possible to do so within the deduction limits of Section 162(m) of the Code but in no event later than the end of the Plan Sponsor's fiscal year in which the Employer or the Administrator reasonably anticipates, or should reasonable anticipate, that the payment would be deductible or, any earlier time required under Section 409A of the Code.

7.7(e) The Employer or Trustee may deduct from payments under the Plan any federal, state or local withholding or other taxes or charges that it is required to deduct under applicable law.

7.8 **Payments to Minors and Incompetents.** If a Participant or Beneficiary entitled to receive any benefits hereunder is a minor or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, or is deemed so by the Administrator, benefits will be paid to such person as the Administrator may designate for the benefit of such Participant or Beneficiary. Such payments shall be considered a payment to such Participant or Beneficiary and shall, to the extent made, be deemed a complete discharge of any liability for such payments under the Plan.

7.9 **Distribution of Benefit When Distributee Cannot Be Located.** The Administrator shall make all reasonable attempts to determine the whereabouts of a Participant entitled to benefits under the Plan, including the mailing by certified mail of a notice to the last known address shown on the Employer's or the Administrator's records. If the Administrator is unable to locate such a Participant entitled to benefits hereunder, the Employer will issue a payment in the appropriate amount and in the name of the Participant, and the Employer will retain such benefit payment on behalf of the Participant, subject to any applicable statute of escheats.

7.10 **Claims Procedure.**

7.10(a) A Participant or Beneficiary (the "claimant") shall have the right to request any benefit under the Plan by filing a written claim for any such benefit with the Administrator on a form provided or approved by the Administrator for such purpose. The Administrator (or a claims fiduciary appointed by the Administrator) shall give such claim due consideration and shall either approve or deny it in whole or in part. The following procedure shall apply:

(i) The Administrator (or a claims fiduciary appointed by the Administrator) may schedule and hold a hearing.

(ii) If the claim is not a Disability Benefit Claim, within ninety (90) days following receipt of such claim by the Administrator, notice of any approval or denial thereof, in whole or in part, shall be delivered to the claimant or his duly authorized representative or such notice of denial shall be sent by mail (postage prepaid) to the claimant or his duly authorized representative at the address shown on the claim form or such individual's last known address. The aforesaid ninety (90) day response period may be extended to one hundred eighty (180) days after receipt of the claimant's claim if special circumstances exist and if written notice of the extension to one hundred eighty (180) days indicating the special circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within ninety (90) days after receipt of the claimant's claim.

(iii) If the claim is a Disability Benefit Claim, within forty-five (45) days following receipt of such claim by the Administrator, notice of any approval or denial thereof, in whole or in part, shall be delivered to the claimant or his duly authorized representative or such notice of denial shall be sent by mail to the claimant or his duly authorized representative at the address shown on the claim form or such individual's last known address. The aforesaid forty-five (45) day response period may be extended to seventy-five (75) days after receipt of the claimant's claim if it is determined that such an extension is necessary due to matters beyond the control of the Plan and if written notice of the extension to seventy-five (75) days indicating the circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within forty-five (45) days after receipt of the claimant's claim. Thereafter, the aforesaid seventy-five (75) day response period may be extended to one hundred five (105) days after receipt of the claimant's claim if it is determined that such an extension is necessary due to matters beyond the control of the Plan and if written notice of the extension to one

hundred five (105) days indicating the circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within seventy-five (75) days after receipt of the claimant's claim. In the event of any such extension, the notice of extension shall specifically explain, to the extent applicable, the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall be afforded at least forty-five (45) days within which to provide any specified information which is to be provided by the claimant.

(iv) Any notice of denial shall be written in a manner calculated to be understood by the claimant and shall:

(A) Set forth a specific reason or reasons for the denial,

(B) Make reference to the specific provisions of the Plan document or other relevant documents, records or information on which the denial is based,

(C) Describe any additional material or information necessary for the claimant to perfect the claim and explain why such material or information is necessary,

(D) Explain the Plan's claim review procedures, including the time limits applicable to such procedures (which are generally contained in subparagraph 7.10(b)), and provide a statement of the claimant's right to bring a civil action in state or federal court under Section 502(a) of the Act following an adverse determination on review of the claim denial,

(E) In the case of a Disability Benefit Claim, if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either provide the specific rule, guideline, protocol or other similar criterion, or provide a statement that such a rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol or other criterion will be provided free of charge to the claimant or his duly authorized representative upon request in writing, and

(F) In the case of a Disability Benefit Claim, if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either provide an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or provide a statement that such explanation will be provided free of charge upon request in writing.

7.10(b) A Participant or Beneficiary whose claim filed pursuant to subparagraph 7.10(a) has been denied, in whole or in part, may, within sixty (60) days (or one hundred eighty (180) days in the case of a Disability Benefit Claim) following receipt of notice of such denial, make written application to the Administrator for a review of such claim, which application shall be filed with the Administrator. For purposes of such review, the following procedure shall apply:

(i) The Administrator (or a claims fiduciary appointed by the Administrator) may schedule and hold a hearing.

(ii) The claimant or his duly authorized representative shall be provided the opportunity to submit written comments, documents, records, and other information relating to the claim for benefits.

(iii) The claimant or his duly authorized representative shall be provided, upon request in writing and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to such claim and may submit to the Administrator written comments, documents, records, and other information relating to such claim.

(iv) The Administrator (or a claims fiduciary appointed by the Administrator) shall make a full and fair review of any denial of a claim for benefits, which shall include:

(A) Taking into account all comments, documents, records, and other information submitted by the claimant or his duly authorized representative relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination, and

(B) In the case of a Disability Benefit Claim:

(I) Providing for a review that does not afford deference to the initial claim denial and that is conducted by an appropriate named fiduciary of the Plan who is neither the individual who made the claim denial that is the subject of the review, nor the subordinate of such individual,

(II) In making its decision on a review of any claim denial that is based in whole or in part on a medical judgment, including determinations with regard to whether a particular treatment, drug, or other item is experimental, investigational, or not medically necessary or appropriate, consulting with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment,

(III) Providing to the claimant or his authorized representative, either upon request in writing and free of charge or automatically, the identification of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the claim denial that is the subject of the review, without regard to whether the advice was relied upon in making the benefit determination, and

(IV) Ensuring that the health care professional engaged for purposes of a consultation under clause (iv)(B)(II) of this subparagraph shall be an individual who is neither an individual who was consulted in connection with the claim denial that is the subject of the review, nor the subordinate of any such individual.

(v) If the claim is not a Disability Benefit Claim, the decision on review shall be issued promptly, but no later than sixty (60) days after receipt by the Administrator of the claimant's request for review, or one hundred twenty (120) days after such receipt if a hearing is to be held or if other special circumstances exist and if written notice of the extension to one hundred twenty (120) days indicating the special circumstances involved and the date by which a decision is expected to be made on review is furnished to the claimant or his duly authorized representative within sixty (60) days after the receipt of the claimant's request for a review.

(vi) If the claim is a Disability Benefit Claim, the decision on review shall be issued promptly, but no later than forty-five (45) days after receipt by the Administrator of the claimant's request for review, or ninety (90) days after such receipt if a hearing is to be held or if other special circumstances exist and if written notice of the extension to ninety (90) days indicating the special circumstances involved and the date by which a decision is expected to be made on review is furnished to the claimant or his duly authorized representative within forty-five (45) days after the receipt of the claimant's request for a review.

(vii) The decision on review shall be in writing, shall be delivered or mailed by the Administrator to the claimant or his duly authorized representative in the manner prescribed in subparagraph 7.10(a) for notices of approval or denial of claims, shall be written in a manner calculated to be understood by the claimant and shall in the case of an adverse determination:

(A) Include the specific reason or reasons for the adverse determination,

(B) Make reference to the specific provisions of the Plan on which the adverse determination is based,

(C) Include a statement that the claimant is entitled to receive, upon request in writing and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits,

(D) Include a statement of the claimant's right to bring a civil action in state or federal court under Section 502(a) of the Act following the adverse determination on review,

(E) In the case of a Disability Benefit Claim, if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either provide the specific rule, guideline, protocol or other similar criterion, or provide a statement that such a rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol or other criterion will be provided free of charge to the claimant or his duly authorized representative upon request in writing,

(F) In the case of a Disability Benefit Claim, if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either provide an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or provide a statement that such explanation will be provided free of charge upon request in writing, and

(G) In the case of a Disability Benefit Claim, provide the following statement (if applicable and appropriate): "You and your plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency."

The Administrator's decision made in good faith shall be final.

7.10(c) The period of time within which a benefit determination initially or on review is required to be made shall begin at the time the claim or request for review is filed in accordance with the procedures of the Plan, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended as permitted pursuant to this paragraph due to the failure of a claimant or his duly authorized representative to submit information necessary to decide a claim or review, the period for making the benefit determination shall be tolled from the date on which the notification of the extension is sent to the claimant or his duly authorized representative until the date on which the claimant or his duly authorized representative responds to the request for additional information.

7.10(d) For purposes of the Plan's claims procedure:

(i) A "Disability Benefit Claim" is a claim for a Plan benefit whose availability is conditioned on a determination of disability and where the Plan's claim's adjudicator must make a determination of disability in order to decide the claim. A claim is not a Disability Benefit Claim where the determination of disability is made by a party (other than the Plan's claim's adjudicator or other fiduciary) outside the Plan for purposes other than making a benefit determination under the Plan (such as a determination of disability by the Social Security Administration or under the Employer's long term disability plan).

(ii) A document, record, or other information shall be considered “relevant” to a claimant’s claim if such document, record, or other information (A) was relied upon in making the benefit determination, (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination, (C) demonstrates compliance with the administrative processes and safeguards required in making the benefit determination, or (D) in the case of a Disability Benefit Claim, constitutes a statement of policy or guidance with respect to the Plan concerning the denied treatment option or benefit for the claimant’s diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.

7.10(e) The Administrator may establish reasonable procedures for determining whether a person has been authorized to act on behalf of a claimant.

ARTICLE VIII **Withdrawals**

8.1 Hardship Withdrawals.

8.1(a) If permitted in Option 9 of the Adoption Agreement, in the event of any Unforeseeable Emergency and upon written request of the Participant (or, if subsequent to his death, his Beneficiary), the Administrator in its sole discretion may direct the payment in one lump sum to the Participant or his Beneficiary of all or any portion of the Participant’s vested Deferral Benefit which the Administrator determines is necessary to alleviate the financial need related to the Unforeseeable Emergency. For purposes hereof:

(i) An “Unforeseeable Emergency” means an unforeseeable emergency as defined in Section 409A of the Code and generally means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)) thereof); loss of the Participant’s or the Participant’s Beneficiary’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or Beneficiary.

(ii) The existence of an Unforeseeable Emergency shall be determined by the Administrator on the basis of the facts and circumstances of each case.

(iii) Distributions because of an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the need (which may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution), taking in to account the potential that the need is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant’s, to the extent the liquidation of such assets would not cause an Unforeseeable Emergency, or by cessation of deferrals under the Plan (if the Plan provides for cancellation of a deferral election upon a payment due to an Unforeseeable Emergency). The determination of amounts reasonably necessary to satisfy the need is not required to take into account any additional compensation that, due to the Unforeseeable Emergency, is available under another nonqualified deferred compensation plan but has not actually been paid, or that is available, due to the Unforeseeable Emergency, under another plan that would provide for deferred compensation except due to the application of the effective date provisions of Section 409A of the Code.

(iv) Examples of what may be considered an Unforeseeable Emergency include the imminent foreclosure of or eviction from the Participant's or Participant's Beneficiary's primary residence, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, the need to pay for the funeral expenses of the Participant's spouse, Beneficiary, or the Participant's dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)) thereof.

(v) Except as otherwise provided in clause (iii) of this subparagraph, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies.

8.2 **No Other Withdrawals Permitted.** No withdrawals or other distributions shall be permitted except as provided in ARTICLE VII or paragraph 8.1.

ARTICLE IX

Funding

9.1 Funding.

9.1(a) The undertaking to pay benefits hereunder shall be an unfunded obligation payable solely from the general assets of the Employer and subject to the claims of the Employer's creditors. The Deferral Accounts shall be maintained as book reserve accounts solely for accounting purposes.

9.1(b) Except as provided in the Rabbi Trust established as permitted in paragraph 9.2, nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create or be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Participant or his Beneficiary or any other person. To the extent that any person acquires a right to receive payments from the Employer under the Plan, such rights shall be no greater than the right of any unsecured general creditor of the Employer.

9.1(c) Where more than one Employer participates in the Plan, the funding and payment provisions hereof shall apply separately to each such Employer.

9.1(d) The Plan Sponsor may in its discretion make the payment of any or all benefits under the Plan in lieu of payment by one or more Employer. Where the Plan Sponsor makes payments on behalf of other Employers, the Plan Sponsor may require contributions by participating Employers to the Plan Sponsor at such times (whether before, at or after the time of payment), in such amounts and on such basis as it may from time to time determine in order to defray the cost of benefits and administration of the Plan.

9.2 **Use of Rabbi Trust Permitted.** Notwithstanding any provision herein to the contrary, the Plan Sponsor may in its sole discretion elect to establish and fund a Rabbi Trust for the purpose of providing benefits under the Plan.

9.3 Fund Divisions.

9.3(a) It is contemplated that the Fund will be considered to be held in divisions (sometimes referred to as "divisions of the Fund", "Fund divisions" or "investment funds" herein) as hereinafter provided, and each Participant's Deferral Benefit shall be subdivided to reflect its deemed interest in each Fund division.

9.3(b) The Administrator shall establish from time to time the Fund divisions which shall be maintained in the Fund.

9.3(c) If the Plan Sponsor permits investment in a Company Stock Fund, the availability, restrictions, limitations and special rules relating to such investment shall be established by the Plan Sponsor from time to time and communicated to Participants and to the Administrator.

9.4 **Participant Investment Directions.** The Deferral Benefit of a Participant in the Plan shall be divided or allocated to reflect the amount of each such Participant's deemed interest in each Fund division as hereinafter provided for the purpose of determining the earnings or loss to be credited to his account, but any such direction shall not give the Participant any right, title or interest in any specific asset or assets of the Fund.

9.4(a) If and to the extent permitted in Option 10(a) of the Adoption Agreement, upon becoming a Participant without a contribution investment direction in force, a Participant may direct that future contributions and Deferral Account balances shall be invested in the funds available for directed investment as selected in Option 10(b) of the Adoption Agreement by filing an "investment direction" with the Administrator in accordance with the procedures established by the Administrator. The Administrator (or its designee) generally will process investment directions on a current basis after received, but shall not be obligated to process any investment directions on a retroactive basis.

9.4(b) If or to the extent a Participant (or if deceased, his Beneficiary) has no investment direction in effect, his Deferral Accounts shall be invested in the default fund designated by the Administrator from time to time.

9.4(c) The Administrator may, on a uniform and non-discriminatory basis from time to time, set or change the advance notice requirement for effecting investment directions, may limit the number of investment direction changes made in a Plan Year, may limit investment directions, if any, which can be made by telephone, electronically or through the internet, may impose blackout periods for changes, may temporarily or permanently suspend the offering of an investment fund, and generally may change any of the investment direction procedures or options from time to time and at any time.

ARTICLE X

Plan Administrator

10.1 **Appointment of Plan Administrator.** The Plan Sponsor may appoint one or more persons to serve as the Plan Administrator (the "Administrator") for the purpose of carrying out the duties specifically imposed on the Administrator by the Plan and the Code. In the event more than one person is appointed, the persons shall form a committee for the purpose of functioning as the Administrator of the Plan. The person or committeemen serving as Administrator shall serve for indefinite terms at the pleasure of the Plan Sponsor, and may, by thirty (30) days prior written notice to the Plan Sponsor, terminate such appointment. The Plan Sponsor shall inform the Trustee of any such appointment or termination, and the Trustee may assume that any person appointed continues in office until notified of any change.

10.2 **Plan Sponsor as Plan Administrator.** In the event that no Administrator is appointed or in office pursuant to paragraph 10.1, the Plan Sponsor shall be the Administrator.

10.3 **Procedure if a Committee.** If the Administrator is a committee, it shall appoint from its members a Chairman and a Secretary. The Secretary shall keep records as may be necessary of the acts and resolutions of such committee and be prepared to furnish reports thereof to the Plan Sponsor and the Trustee. Except as otherwise provided, all instruments executed on behalf of such committee may be executed by its Chairman or Secretary, and the Trustee may assume that such committee, its Chairman or Secretary are the persons who were last designated as such to them in writing by the Plan Sponsor or its Chairman or Secretary.

10.4 **Action by Majority Vote if a Committee.** If the Administrator is a committee, its action in all matters, questions and decisions shall be determined by a majority vote of its members qualified to act thereon. They may meet informally or take any action without the necessity of meeting as a group.

10.5 **Appointment of Successors.** Upon the death, resignation or removal of a person serving as, or on a committee which is, the Administrator, the Employer may, but need not, appoint a successor.

10.6 **Duties and Responsibilities of Plan Administrator.** The Administrator shall have the following duties and responsibilities under the Plan:

10.6(a) The Administrator shall be responsible for the fulfillment of all relevant reporting and disclosure requirements set forth in the Plan, the Code and the Act, the distribution thereof to Participants and their Beneficiaries and the filing thereof with the appropriate governmental officials and agencies.

10.6(b) The Administrator shall maintain and retain necessary records respecting its administration of the Plan and matters upon which disclosure is required under the Plan, the Code and the Act.

10.6(c) The Administrator shall make any elections for the Plan required to be made by it under the Plan, the Code and the Act.

10.6(d) The Administrator is empowered to settle claims against the Plan and to make such equitable adjustments in a Participant's or Beneficiary's rights or entitlements under the Plan as it deems appropriate in the event an error or omission is discovered or claimed in the operation or administration of the Plan.

10.6(e) The Administrator may construe the Plan, correct defects, supply omissions or reconcile inconsistencies to the extent necessary to effectuate the Plan and such action shall be conclusive.

10.7 **Power and Authority.**

10.7(a) The Administrator is hereby vested with all the power and authority necessary in order to carry out its duties and responsibilities in connection with the administration of the Plan imposed hereunder. For such purpose, the Administrator shall have the power to adopt rules and regulations consistent with the terms of the Plan.

10.7(b) The Administrator shall exercise its power and authority in its discretion. It is intended that a court review of the Administrator's exercise of its power and authority with respect to matters relating to claims for benefits by, and to eligibility for participation in and benefits of, Participants and Beneficiaries shall be made only on an arbitrary and capricious standard.

10.8 **Availability of Records.** The Employer and the Trustee shall, at the request of the Administrator, make available necessary records or other information they possess which may be required by the Administrator in order to carry out its duties hereunder.

10.9 **No Action with Respect to Own Benefit.** No Administrator who is a Participant shall take any part as the Administrator in any discretionary action in connection with his participation as an individual. Such action shall be taken by the remaining Administrator, if any, or otherwise by the Plan Sponsor.

ARTICLE XI
Amendment and Termination of Plan

11.1 Amendment or Termination of the Plan.

11.1(a) The Plan may be terminated at any time by the Board, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. The Plan may be amended in whole or in part from time to time by the Board effective as of any date specified, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. No amendment or termination shall operate to decrease a Participant's vested Deferral Benefit as of the earlier of the date on which the amendment or termination is approved by the Board or the date on which an instrument of amendment or termination is signed on behalf of the Plan Sponsor. No amendment shall increase the Trustee's duties or obligations or decrease its compensation unless contained in an amendment of, or document expressly pertaining to, the Rabbi Trust which includes the Trustee's written consent or for which the Trustee's written consent is separately obtained. Any such termination of or amendment to the Plan may provide for the acceleration of payment of benefits under the Plan to one or more Participants or Beneficiaries. Any such termination of or amendment to the Plan shall be in writing and shall be adopted pursuant to action by the Board (including pursuant to any standing authorization for any officer, director or committee to adopt amendments) in accordance with its applicable procedures, including where applicable by majority vote or consent in writing.

11.1(b) In addition, and as an alternative, to amendment of the Plan by action of the Board, but subject to the limitations on amendment contained in subparagraph 11.1(a), the Administrator shall be and is hereby authorized to adopt on behalf of the Board and to execute any technical amendment or amendments to the Plan which in the opinion of counsel for the Plan Sponsor are required by law and are deemed advisable by the Administrator and to so adopt and execute any other discretionary amendment or amendments to the Plan which are deemed advisable by the Administrator so long as any such amendments do not, in view of the Administrator, materially affect the eligibility, vesting or benefit accrual or allocation provisions of the Plan.

11.1(c) Termination of the Plan shall mean termination of active participation by Participants, but shall not mean immediate payment of all vested Deferral Benefits unless the Plan Sponsor so directs, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. On termination of the Plan, the Board of the Plan Sponsor may provide for the acceleration of payment of the vested Deferral Benefits of all affected Participants on such basis as it may direct.

11.2 **Effect of Employer Merger, Consolidation or Liquidation.** Notwithstanding the foregoing provisions of this ARTICLE XI, the merger or liquidation of any Employer into any other Employer or the consolidation of two (2) or more of the Employers shall not cause the Plan to terminate with respect to the merging, liquidating or consolidating Employers, provided that the Plan has been adopted or is continued by and has not terminated with respect to the surviving or continuing Employer.

ARTICLE XII
Participation by Additional Employers

12.1 **Adoption by Additional Employers.** Any Affiliate of the Plan Sponsor may adopt the Plan with the consent of the Board of the Plan Sponsor and approval by its Board.

12.2 Termination Events with Respect to Employers Other Than the Plan Sponsor.

12.2(a) The Plan shall terminate with respect to any Employer other than the Plan Sponsor, and such Employer shall automatically cease to be a participating Employer in the Plan, upon the happening of any of the following events, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code:

- (i) The Employer's ceasing to be an Affiliate.

(ii) Action by the Board or Chief Executive Officer of the Plan Sponsor terminating an Employer's participation in the Plan and specifying the date of such termination. Notice of such termination shall be delivered to the Administrator and the former participating Employer.

12.2(b) Termination of the Plan with respect to any Employer shall mean termination of active participation of the Participants employed by such Employer, but shall not mean immediate payment of all vested Deferral Benefits with respect to the Employees of such Employer unless the Plan Sponsor so directs consistent with applicable provisions of Section 409A of the Code. On termination of the Plan with respect to any Employer, the Administrator may provide for the acceleration of payment of the vested Deferral Benefits of all affected Participants of that former participating Employer on such basis as it may direct.

ARTICLE XIII **Miscellaneous**

13.1 **Nonassignability.** The interests of each Participant under the Plan are not subject to claims of the Participant's creditors; and neither the Participant, nor his Beneficiary, shall have any right to sell, assign, transfer or otherwise convey the right to receive any payments hereunder or any interest under the Plan, which payments and interest are expressly declared to be nonassignable and nontransferable.

13.2 **Right to Require Information and Reliance Thereon.** The Employer and Administrator shall have the right to require any Participant, Beneficiary or other person receiving benefit payments to provide it with such information, in writing, and in such form as it may deem necessary to the administration of the Plan and may rely thereon in carrying out its duties hereunder. Any payment to or on behalf of a Participant or Beneficiary in accordance with the provisions of the Plan in good faith reliance upon any such written information provided by a Participant or any other person to whom such payment is made shall be in full satisfaction of all claims by such Participant and his Beneficiary; and any payment to or on behalf of a Beneficiary in accordance with the provision so the Plan in good faith reliance upon any such written information provided by such Beneficiary or any other person to whom such payment is made shall be in full satisfaction of all claims by such Beneficiary.

13.3 Notices and Elections.

13.3(a) Except as provided in subparagraph 13.3(b), all notices required to be given in writing and all elections, consents, applications and the like required to be made in writing, under any provision of the Plan, shall be invalid unless made on such forms as may be provided or approved by the Administrator and, in the case of a notice, election, consent or application by a Participant or Beneficiary, unless executed by the Participant or Beneficiary giving such notice or making such election, consent or application.

13.3(b) Subject to limitations under applicable provisions of the Code or the Act, the Administrator is authorized in its discretion to accept other means for receipt of effective notices, elections, consents, applications and/or other forms or communications by Participants and/or Beneficiaries, including but not limited to electronic transmissions through interactive on-line transmissions, e-mail, voice mail, recorded messages on electronic telephone systems, and other permissible methods, on such basis and for such purposes as it determines from time to time.

13.4 **Delegation of Authority.** Whenever the Plan Sponsor or any other Employer is permitted or required to perform any act, such act may be performed by its President or Chief Executive Officer or other person duly authorized by its President or Chief Executive Officer or the Board of the Employer.

13.5 **Service of Process.** The Administrator shall be the agent for service of process on the Plan.

13.6 **Governing Law.** The Plan shall be construed, enforced and administered in accordance with the laws of the Commonwealth of Virginia, and any federal law which preempts the same.

13.7 **Binding Effect.** The Plan shall be binding upon and inure to the benefit of the Employer, its successors and assigns, and the Participant and his heirs, executors, administrators and legal representatives.

13.8 **Severability.** If any provision of the Plan should for any reason be declared invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall nevertheless remain in full force and effect.

13.9 **No Effect on Employment Agreement.** The Plan shall not be considered or construed to modify, amend or supersede any employment or other agreement between the Employer and the Participant heretofore or hereafter entered into unless so specifically provided.

13.10 **Gender and Number.** In the construction of the Plan, the masculine shall include the feminine or neuter and the singular shall include the plural and vice-versa in all cases where such meanings would be appropriate.

13.11 **Titles and Captions.** Titles and captions and headings herein have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

13.12 **Construction.** The Plan and Fund are intended to be construed as a “plan which is unfunded and is maintained by the employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees,” within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of the Act, as amended, and shall be interpreted and administered accordingly. Likewise, the Plan is also intended to comply with Section 409A of the Code and shall be interpreted and administered accordingly.

13.13 **Nonqualified Deferred Compensation Plan Omnibus Provision.**

13.13(a) It is intended that any compensation, benefits or other remuneration which is provided pursuant to or in connection with the Plan which is considered to be nonqualified deferred compensation subject to Code Section 409A shall be provided and paid in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid a plan failure described in Section 409A (a)(1) of the Code, including without limitation, deferring payment until the occurrence of a specified payment event described in Section 409A(a) (2) of the Code and to avoid the unfavorable tax consequences provided therein for non-compliance, and that, notwithstanding any other provision thereof or document pertaining to any such compensation, benefit or other remuneration subject to the provisions of Section 409A of the Code, each provision of any plan, program or arrangement (including without limitation the Plan) relating to the provision of such compensation, benefit or other remuneration to or with respect to the Eligible Employee, shall be so construed and interpreted.

13.13(b) It is specifically intended that all elections, consents and modifications thereto under the Plan will comply with the requirements of Section 409A of the Code (including any transition or grandfather rules thereunder). The Administrator is authorized to adopt rules or regulations deemed necessary or appropriate in connection therewith to anticipate and/or comply the requirements of Section 409A of the Code (including any transition or grandfather rules thereunder).

13.13(c) It is also intended that if any compensation, benefits or other remuneration which is provided pursuant to or in connection with the Plan is considered to be nonqualified deferred compensation subject to Section 409A of the Code but for being earned and vested as of December 31, 2004, then no material modification of the Plan after October 3, 2004 shall apply to such Plan benefits which are earned and vested as of December 31, 2004 unless such modification expressly so provides.

13.14 **Distributions in the Event of Income Inclusion.** If any portion of a Participant's Deferral Account under the Plan is required to be included in income by the Participant prior to receipt due to a failure of the Plan to comply with the requirements of Section 409A of the Code, the Administrator may determine that such Participant shall receive a distribution from the Plan in an amount equal to the lesser of (i) the portion of the Deferral Account required to be included in income as a result of such failure or (ii) the unpaid vested Deferral Account.

August 28, 2007

- 29 -

[\(Back To Top\)](#)

Section 3: EX-10.4.1 (AGREEMENT FOR THE RESTATED VBA EXECUTIVES' NON-QUALIFIED DEFERRED COMPENSATION)

EXHIBIT 10.4.1

**VIRGINIA BANKERS ASSOCIATION
MODEL NON-QUALIFIED DEFERRED COMPENSATION PLAN
FOR EXECUTIVES
(As Restated Effective January 1, 2008)**

ADOPTION AGREEMENT

If the Employer completing this document has any questions about the adoption of the Plan, the provisions of the Plan, its representative should contact Bette J. Albert, C.L.U. at the Virginia Bankers Association Benefits Corporation, 4490 Cox Road, Glen Allen, VA 23060-3341 - telephone number (804) 643-7469 during business hours.

Each Employer named below hereby adopts the Plan through this Adoption Agreement (the "Adoption Agreement"), to be effective as of the date(s) specified below, and elects the following specifications and provides the following information relating thereto:

In completing this Adoption Agreement, if additional space is required insert additional sheets.

Adoption Agreement Contents

	<u>Page</u>
Option 1 Employer(s) Adopting Plan Named in Paragraph 1.18 of the Plan	1
Option 2 General Plan Information	2
Option 3 Status of Plan and Effective Date(s)	2
Option 4 Definitions and Other Optional Provisions	3
Option 5 Employer Contributions and Allocations	8
Option 6 Vesting	11
Option 7 Retirement Dates	12
Option 8 Time and Form of Benefit Payments	13
Option 9 Hardship Withdrawals	17
Option 10 Participant Deemed Investment Direction	17
Option 11 409A Transition Elections	18

1. EMPLOYER(S) ADOPTING PLAN NAMED IN PARAGRAPH 1.18 OF THE PLAN.

- (a) Name of Plan Sponsor:
C&F Financial Corporation
- (b) Plan Sponsor's telephone Number:
(804) 843-2360
- (c) Address of Plan Sponsor :
Post Office Box 391
West Point, VA 23181
- (d) Plan Sponsor's EIN:
54-1680165
- (e) Plan Sponsor's Tax Year End:
12/31
- (f) Information of Other Participating Employers Adopting the Plan:
- (1) All Affiliate are automatically Participating Employers in the Plan except for the following:

- (2) Participating Employer are listed individually on the attachment captioned List of Participating Employers, which shall be updated as needed from time to time.

2. GENERAL PLAN INFORMATION.

(a) Name of Plan:

VBA Executive's Deferred Compensation Plan for C&F Financial Corporation

(b) Name, Address and EIN of Plan Administrator(s): [If other than Plan Sponsor, appointment must be by resolution]

3. STATUS OF PLAN AND EFFECTIVE DATE(S).

(a) Effective Date of Plan: The Effective Date of the Plan is January 1, 1998.

(b) Plan Status. The adoption of the Plan through this Adoption Agreement is:

(1) Initial Establishment. The initial adoption and establishment of the Plan.

(2) Restated Plan. An amendment and restatement of the Plan (a Restated Plan).

(A) Effective Date of this Restatement. The Effective Date of this Restatement of the Plan is January 1, 2008.

(B) Prior Plan. The Plan was last maintained under document dated February 28, 2005 and was known as the VBA Executive's Deferred compensation Plan for C&F Financial Corporation.

(C) Transitional or Special Provisions:

Election NOT to Grandfather Pre-January 1, 2005 Vested Balances. If this Option is elected, all Deferral Accounts shall be subject to the rules set forth in the post December 31, 2004 restatement.

If the Option is not elected, the Deferral Accounts attributable to transfers from predecessor plans prior to December 31, 2004 and contributions that are vested as of December 31, 2004 shall be segregated from the Deferral Accounts attributable to contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to transfers and contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005.

[Enter any other transitional or special provisions relating to any Predecessor Plan Account and the Plan as restated]

Effective January 1, 2006, any Employer may, in its discretion, elect to contribute for all of any of its employees participating in the Plan or under any contribution feature (i.e., Employer Matching Contributions, Excess Profit Sharing Employer Non-Elective Contributions and SERP Employer Non-Elective Contributions), less than the amount otherwise called for under the other provisions of the Adoption Agreement and/or to make Employer Matching Contributions at a different rate than otherwise called for under the other provisions of the Adoption Agreement.

- (c) If elected, this Plan is intended to be paired with a qualified cash or deferred arrangement as described in subparagraph 2.3(d) of the Plan Document?

If Elected – Name of qualified cash or deferred arrangement plan _____

4. DEFINITIONS AND OTHER OPTIONAL PROVISIONS.

- (a) Compensation
Paragraph 1.10

Compensation is used throughout the basic plan document for different purposes. The following specific rules apply.

- (1) General Definition. The Compensation definition in paragraph 1.10 of the basic plan document is modified as follows:

- (A) Salary. Base salary and base wages subject to the following modifications or limitations:

[Consider whether to fix the date for determining Salary. Consider whether to revise to exclude reductions for 401(k) and cafeteria plan contributions. Other revisions may be desired.]

- (B) Discretionary or Other Bonus. All discretionary or other Bonuses unless otherwise provided:

[List excluded bonus or incentive programs. The Plan Sponsor may elect a Special Deferral Election Period for Performance-Based Compensation.]

- (2) Specific Definitions. When used with respect to each type of contribution under the Plan, Compensation shall include:

- (A) Employee Deferral Contributions. [Check all that apply]

(a) Salary.

(b) Bonuses.

- (B) Employer Non-Elective Contributions. [Check all that apply]

(a) Salary.

(b) Bonuses.

(C) Employer Matching Contributions. [Check all that apply]

(a) Salary.

(b) Bonuses.

(b) Eligible Employee
Paragraph 1.16

Eligible Employee shall mean only the following:

(1) Determination by Board – for Employee Deferral Contributions and any and all Employer Contributions. Any individual who is designated as an Eligible Employee by resolution of the Plan Sponsor's Employer's Board of Directors. A copy of the resolution shall be attached to and incorporated by reference into the Plan. **See Attachment.**

(2) Determination by CEO – for Employee Deferral Contributions. Any individual who is designated in writing as an Eligible Employee by resolution of the Plan Sponsor's Employer's Chief Executive Officer. A copy of the Chief Executive Officer's designation shall be attached to and incorporated by reference into the Plan.

(3) Determined by Classification or Grade. Any individual who is classified under the Employer's personnel practices and policies as employed in the following grades or classifications:

[List executive classification to be included in plan coverage].

(4) Determined by Position or Title. Any individual who is employed in the following positions with the Employer:

[List the executive positions to be included in plan coverage].

(c) Plan Year
Paragraph 1.23

In the case of a Restated Plan which prior to the Effective Date of this Restatement was maintained on the basis of a Plan Year beginning on a date other than January 1, the Plan Year shall begin on ____, ____, and ending on ____, ____ with the short Plan Year beginning on ____, ____ and ending on December 31, _____. Thereafter, the Plan Year shall be the 12 month period beginning each January 1.

(d) Effective Date of Coverage
Subparagraph 2.1

The effective date of coverage for an Eligible Employee shall be [Check one]:

(1) Immediately. The first day of the first payroll period beginning on or after the date the individual became an Eligible Employee.

- (2) Monthly. The first day of the first payroll period beginning on or after the first day of _____ [Complete with 1st 2nd or other] month next following the date the individual became an Eligible Employee.
- (2) Semi-Annually. The first day of the Plan Year or the first day of the seventh month of the Plan Year on or next following the date the individual became an Eligible Employee.
- (3) Annually. The first day of the Plan Year on or next following the date the individual became an Eligible Employee.

The Deferred Compensation Election filed for the Plan Year which contains the effective date of coverage as of a date other than the first day of a Plan Year shall be effective to defer only Compensation for services performed in pay periods after the pay period in which it is filed. Compensation based on a performance period (such as an annual bonus) is deemed earned ratably throughout the period for which earned.

- (e) Special Election Period for Performance Based Compensation Subparagraph 2.2(e)

If this Option is elected, the Plan Sponsor may permit Eligible Employees to make Deferred Compensation Elections with respect to Performance-Based Compensation prior to the annual filing deadline established by the Administrator which deadline shall be no later than six (6) months prior to the end of the period for which such Bonus is earned, provided such compensation has not become readily ascertainable or its payment substantially certain as of the date of the Deferred Compensation Election.

Otherwise, except in the case of commencement of participation pursuant to any available mid year election, all Deferred Compensation Elections for all Bonuses must be made prior to the annual filing deadline established by the Administrator which deadline shall be no later than the end of the calendar year or, if different and permitted by the Administrator (as evidenced by the applicable Deferred Contribution Election form) where the Bonus is earned on the basis of the Plan Sponsor's fiscal year, the Plan Sponsor's fiscal year immediately preceding the applicable year in which the period to which the Bonus relates commences.

In order to be Performance-Based Compensation (i) the Bonus must be earned over a period of at least twelve (12) months (ii) the Bonus must be based on pre-established organizational or individual performance criteria for which the outcome is substantially uncertain at the time of establishment, (iii) such criteria are established in writing no later than ninety (90) days after the beginning of the period of service to which the Bonus and performance relate and (iv) such criteria are not substantially certain to be met at the time established. See more specific definition in Treas. Reg. 1.409A-1(e).

- (f) Cancellation of Deferred Compensation Election For Disability Paragraph 2.5

If this Option is elected, the Plan Sponsor:

- (1) Mandatory Cancellation. Will cancel the Deferred Compensation Election of an Eligible Employee who experiences a Disability as defined in paragraph 2.5.

- (2) Optional Cancellation. May permit an Eligible Employee who experiences a Disability as defined in paragraph 2.5 to cancel is Deferred Compensation Election.

If the Option is not selected, no cancellation will be required or permitted upon the occurrence of a Disability.

(g) Rules Relating to "Specified Employee" Delay Subparagraph 7.7(c)

For purposes of applying the 6 month delay required by Section 409A of the Code in the case of a Participant who is a "specified employee" (i.e., a "key employee" of any corporation the stock of which is publicly traded on any established securities market or otherwise as provided in Section 409A(2)B)(i) of the Code):

- (1) Specified Employee Identification Date. Specified employees shall be identified in the following manner: [Check one of the following and complete, if applicable]
- (A) Established By Board Action or Other Document of Plan Sponsor. The specified employee identification date and its effective date shall be established by the Plan Sponsor through the document set forth below which may be an action of its Board or other written document that applies to all deferred compensation plans, programs or agreements of the Plan Sponsor and Affiliates. _____

[Describe document establishing key employee identification date.]

- (B) Established Based on Default Dates in Regulations. The specified employee identification date shall be December 31 and effective for distributions due to be made during the 12 month period beginning on or after the following April 1 as provided in Treas. Reg. 1.409A-1(i).
- (C) Alternative Identification Date. The specified employee identification date shall be _____ (identification date) and effective for distributions due to be made during the 12 month period beginning on or after the following _____ [enter date not later than the first day of the 4th month following the identification date]

The specified employee identification date must be the same date that applies to all deferred compensation plans, programs or agreements of the Plan Sponsor and Affiliates.

- (2) Compensation to be Used for Determining Specified Employees. Specified employees are "key employees" as defined in Section 416 of the Code are the 50 highest paid officers (or if less, the greater of 3 or 10% of employees) with compensation in excess of \$145,000 (for 2007) (as adjusted from time to time), 1% owners with compensation in excess of \$150,000 or 5% owners. The definition of compensation for this purpose shall be determined in the following manner: [Check one of the following and complete, if applicable]

- (A) Established By Board Action or Other Document of Plan Sponsor. The compensation used to identify specified employees shall be established by the Plan Sponsor through the document set forth below which may be an action of its Board or other written document that applies to all deferred compensation plans, programs or agreements of the Plan Sponsor and Affiliates. [Describe document establishing compensation definition.]
- (B) Established Based on VBA Plan. The compensation used to identify specified employees shall be the Total Compensation definition elected under the VBA Plan
- (C) Alternative Identification Date. The compensation used to determine specified employees shall be determined in the following manner _____

 [Describe the document establishing compensation definition or describe compensation based on an acceptable definition under Section 415 of the Code.]

- (3) Payment Rules Following Required Delay Period. Upon the expiration of the required 6 month delay in payment to a key employee: [Check one of the following:]
 - (A) Catch-Up Missed Payments. Payments to which a key employee would otherwise have been entitled during the 6 month delay will be accumulated and paid on the first day of the 7th month following the date of Separation from Service for reasons other than death.
 - (B) Each Payment Delayed. Each payment to which a key employee would otherwise have been entitled during the 6 month delay will be delayed for 6 months.

(h) Rules Relating to Final Check of Year

If this Option is elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the taxable year in which the payroll period began.

Otherwise, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the subsequent taxable year in which the payment is made.

Any amendment to this provision relating to the final check of the Participant's taxable year may not be effective for 12 months from the date the amendment is adopted and executed.

5. EMPLOYER CONTRIBUTIONS AND ALLOCATIONS.

(a) Employer Contributions
Paragraph 3.4

The following contributions by the Employer are elected:

- (1) None. Employer contributions are not permitted.
- (2) Employer Non-Elective Contribution.
 - (A) Amount. Each Employer shall make an Employer Non-Elective Contribution for each Plan Year in such amount, if any, which the Employer shall determine.
 - (i) Flexible Formula - Such amount, if any, which the Board of Directors of the Employer shall determine by resolution. - **See Attachment.**
 - (ii) Compensation Formula - ____% [Insert percentage] of the Compensation of all Participants for such Plan Year eligible to receive an allocation of the Employer Non-Elective Contribution for such Plan Year, plus any additional amount that the Board of Directors of the Employer shall determine by resolution.
 - (iii) Fixed Amount - \$_____ [Insert amount], plus any additional amount that the Board of Directors of the Employer shall determine by resolution.
 - (iv) Other - _____

 - (B) Participants Entitled to Share of Employer Non-Elective Contribution. The Employer Non-Elective Contribution shall be allocated in proportion to Compensation as defined in Option 4(a) (2)(B) of the Adoption Agreement for the Plan Year to the Employer Non-Elective Deferral Account of the Participants who [Select applicable provisions which shall apply conjunctively unless otherwise noted]:
 - (i) Are employed as Eligible Employees for at least _____ [Insert number of months] full calendar months in for such Plan Year.
 - (ii) Are Eligible Employees at any time during such Plan Year.
 - (iii) Are Eligible Employees on the last day of such Plan Year.

- (iv) If they died while Eligible Employees or retired on their Disability, Early, Normal or Delayed Retirement Date while Eligible Employees during such Plan Year [Check one]:
 - (a) But only if they are employed as an Eligible Employee for at least _____ [Insert number of months] full calendar months in such Plan Year.
 - (b) Regardless of the number of months employed during such Plan Year.
- (v) Other - : See Attachment.

- (3) Employer Matching Contributions.
 - (A) Amount. Each Employer shall make an Employer Matching Contribution for each Plan Year in an amount, subject to the limitations provided in the Plan, equal to the following percentage(s) of each Participant's Deferral Contribution of Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement for such Plan Year [Check one]:
 - (i) Straight Percentage - ____% [Insert percentage] of his Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement contributed to the Plan (up to a maximum of ____% of such Compensation).
 - (ii) Contribution Weighted Percentages - ____% [Insert percentage] of the first ____% [Insert percentage] of his Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement contributed to the Plan and ____% of his Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement contributed to the Plan (up to a maximum of ____% of such Compensation).
 - (iii) Other - : See Attachment

 - (B) Participants Entitled to Share of Employer Matching Contribution. The Employer Matching Contribution shall be allocated as described in Option 5(a)(3)(A) of the Adoption Agreement for the Plan Year to the Employer Matching Deferral Account of the Participants who [Select applicable provisions which shall apply conjunctively unless otherwise noted]:

- (i) Are employed as an Eligible Employee for at least [Insert number of months] full calendar months in for such Plan Year.
- (ii) Are Eligible Employees at any time during such Plan Year.
- (iii) Are Eligible Employees on the last day of such Plan Year.
- (iv) If they died while an Eligible Employee or retired on his Disability, Early, Normal or Delayed Retirement Date while an Eligible Employee during such Plan Year [Check one]:
 - (a) But only if they are employed as an Eligible Employee for at least ____ [Insert number of months] full calendar months in such Plan Year.
 - (b) Regardless of the number of months employed during such Plan Year.
- (v) Other - :

7. RETIREMENT DATES.

(a) Normal Retirement Date
Paragraph 6.3

A Participant's Normal Retirement Date shall be the day the Participant reaches age 65.

(b) Early Retirement Date
Paragraph 6.3

[Select and complete applicable provision(s)]

- (1) None.
- (2) No age requirement.
- (3) Age requirement of _____ years.
- (5) No service requirement.
- (6) Service requirement of _____ years of continuous full-time service with the Employer.

(c) Disability Retirement Date
Paragraph 6.4

[Select and complete applicable provision(s)]

- (1) No age requirement.
- (2) Age requirement of _____ years.
- (3) No service requirement.
- (4) Service requirement of _____ years of continuous full-time service with the Employer.

8. TIME AND FORM OF BENEFIT PAYMENTS.

- (a) Benefit Commencement Date
Paragraphs 1.6, 2.3(b) and 7.1

The term Benefit Commencement Date shall mean the first day of calendar quarter coinciding with or next following the designated time or event; provided however, if the Participant is identified as a "specified employee" of any corporation the stock of which is publicly traded on any established securities market or otherwise as provided in Section 409A(2)(B) of the Code as of the date on which his Separation from Service (for reasons other than death) occurs and his payment is due based on such Separation from Service (for reasons other than death), his Benefit Commencement Date shall be delayed as required by Section 409A of the Code and Option 4(g) of the Adoption Agreement.

- (1) Selected By Employer. The Employer selects the following time of payment:
 - (A) Normal Retirement Date. The later of the Participant's Normal Retirement Date under the Plan or his Separation from Service (for reasons other than death).
 - (B) Separation from Service. The Participant's Separation from Service with the Employer for whatever reason.
 - (C) Six Months Following Separation from Service. Six months following the Participant's Separation from Service with the Employer (for reasons other than death).
- (2) Selected By Participant. The date selected by the Participant in accordance with the following:
 - (A) Participant's Options. The Participant may elect that his Benefit Commencement Date be based on [Select Option (vi) if Change of Control will be a permissible payment event]:

-
- (i) The later of his Normal Retirement Date under the Plan or his Separation from Service (for reasons other than death).
 - (ii) His Separation from Service with the Employer (for reasons other than death), or Six months following the Participant's Separation from Service with the Employer (for reasons other than death). [Select one]
 - (iii) A date certain stated clearly in his election form which shall be without regard to when his employment with the Employer ends.
 - (iv) The later of a date certain or his Separation from Service (for reasons other than death), or Six months following the Participant's Separation from Service with the Employer (for reasons other than death). [Select one].
 - (v) The earlier of a date certain or his Separation from Service (for reasons other than death) or Six months following the Participant's Separation from Service with the Employer (for reasons other than death). [Select one].
 - (vi) Change in Control. Upon a Change in Control as defined in Paragraph 1.8 of the Plan.

(B) Timing of Participant Election. The Participant shall elect the Benefit Commencement Date for the subdivision of his Employee Deferral Account related to the compensation deferred by a specific Deferred Compensation Election at the time his Deferred Contribution Election is filed for such deferral. The Timing of Payment may be changed only in accordance with the rule of Section 409A of the Code.

(b) Form of Payment to Participant
Paragraph 7.2

The form of benefit payments available to the Participant shall be determined in accordance with the following rules:

- (1) Selected By Employer. The Employer selects the following form of payment:
 - (A) Lump Sum Payment. Deferral Benefits will be paid to the Participant in the form of a lump sum payment.
 - (B) Periodic Installments. Deferral Benefits will be paid to the Participant in the form of periodic installment payments made:
 - (i) Frequency:
 - (a) Monthly.
 - (b) Annually.
 - (ii) Duration. Over the following period:
 - (a) Five (5) years.
 - (b) Ten (10) years.
 - (c) Fifteen (15) years.
 - (d) Twenty (20) years.
- (2) Selected By Participant. The form of payment to be paid to the Participant shall be selected by the Participant in accordance with the following:
 - (A) Participant's Options. The Participant may elect from among the following forms of payment [Select options to be available to Participants]:
 - (i) Lump Sum Payment. Deferral Benefits may be paid to the Participant only in the form of a lump sum payment.
 - (ii) Periodic Installments. Deferral Benefits may be paid to the Participant in the form of periodic installment payments made:
 - (a) Frequency:
 - (I) Monthly.
 - (II) Annually.
 - (b) Duration. Over the following period:
 - (I) Five (5) years.

- (II) Ten (10) years.
- (III) Fifteen (15) years.
- (IV) Twenty (20) years.

(B) Timing of Participant Election. The Participant shall elect the form of payment subdivision of his Employee Deferral Account related to the compensation deferred by a specific Deferred Compensation Election at the time his Deferred Contribution Election is filed for such deferral. The Timing of Payment may be changed only in accordance with the rule of Section 409A of the Code.

(c) Form of Payment to Beneficiary
Paragraph 7.2

The form of benefit payments available to the Beneficiary shall be determined in accordance with the following rules:

- (1) Selected By Employer. The Employer selects the following form of payment:
 - (A) Lump Sum Payment. Deferral Benefits will be paid to the Beneficiary in the form of a lump sum payment.
 - (B) Periodic Installments. Deferral Benefits will be paid to the Beneficiary in the form of periodic installment payments made:
 - (i) Frequency:
 - (a) Monthly.
 - (b) Annually.
 - (ii) Duration. Over the following period:
 - (a) Five (5) years.
 - (b) Ten (10) years.
 - (c) Fifteen (15) years.
 - (d) Twenty (20) years.
- (2) Selected By Participant. The form of payment to the Beneficiary shall be selected by the Participant in accordance with the following:
 - (A) Participant's Options. The Participant may elect the form of payment to the Beneficiary from among the following forms of payment [Select options to be available to Participants]:
 - (i) Lump Sum Payment. Deferral Benefits may be paid to the Beneficiary only in the form of a lump sum payment.

- (ii) Periodic Installments. Deferral Benefits may be paid to the Beneficiary in the form of periodic installment payments made:
 - (a) Frequency:
 - (I) Monthly.
 - (II) Annually.
 - (b) Duration. Over the following period:
 - (I) Five (5) years.
 - (II) Ten (10) years.
 - (III) Fifteen (15) years.
 - (IV) Twenty (20) years.

9. HARDSHIP WITHDRAWALS.
ARTICLE VIII

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. May not make a Hardship Withdrawals.
- (2) Permitted. May make a Hardship Withdrawal as defined in for an Unforeseeable Emergency as defined in Paragraph 8.1 of the Plan from the following accounts [Check one or more]:
 - (A) Employee Deferral Account.
 - (B) Employer Matching Deferral Account.
 - (C) Employer Non-Elective Deferral Account.
 - (D) Predecessor Plan Account.

10. PARTICIPANT DEEMED INVESTMENT DIRECTION.
Paragraph 9.4

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. May not make deemed investment directions.
- (2) Permitted. May make deemed investment directions for the following accounts (“directable accounts”) [Check one or more]:

- (A) Employee Deferral Account.
- (B) Employer Matching Deferral Account.
- (C) Employer Non-Elective Deferral Account.
- (D) Predecessor Plan Account.

(b) Permissible Investments

Unless the Plan Sponsor elects a different Option below the funds available for directed investment under the VBA Plan as adopted by the Plan Sponsor:

- (1) VBA Plan Plus Company Stock. In addition to the funds available under the VBA plan, a Company Stock Fund will also be available for directed investment.
- (2) VBA Plan Without Company Stock. Regardless of whether a Company Stock Fund is available under the VBA plan, no Company Stock Fund will be available for directed investment.
- (3) Company Stock Only. In lieu of the funds available under the VBA Plan, a Company Stock Fund will be the only fund available for directed investment.

11. 409A TRANSITION ELECTIONS.

Paragraph 7.4

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. Shall not be permitted to change Deferred Compensation Elections made for the Plan Years 2005, 2006 and 2007 except as may otherwise be permitted in paragraph 7.3.
- (2) Permitted. Shall be permitted to change Deferred Compensation Elections made for Plan Years 2005, 2006 and 2007 prior to December 31, 2007 as follows [Check one]:
 - (A) A separate change election may be made for each Plan Year.
 - (B) Only one change election may be made which shall to apply to all three Plan Years.

IN WITNESS WHEREOF, each Employer, by its duly authorized representatives, has executed this instrument this 18th day of December, 2007.

C&F Financial Corporation
[Enter Name of Employer]

By /s/ Robert L. Bryant
Its EVP and Chief Operating Officer

[SEAL]

ATTEST:

Its _____

Citizens and Farmers Bank
[Enter Name of Employer]

By /s/ Robert L. Bryant
Its EVP and Chief Operating Officer

[SEAL]

ATTEST:

Its _____

C&F Mortgage Corporation
[Enter Name of Employer]

By /s/ Mark A. Fox
Its EVP and Chief Operating Officer

[SEAL]

ATTEST:

Its _____

C&F Finance Company
[Enter Name of Employer]

By /s/ Thomas F. Cherry
Its Chief Financial Officer

[SEAL]

ATTEST:

Its _____

[\(Back To Top\)](#)

Section 4: EX-10.4.2 (ATTACHMENT TO THE ADOPTION AGREEMENT)

EXHIBIT 10.4.2

(As Restated Effective January 1, 2008)

Pursuant to authorization of the Board of Directors of C&F Financial Corporation, the following additions are made to the Adoption Agreement for the VBA Executive's Deferred Compensation Plan for C&F Financial Corporation, as restated effective January 1, 2008 in the form of the Virginia Bankers Association Model Non-Qualified Deferred Compensation Plan for Executives and as amended from time to time (the "Plan"):

1. **Types of Employer Contributions.** The Employer may make Employer Matching Contributions and two types of Employer Non-Elective Contributions – (1) "Excess Profit Sharing" Employer Non-Elective Contributions and (2) "SERP" Employer Non-Elective Contributions.

2. **Designation as a Participant Eligible for Employer Contributions.** Eligibility of an Employee for participation in any or all of the Employer Contributions requires designation by the Board (or a committee thereof).

- (a) Participants who may be entitled to an Employer Matching Contribution are sometimes referred to as Matching Participants for this purpose.
- (b) Participants who may be entitled to an "Excess Profit Sharing" Employer Non-Elective Contribution are sometimes referred to as Excess Profit Sharing Participants for this purpose.
- (c) Participants who may be entitled to a SERP Employer Non-Elective Contribution are sometimes referred to as SERP Participants for this purpose.

3. **Employer Matching Contributions.** Unless otherwise provided by the Board, each Employer shall make an Employer Matching Contribution for each Plan Year in an amount, subject to the limitations provided in the Plan, equal to the following percentage(s) of each Matching Participant's Deferral Contributions of Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement for such Plan Year: 100% of his Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement contributed to the Plan (up to a maximum of 5% of such Compensation), provided however that the actual Employer Matching Contribution for a Plan Year for any Matching Participant shall not exceed the excess of (a) 5% of the Matching Participant's Compensation as defined in Option 4(a)(2)(C) of the Adoption Agreement for such Plan Year over (b) the maximum matching contribution that could be made for the Matching Participant under the 401(k) Plan assuming he contributes the maximum permitted amount to the 401(k) Plan (taking into account all 401(k) Plan limits on contributions and covered compensation thereunder).

For purposes hereof, the "401(k) Plan" means the Virginia Bankers Association Defined Contribution Plan for Citizens and Farmers Bank as amended from time to time (or any successor thereto).

4. **Excess Profit Sharing Employer Non-Elective Contributions.** Unless otherwise provided by the Board, an "Excess Profit Sharing" Employer Non-Elective Contribution shall be made on behalf of an Excess Profit Sharing Participant who has Excess Compensation and who meets the accrual requirements to receive an allocation of the profit sharing contribution under the 401(k) Plan (as defined above) in an amount equal to the product obtained by multiplying (a) the 401(k) Plan profit sharing contribution rate

(i.e., the actual profit sharing contribution to the 401(k) Plan expressed as a percentage of the covered compensation of 401(k) Plan participants entitled to a share of the profit sharing contribution) by (b) the Excess Profit Sharing Participant's Excess Compensation.

For purposes hereof, the following terms have the following meanings:

- (a) "Compensation Limit" has the same meaning assigned to it in the 401(k) Plan.
- (b) "Excess Compensation" means Base Salary and Bonus in excess of the Compensation Limit (as defined in the 401(k) Plan and as applicable to the Plan Year in question).

5. SERP Employer Non-Elective Contributions. Effective as of and from January 1, 2000, unless otherwise provided by the Board, a "SERP" Employer Non-Elective Contribution shall be made on behalf of a Participant who is a SERP Participant in such amount, if any, as determined in writing by the Board at or prior to the time the contribution is made.

6. Employer Non-Elective Deferral Account and Subaccounts Thereof. The Employer Non-Elective Deferral Account shall be subdivided into two subaccounts:

- (a) The Employer Deferral Account Profit Sharing subaccount to which shall be allocated Excess Profit Sharing Employer Non-Elective Contributions.
- (b) The Employer Deferral Account SERP subaccount to which shall be allocated SERP Employer Non-Elective Contributions.

7. Vesting in and Payment of Employer Deferral Account SERP subaccount.

- (a) Except as otherwise provided in item 7(b) of this Attachment to the Adoption Agreement for the Plan, the Employer Deferral Account SERP subaccount of a SERP Participant shall be fully vested upon the first to occur of the following while he is an Employee:
 - (i) His death.
 - (ii) His total disability (based on the standard applicable under the Employer's long term disability program or, if none or if he is not a participant in that program, based on his entitlement to Social Security disability).
 - (iii) His retirement at or after age 65.
 - (iv) His early retirement with consent of the Board expressly providing for such vesting.
 - (v) A Change in Control.
- (b) If other vesting provisions are provided by the Board or the Compensation Committee of the Board with respect to the Employer Deferral Account SERP subaccount of any SERP Participant no later than the date the first contribution by the Employer to the Participant's Employer Deferral Account SERP subaccount is made (or at any time thereafter if such other vesting provision make vesting more favorable to the SERP Participant), vesting in the SERP Participant's Employer Deferral Account SERP subaccount shall be determined as so provided by the Board or its Compensation Committee.
- (c) Unless otherwise provided by the Board or the Compensation Committee of the Board with respect to the Employer Deferral Account SERP subaccount of any SERP Participant no later than the date the first contribution by the Employer to the Participant's Employer Deferral Account SERP subaccount is made (or alternatively on a year by year basis before the beginning of the year in question), a SERP Participant's Employer Deferral Account SERP subaccount shall be paid at the

time and in the form as the SERP Participant's Employer Deferral Account Profit Sharing subaccount. Any such special payment provisions shall be in writing and shall provide for payment at a time and in a form permitted under the Plan.

IN WITNESS WHEREOF, C&F Financial Corporation, as the Plan Sponsor, has caused its name to be signed to this Attachment by its duly authorized officer as of the date noted below.

Dated: December 18, 2007

C&F Financial Corporation, Plan Sponsor

By: /s/ Robert L. Bryant
Its EVP & Chief Operating Officer

By execution hereof by the duly authorized Representative, the Virginia Bankers Association Benefits Corporation hereby accepts the above Attachment.

Dated: _____

Virginia Bankers Association Benefits Corporation Representative

3

[\(Back To Top\)](#)

Section 5: EX-10.5 (VBA DIRECTORS' DEFERRED COMPENSATION PLAN FOR C&F FINANCIAL CORPORATION)

Exhibit 10.5

**VIRGINIA BANKERS ASSOCIATION
MODEL NON-QUALIFIED DEFERRED COMPENSATION PLAN
FOR DIRECTORS
(As Restated Effective January 1, 2008)**

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	
<u>Definition of Terms</u>	
1.1 Act	1
1.2 Administrator	1
1.3 Adoption Agreement	1
1.4 Affiliate	1
1.5 Beneficiary	2
1.6 Benefit Commencement Date	2
1.7 Board	2
1.8 Change in Control	2
1.9 Code	2
1.10 Compensation	2
1.11 Corporation	2
1.12 Deferral Account or Deferral Accounts	2
1.12(a) Director Deferral Account	2
1.12(b) Predecessor Plan Account	2
1.13 Deferral Benefit	3
1.14 Deferred Compensation Election	3
1.15 Deferral Contributions	3
1.16 Director	3
1.17 Effective Date	3
1.18 Eligible Director	3
1.19 Fund	3
1.20 Participant	3
1.21 Plan	3
1.22 Plan Sponsor	3
1.23 Plan Year	3
1.24 Rabbi Trust	3
1.25 Restated Plan	4
1.26 Separation from Service	4
1.27 Trustee	4
1.28 Valuation Date	4
1.29 VBA Plan	4
ARTICLE II	
<u>Eligibility and Participation</u>	
2.1 Eligibility	4
2.2 Notice and Election Regarding Active Participation	4
2.3 Deferred Compensation Election	5
2.4 Automatic Cancellation of Deferral Compensation Election upon Receipt of Hardship Withdrawal	6
2.5 Cancellation of Election upon Occurrence of Disability	6
2.6 Length of Participation	6
2.7 Termination of Active Participation	6

ARTICLE III
Determination of Deferral Benefits

3.1	Deferral Benefit	6
3.2	Deferral Account	6
3.3	Contributions by Participants	7
3.4	Subtractions from Deferral Account	7
3.5	Crediting of Deemed Earnings to Deferral Account	7
3.6	Expenses Charged to Accounts	8
3.7	Equitable Adjustment in Case of Error Omission	8
3.8	Statement of Benefits	8

ARTICLE IV
Vesting

4.1	Vesting	8
-----	---------	---

ARTICLE V
Beneficiary Designation and Death Benefit

5.1	Death after Benefit Commencement	8
5.2	Death before Benefit Commencement	8
5.3	Beneficiary Designation	9

ARTICLE VI
Time and Form of Payment

6.1	Time of Payment of Deferral Benefit	9
6.2	Form of Payment of Deferral Benefit	9
6.3	Permissible Changes to Benefit Commencement Date and/or Form of Payment	10
6.4	Transition Election Change	10
6.5	Lump Sum Payments and Periodic Installments	10
6.6	Permissible Cash-Out by Lump Sum Payment	11
6.7	Benefit Determination and Payment Procedure	11
6.8	Payments to Minors and Incompetents	12
6.9	Distribution of Benefit When Distributee Cannot Be Located	12
6.10	Claims Procedure	12

ARTICLE VII
Withdrawals

7.1	Hardship Withdrawals	16
7.2	No Other Withdrawals Permitted	17

ARTICLE VIII

Funding

8.1	Funding	17
8.2	Use of Rabbi Trust Permitted	18
8.3	Fund Divisions	18
8.4	Participant Investment Directions	18

ARTICLE IX

Plan Administrator

9.1	Appointment of Plan Administrator	18
9.2	Plan Sponsor as Plan Administrator	19
9.3	Procedures if a Committee	19
9.4	Action by Majority Vote if a Committee	19
9.5	Appointment of Successors	19
9.6	Duties and Responsibilities of Plan Administrator	19
9.7	Power and Authority	19
9.8	Availability of Records	20
9.9	No Action with Respect to Own Benefit	20

ARTICLE X

Amendment and Termination of Plan

10.1	Amendment or Termination of the Plan	20
10.2	Effect of Corporation Merger, Consolidation or Liquidation	20

ARTICLE XI

Adoption by Additional Corporations

11.1	Adoption by Additional Corporations	21
11.2	Termination Events with Respect to Corporations Other Than the Plan Sponsor	21

ARTICLE XII

Miscellaneous

12.1	Nonassignability	21
12.2	Right to Require Information and Reliance Thereon	21
12.3	Notices and Elections	21
12.4	Delegation of Authority	22
12.5	Service of Process	22
12.6	Governing Law	22
12.7	Binding Effect	22
12.8	Severability	22
12.9	No Effect on Employment Agreement	22
12.10	Gender and Number	22
12.11	Titles and Captions	22
12.12	Construction	22
12.13	Nonqualified Deferred Compensation Plan Omnibus Provision	22

12.11	Titles and Captions	22
12.12	Construction	22
12.13	Nonqualified Deferred Compensation Plan Omnibus Provision	22

**VIRGINIA BANKERS ASSOCIATION
MODEL NON-QUALIFIED DEFERRED COMPENSATION PLAN
FOR DIRECTORS
(As Restated Effective January 1, 2008)**

A Corporation desiring to adopt the Plan should complete the necessary information in the Adoption Agreement. The Virginia Bankers Association cannot guarantee that any Plan adopted by a Corporation will be deemed to satisfy, or will actually satisfy, the requirements of the Internal Revenue Code applicable to deferred compensation plans for directors. Corporations considering the use of the Plan must recognize that neither the Virginia Bankers Association nor its employees or representatives can give any legal advice as to the acceptability or application of the Plan in any particular situation, and that they should consult their own attorney for such advice. The establishment, operation, and the related tax consequences of the adoption and maintenance of a deferred compensation plan for directors are the responsibilities of the Corporation and its own legal counsel.

Any plan restatement using the form of this Model Non-Qualified Deferred Compensation Plan affects amounts that were deferred or that became vested on or after January 1, 2005. The terms of this document are effective January 1, 2008. The plan has operated in good faith compliance with the requirements of Code Section 409A between January 1, 2005 and December 31, 2007. Unless otherwise elected by the Corporation in Option 3(b)(2)(C), all amounts deferred and vested prior to January 1, 2005 remain subject to the terms of the plan document as effective December 31, 2004.

The form of this Model Non-Qualified Deferred Compensation Plan is intended to satisfy the requirements of Section 409A of the Code and the guidance issued thereunder and all provisions of the Plan shall be interpreted in a manner to satisfy such requirements.

**ARTICLE I
Definition of Terms**

The following words and terms as used in this Plan shall have the meaning set forth below, unless a different meaning is clearly required by the context:

1.1 **“Act”**: The Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, or the corresponding sections of any subsequent legislation which replaces it, and, to the extent not inconsistent therewith, the regulations issued thereunder.

1.2 **“Administrator”**: The Plan Administrator named and serving in accordance with ARTICLE IX hereof, and any successor or additional Administrator appointed and serving in accordance herewith, all as selected in Option 2(b) of the Adoption Agreement or as appointed, resigned or removed by separate instrument attached thereto.

1.3 **“Adoption Agreement”**: The adoption agreement, and any amendment thereto, which sets forth certain elections and representations of the Corporation and by execution of which the Corporation adopts the Plan.

1.4 **“Affiliate”**: The Corporation and each of the following business entities or other organizations (whether or not incorporated) which during the relevant period is treated (but only for the portion of the period so treated and for the purpose and to the extent required to be so treated) together with the Corporation as a single Corporation pursuant to the following sections of the Code (as modified where applicable by Section 415(h) of the Code):

(i) Any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Corporation,

(ii) Any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Corporation,

1.5 **“Beneficiary”**: The person or persons designated by a Participant or otherwise entitled pursuant to ARTICLE V to receive benefits under the Plan attributable to such Participant after the death of such Participant.

1.6 **“Benefit Commencement Date”**: The date or dates designated or provided for in Option 5 of the Adoption Agreement.

1.7 **“Board”**: The present and any succeeding Board of Directors of the Plan Sponsor, unless such term is used with respect to a particular Corporation and its Directors or Participants, in which event it shall mean the present and any succeeding Board of Directors of that Corporation.

1.8 **“Change in Control”**: A change in the ownership of the Plan Sponsor as defined in Treasury Regulation Section 1.409A-3(i)(5) or its successor or as otherwise defined as a special provision in the Option 3(b)(2)(C) of the Adoption Agreement.

1.9 **“Code”**: The Internal Revenue Code of 1986, as the same may be amended from time to time, or the corresponding section of any subsequent Internal Revenue Code, and, to the extent not inconsistent therewith, regulations issued thereunder.

1.10 **“Compensation”**: A Participant’s (i) retainers as more specifically designated by the Corporation in Option 4(a) of the Adoption Agreement (referred to as “Retainer”) and (ii) fees as more specifically designated by the Corporation in Option 4(a) of the Adoption Agreement (collectively referred to as “Fees”).

1.11 **“Corporation”**: The Plan Sponsor and those Corporations, named in Option 1(f) of the Adoption Agreement adopting the Plan, collectively, unless the context indicates otherwise.

1.12 **“Deferral Account” or “Deferral Accounts”**: The unfunded, bookkeeping account(s) maintained on the books of the Corporation for a Participant which reflects his interest in amounts attributable to Deferral Contributions under the Plan made by or on behalf of the Participant and the earnings attributable thereto consisting of the following:

1.12(a) **“Director Deferral Account”**: The account or accounts of a Participant under the Plan attributable to his Director Deferral Contributions to the Plan and the earnings attributable thereto. A separate subdivision of each account shall be maintained for each Plan Year.

1.12(b) **“Predecessor Plan Account”**: The account or accounts of a Participant attributable to any elective or non-elective deferral of remuneration by or on behalf of the Participant under any “top-hat” deferred compensation plan previously maintained by the Corporation that is merged into or transferred to the Plan.

1.12(c) Each Deferral Account shall be divided into subdivisions reflecting deferral amounts and the earnings attributable thereto for each separate Plan Year.

1.12(d) For purposes of this restatement of the Plan, unless elected by the Plan Sponsor in Option 3(b)(2)(C) of the Adoption Agreement, Deferral Accounts do not include accounts under the Plan attributable to amounts deferred and vested before January 1, 2005. Such accounts are considered grandfathered and are subject to the rules of Plan as in effective December 31, 2004.

1.13 **“Deferral Benefit”**: The sum of the vested balances of Participant’s Deferral Accounts under the Plan as of the most recent Valuation Date (or as otherwise provided herein).

1.14 **“Deferred Compensation Election”**: The election made by the Participant pursuant to paragraph 2.3 of the Plan.

1.15 **“Deferral Contributions”**: That portion of a Participant’s Compensation which is deferred under the Plan.

1.16 **“Director”**: An individual who is a member of the Board of the Corporation.

1.17 **“Effective Date”**:

1.17(a) The **“Effective Date of the Plan”**: With respect to each Corporation shall be that date or dates specified in Option 3(a) (or in Option 1 (f), in the case of an adopting Corporation) of the Adoption Agreement.

1.17(b) The **“Effective Date of the Restatement of the Plan”**: With respect to each Corporation shall be that date or dates specified in Option 3(b) of the Adoption Agreement.

1.18 **“Eligible Director”**: Any Director included within the definition of Eligible Director as specified in Option 4(b) of the Adoption Agreement.

1.19 **“Fund”**:

1.19(a) If a trust fund is established and maintained for the Plan, that trust fund, which shall consist of the Fund divisions described in paragraph 8.3. Notwithstanding the foregoing, any reference to the Fund is intended only for purposes of providing a measurement of benefits and account balances under the Plan and is not intended to segregate assets or identify assets that may or must be used to satisfy benefit liabilities under the Plan.

1.19(b) If a trust fund is not established and maintained for the Plan pursuant to a Trust Agreement, that separate bookkeeping account maintained by the Plan Sponsor to make deemed investments of contributions to the Plan, which shall consist of the Fund divisions described in paragraph 8.3.

1.20 **“Participant”**: An Eligible Director or other person qualified to participate in the Plan for so long as he is considered a Participant as provided in ARTICLE II hereof.

1.21 **“Plan”**: This Agreement, including the Appendices hereto, as contained herein or duly amended all as adopted by the Corporation through the Adoption Agreement.

1.22 **“Plan Sponsor”**: The Corporation named in Option 1(a) of the Adoption Agreement.

1.23 **“Plan Year”**: The twelve consecutive month period commencing upon the first day of January of each year provided, however in the event that this is a Restated Plan which was maintained previously on the basis of a different Plan Year, the prior Plan Year and short Plan Year needed to effect the Plan Year change shall be as set forth in Option 4(c) of the Adoption Agreement.

1.24 **“Rabbi Trust”**: A trust fund described in paragraph 8.2 and established or maintained for the Plan.

1.25 **“Restated Plan”**: The Plan, if it is indicated in Option 3(b) of the Adoption Agreement that the Plan is adopted as an amendment or restatement of a deferred compensation plan for directors previously maintained by the Corporation.

1.26 **“Separation from Service”**: The death or resignation or removal as a Director. With respect to a Director who provides services for the Corporation both as an employee and a Director, to the extent permitted in Section 409A of the Code, services as an employee shall not be taken into account in determining whether a Participant has experienced a Separation from Service under this Plan.

1.27 **“Trustee”**: The person(s) serving from time to time as trustee of the Fund pursuant to any Rabbi Trust.

1.28 **“Valuation Date”**: Each business day (based on the days the underlying investment funds are valued and transactions are effectuated in the applicable financial markets) of the Plan Year (which Valuation Date is sometimes referred to as a “daily” Valuation Date), or such other dates as the Administrator may designate from time to time.

1.29 **“VBA Plan”**: The Virginia Bankers Association Master Defined Contribution Plan and Trust.

ARTICLE II

Eligibility and Participation

2.1 **Eligibility**. Each Eligible Director shall be eligible to participate in the Plan effective as provided for in Option 4(d) of the Adoption Agreement.

2.2 Notice and Election Regarding Active Participation.

2.2(a) The Administrator shall give notice of eligibility to each Eligible Director who is anticipated to be eligible to make Deferral Contributions to the Plan within a reasonable period of time prior to the effective date of eligibility for coverage as described in paragraph 2.1.

2.2(b) With respect to the Plan Year in which the Effective Date or the effective date of coverage as described in Option 4(d) of the Adoption Agreement occurs (“first year of eligibility”), in order to make Deferral Contributions with respect to such Plan Year, an Eligible Director who is a newly Eligible Director must file a Deferred Compensation Election with the Administrator within 30 days of such Effective Date or effective date of coverage. The Deferred Compensation Election shall be effective to defer Compensation for services performed for periods after the period in which it is filed. For this purpose:

(i) Compensation based on a performance period (such as a Retainer) is deemed earned ratably throughout the period for which earned.

(ii) An Eligible Director’s first year of eligibility is the year in which he first becomes eligible to participate in any account balance type deferred compensation plan within the meanings of Section 409A of the Code maintained by the Corporation or any Affiliate.

(iii) If all amounts owed the Eligible Director from all account balance plans maintained by the Plan Sponsor and its Affiliates subject to Section 409A of the Code have been paid to the Eligible Director and if the Eligible Director has become ineligible to accrue further benefits, then if he thereafter becomes an Eligible Director, the year in which he again becomes an Eligible Director may be treated as his first year of eligibility.

(iv) If a Participant is not an Eligible Director for at least twenty-four (24) consecutive months, then if he thereafter becomes an Eligible Director, the year in which he again becomes an Eligible Director may be treated as his first year of eligibility.

2.2(c) With respect to Plan Years beginning on or after the first year of eligibility as described in subparagraph 2.2(b), in order to make Deferral Contributions with respect to a Plan Year, an Eligible Director must file a Deferred Compensation Election with the Administrator prior the annual filing deadline established by the Administrator, which deadline must be in the calendar year immediately preceding the year to which the Compensation relates. The Deferred Compensation Election shall be effective as of the first day of the Plan Year in which the services that give rise to the Salary to be deferred are rendered.

2.3 Deferred Compensation Election.

2.3(a) Subject to the restrictions and conditions hereinafter provided, an Eligible Director shall be entitled to elect to defer, as an Deferral Contribution with respect to a Plan Year, an amount of his Compensation which is specified by and in accordance with his direction in his Deferred Compensation Election for such Plan Year. Any such election must be filed with the Administrator at the time required under paragraph 2.2.

2.3(b) Deferred Compensation Elections shall be subject to the following rules:

(i) A separate Deferred Compensation Election must be filed for each Plan Year;

(ii) Each Deferred Compensation Election must specify the following:

(A) The amount or percentage of the Deferral Contribution for the applicable period;

(B) The Compensation from which the Deferral Contribution shall be withheld, if appropriate;

(C) If Option 5(a)(2) of the Adoption Agreement is selected, the Benefit Commencement Date, which date (I) may be one of the dates permitted in Option 5(a)(2) of the Adoption Agreement, and (II) shall be irrevocable;

(D) If Option 5(b)(2) of the Adoption Agreement is selected, the form of payment and if periodic installments are elected, the duration and frequency of the installments which (I) shall be the same for all Deferral Contributions made and Deferral Benefits payable with respect to a Plan Year, and (II) shall be irrevocable;

(E) If permitted in Option 5(a)(2)(v), whether the Benefit Commencement Date to be applicable to the Deferral Account related to the Plan Year shall be upon a Change in Control, if a Change in Control occurs prior to the Benefit Commencement Date otherwise elected;

(F) The Plan Year to which it relates; and

(G) Such other information as the Administrator may require.

(iii) A Participant shall have no unilateral right to change or terminate his Deferred Contribution Election for a year once the election filing deadline has passed.

2.3(c) Each Deferral Contribution is intended to be an elective compensation reduction amount which shall be deducted from a Participant's Compensation otherwise payable to him for a Plan Year by way of Retainers or Fees. Unless otherwise approved by the Administrator, Deferral Contributions shall be withheld on a pro rata basis throughout the Plan Year (or remainder of the Plan Year, in the case of a Director who first becomes a Participant during the Plan Year as of a date other than the first day of the Plan Year, in the case of the Plan Year which contains the Effective Date of the Plan which is a date other than the first day of a Plan Year) to which the Deferral Contributions relate.

2.4 **Automatic Cancellation of Deferred Compensation Election upon Receipt of Hardship Withdrawal.** A Participant's Deferred Compensation Election in effect at the time of a severe hardship withdrawal from the Plan shall be cancelled (rather than postponed or delayed) prospectively so that no further deferrals from his Fees or Retainers shall be made during the remainder of the Plan Year in which the withdrawal occurred.

2.5 **Cancellation of Election upon Occurrence of Disability.**

2.5(a) If elected in Option 4(e) of the Adoption Agreement, a Participant's Deferred Compensation Election in effect at the time of the commencement of a Disability as defined in this paragraph shall be cancelled (rather than postponed or delayed) prospectively so that no further deferrals from his Fees or Retainers shall be made during the remainder of the Plan Year provided such cancellation occurs by the later of the end of the Participant's taxable year or the fifteenth (15th) day of the third (3rd) month following the date the Participant incurs the Disability.

2.5(b) For purposes hereof, Disability shall mean any medically determinable physical or mental impairment which results in the Participant's inability to perform the duties of his position or any substantially similar position and can be expected to result in death or to last for a continuous period of not less than six (6) months. The determination of disability shall be made by the Administrator, on the advice of one or more physicians appointed and approved by the Corporation, and the Administrator shall have the right to require further medical examinations from time to time to determine whether there has been any change in the Participant's physical condition.

2.6 **Length of Participation.** Each Eligible Director shall automatically become a Participant in the Plan upon his timely filing a Deferred Compensation Election or other election to participate and remain a Participant as long as he is entitled to future benefits under the terms of the Plan.

2.7 **Termination of Active Participation.** Subject to compliance with Section 409A of the Code and paragraphs 2.4 or 2.5, a Participant who is an active Participant for an applicable contribution election period (that is, the calendar year generally or the period for which Retainers are determined, as applicable) shall cease to be an active Participant for the applicable year or period, as the case may be, if and when he ceases to be an Eligible Director during the applicable year or period, in which case he may not again become an active Participant until a subsequent calendar year. A leave of absence (whether paid or unpaid) which does not result in a Separation from Service shall not be considered cessation of status as an Eligible Director for this purpose.

ARTICLE III

Determination of Deferral Benefits

3.1 **Deferral Benefit.** For purposes hereof, a Participant's Deferral Benefit shall be the sum of the vested balances in his Director Deferral Account and his Predecessor Plan Account at the time in question.

3.2 **Deferral Account.**

3.2(a) The Corporation shall establish and maintain on its books Deferral Accounts (and appropriate subdivisions thereof) for each Participant to reflect the Participant's benefits under the Plan.

3.2(b) The balance in the Director Deferral Account of a Participant shall consist of his Deferral Contributions made to the Plan pursuant to paragraph 3.3, subtractions pursuant to paragraph 3.4, and deemed earnings or losses thereon determined pursuant to paragraph 3.5.

3.2(c) The balance in the Predecessor Plan Account of a Participant shall consist of balances transferred to the Plan on the Participant's behalf, subtractions pursuant to paragraph 3.4, and deemed earnings or losses thereon determined pursuant to paragraph 3.5.

3.2(d) Unless otherwise elected in Option 3(b)(2)(C) of the Adoption Agreement, the Corporation shall segregate the Deferral Accounts of its Participants attributable to contributions that are vested as of December 31, 2004 from the Deferral Accounts of its Participants attributable contributions that are not vested as of December 31, 2004 and contributions made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to contributions not vested as of December 31, 2004 and to contributions made on and after January 1, 2005.

3.3 Contributions by Participants.

3.3(a) An active Participant shall elect to make Deferral Contributions from his Compensation equal to that portion of his Compensation as is permitted to be contributed and as is specified by him in his Deferred Compensation Election.

3.3(b) Each Deferral Contribution is intended to be an elective compensation reduction contribution which shall be withheld from a Participant's Compensation otherwise payable to him for the applicable contribution election period.

3.3(c) Deferral Contributions made by a Participant shall be credited to his Director Deferral Account as of the date an amount equal to each Deferral Contribution is credited on the accounting records of the Plan as directed by the Administrator, which date shall be no later than the end of the calendar month following the month the Compensation from which such contribution is deducted would otherwise have been paid to him and may be as soon as the date as of which the amount is otherwise payable to the Participant.

3.4 **Subtractions from Deferral Account.** All distributions (including any withheld income or other taxes) and withdrawals shall be subtracted from a Participant's Deferral Account and the applicable subdivision thereof when made. All Plan and Fund administrative expenses charged to a Participant's Deferral Account shall be subtracted as directed by the Administrator.

3.5 Crediting of Deemed Earnings to Deferral Account.

3.5(a) As of each Valuation Date, there shall be credited to each Participant's Deferral Account an amount representing deemed earnings or loss on the "valuation balance" of each such account in accordance with procedures adopted for the Plan by the Administrator from time to time.

3.5(b) Such deemed earnings or loss shall be determined as follows:

(i) For periods during which a Fund is maintained and Plan benefits may be paid therefrom because the Plan Sponsor or any other Corporation is not insolvent, such earnings or loss shall be based on the net investment rate of return or loss of the Fund division(s) in which the Participant's Deferral Benefit under the Plan is considered invested for the period, determined separately for each Fund division and the portion of the Participant's Deferred Benefit considered invested in each such Fund division, based on the Participant's applicable or deemed investment directions pursuant to paragraph 9.4. The net investment rate of return or loss means earnings or loss (including valuation changes and charges for expenses) for the period of the Fund compared to the aggregate valuation balances sharing in those earnings or loss.

(ii) For periods during which the Fund is not maintained or Plan benefits may not be paid therefrom because the Plan Sponsor or any other Corporation is insolvent, such earnings or loss shall be based on an annual rate determined for each Plan Year and equal to the 1 year U.S. Treasury Rate as of the December 31 immediately preceding the Plan Year.

3.5(c) Notwithstanding the other provisions of this ARTICLE III, whenever the Plan accounting is based on daily Valuation Dates, the valuation adjustments to Participants' accounts shall be effected on such basis and subject to such rules and procedures as the Administrator may determine to reflect daily accounting.

3.6 **Expenses Charged to Accounts**. Notwithstanding any other provision of the Plan to the contrary, expenses incurred in the administration of the Plan and the Rabbi Trust may be charged to Deferral Accounts on either a pro rata basis or a per capita basis, and/or may be charged to the Deferral Account of the affected Participant(s) and Beneficiary(ies) (which term is intended to include any alternate payee(s)) on a usage basis (rather than to all Deferral Accounts), as directed by the Administrator. Without limiting the foregoing, some or all of the reasonable expenses attendant to the determinations needed with respect to and making of withdrawals, the calculation of benefits payable under different Plan distribution options and the distribution of Plan benefits may be charged directly to the Deferral Account of the affected Participant and Beneficiary, and different rules (i.e., pro rata, per capita, or direct charge to Deferral Accounts) may apply to different groupings of Participants and Beneficiaries.

3.7 **Equitable Adjustment in Case of Error or Omission**. Where an error or omission is discovered in the Deferral Account of a Participant, the Administrator shall be authorized to make such equitable adjustment as the Administrator deems appropriate.

3.8 **Statement of Benefits**. Within a reasonable time after the end of each calendar quarter and at the date a Participant's Deferral Benefit or Death Benefit becomes payable under the Plan, the Administrator shall provide to each Participant (or, if deceased, to his Beneficiary) a statement of the benefit under the Plan.

ARTICLE IV **Vesting**

4.1 **Vesting**. A Participant's rights to the balance in his Deferral Accounts and Deferral Benefit shall be fully vested and nonforfeitable at all times, and his Separation from Service shall not diminish the amount payable to the Participant or his Beneficiary.

ARTICLE V **Beneficiary Designation and Death Benefit**

5.1 **Death after Benefit Commencement**. Upon the death of a Participant after his benefit becomes payable in periodic installments, the amounts of any periodic installments remaining unpaid shall be paid to his Beneficiary over the remaining term certain for such installments.

5.2 **Death before Benefit Commencement**. If a Participant dies before his vested Deferral Benefit has begun to be paid to him, his vested Deferral Benefit under the Plan shall be paid to his Beneficiary at the time and in the manner described in ARTICLE VI.

5.3 Beneficiary Designation.

5.3(a) Each Participant shall be entitled to designate a Beneficiary hereunder by filing a designation in writing with the Administrator on the form provided for such purpose. Any Beneficiary designation made hereunder shall be effective only if signed and dated by the Participant and delivered to the Administrator prior to the time of the Participant's death. Any Beneficiary designation hereunder shall remain effective until changed or revoked hereunder.

5.3(b) Any Beneficiary designation may include multiple, contingent or successive Beneficiaries and may specify the proportionate distribution to each Beneficiary.

5.3(c) A Beneficiary designation may be changed by the Participant at any time, or from time to time, by filing a new designation in writing with the Administrator.

5.3(d) If a Participant dies without having designated a Beneficiary, or if the Beneficiary so designated has predeceased the Participant or cannot be located by the Administrator, then the Participant's spouse or, if none, the executor or the administrator of his estate shall be deemed to be his Beneficiary.

5.3(e) If a Beneficiary of the Participant shall survive the Participant but shall die before the Participant's entire benefit under the Plan has been distributed, then, absent any other provision by the Participant, the unpaid balance thereof shall be distributed to the such other beneficiary named by the deceased Beneficiary to receive his interest or, if none, to the estate of the deceased Beneficiary. If multiple beneficiaries are designated, absent any other provision by the Participant, those named or the survivor of them shall share equally in any amounts payable hereunder.

ARTICLE VI **Time and Form of Payment**

6.1 Time of Payment of Deferral Benefit.

6.1(a) A Participant's Deferral Benefit, if any, shall become payable to the Participant, if then alive, on his Benefit Commencement Date.

6.1(b) In the event of the Participant's death before his Benefit Commencement Date, the Participant's Deferral Benefit shall become payable to the Beneficiary on the first day of the calendar quarter following the date of the Participant's death.

6.1(c) If Option 5(a)(1) of the Adoption Agreement is selected, the Benefit Commencement date shall be the first day of the calendar quarter next following the date selected in Option 5(a)(1) of the Adoption Agreement.

6.1(d) If Option 5(a)(2) of the Adoption Agreement is selected, the Participant may select the Benefit Commencement Date within the guidelines set forth in Option 5(a)(2) of the Adoption Agreement. The Benefit Commencement Date for any subdivision of the Corporation Deferral Account related to a Plan Year shall be the same as that provided for or elected under the Plan for the subdivision of a Participant's Deferral Account related to the same Plan Year.

6.2 Form of Payment of Deferral Benefit.

6.2(a) If Option 5(b)(1) of the Adoption Agreement is selected, a Participant shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 6.1, in the form selected by the Corporation in Option 5(b)(1) of the Adoption Agreement and, if applicable, over a period selected by the Corporation in Option 5(b)(1) of the Adoption Agreement.

6.2(b) If Option 5(b)(2) of the Adoption Agreement is selected, a Participant shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 6.1, in the form selected by the Participant within the guidelines set forth in Option 5(b)(2) of the Adoption Agreement.

6.2(c) If Option 5(c)(1) of the Adoption Agreement is selected, in the event of the Participant's death before his Benefit Commencement Date, the Beneficiary shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 6.1, in the form selected by the Corporation in Option 5(c)(1) of the Adoption Agreement and, if applicable, over a period selected by the Corporation in Option 5(c)(1) of the Adoption Agreement.

6.2(d) If Option 5(c)(2) of the Adoption Agreement is selected, in the event of the Participant's death before his Benefit Commencement Date, the Beneficiary shall be paid the Deferral Benefit, if any, to which he is entitled, commencing at the applicable time provided in paragraph 6.1, in the form selected by the Participant within the guidelines set forth in Option 5(c)(2) of the Adoption Agreement.

6.3 **Permissible Changes to Benefit Commencement Date and/or Form of Payment.** Any election of a Benefit Commencement Date applicable to a subdivision of a Deferral Account or a form of payment applicable to a subdivision of a Deferral Account may be changed only if the election to change: (a) is not effective until at least twelve (12) months after the date filed, (b) delays the Benefit Commencement Date for at least 5 years, and (c) is filed at least twelve (12) months before benefits would otherwise commence. For purposes of changes to the time or form of payment, in the event a Participant elects to receive payment of his benefit in periodic installments, the installment payment as a whole will be treated as a single payment.

6.4 **Transition Election Changes.** If permitted by the Plan Sponsor in Option 8 of the Adoption Agreement, prior to December 31, 2007, a Participant who made a Deferral Election for the Plan Year 2005, 2006 and/or 2007 may elect a new Benefit Commencement Date and/or a different form of payment applicable to a subdivision of his Deferral Account related to any or all of such Plan Years in accordance with the following provisions:

6.4(a) No such change may accelerate payments into the 2007 Plan Year that were not otherwise scheduled to be made during such year.

6.4(b) No such change may delay payment into a later Plan Year that were otherwise scheduled to be paid during the 2007 Plan Year.

6.4(c) A separate change election may be made for the subdivision of his Deferral Account related to each of the Plan Years or one change election shall be applicable to the subdivisions of his Deferral Account related to all three Plan Years, as selected by the Plan Sponsor in Option 8 (a)(2).

6.4(d) The Benefit Commencement Date and the form of payment that may be elected shall be one that is permitted under the provisions of this restatement of the Plan.

6.4(e) If a Participant does not file an election to change the Benefit Commencement Date and/or the form of payment, then the provisions of the original deferral election shall govern the time and form of payment.

6.5 **Lump Sum Payments and Periodic Installments.**

6.5(a) If a lump sum payment is permitted under the Plan, the amount of a lump sum payment to or with respect to a Participant shall be determined by reference to the Deferral Benefit as of the last Valuation Date (or other time of valuation hereunder) immediately preceding the date of payment.

6.5(b) If periodic installment payments are permitted under the Plan, the amount of each periodic installment payment shall be the lesser of:

(i) The quotient obtained by dividing (A) the amount of such Participant's vested Deferral Account held in the applicable subdivision, determined as though a lump sum payment were being made as of the last Valuation Date of the calendar quarter preceding the date of payment of such installment, by (B) the number of installment payments then remaining to be made; or

(ii) The amount of such vested Deferral Benefit at such time.

6.5(c) In the event that a Participant who has begun to receive periodic installment payments again becomes an Director of the Corporation, his periodic installments shall continue regardless of his return to service with the Corporation.

6.6 **Permissible Cash-Out by Lump Sum Payment.** Notwithstanding the time and form of benefit payment provisions of paragraphs 6.1 and 6.2, a Participant's vested Deferral Benefit may be cashed-out in a lump sum payment in an amount equal to the vested balance in the Participant's Deferral Accounts if (i) the payment will constitute a payout of the Participant's entire interest in this Plan and all similar arrangements that would constitute a nonqualified deferred compensation plan under Treasury Regulation 1.409A-1(c); (ii) the payment is made on or before the later of December 31 of the calendar year in which the Participant's Separation from Service occurs, or the fifteenth (15th) day of the third (3rd) month following the Participant's Separation from Service; and (iii) the payment of the entire vested Deferral Benefit is not over the limit set forth in Code Section 402(g) applicable to the Plan Year in which the cash-out occurs.

6.7 Benefit Determination and Payment Procedure.

6.7(a) The Administrator shall make all determinations concerning eligibility for benefits under the Plan, the time or terms of payment, and the form or manner of payment to the Participant or the Participant's Beneficiary, in the event of the death of the Participant. The Administrator shall promptly notify the Corporation and, where payments are to be made from a Rabbi Trust, the trustee thereof of each such determination that benefit payments are due and provide to the Corporation and, where applicable, such trustee all other information necessary to allow the Corporation or such trustee, as the case may be, to carry out said determination, whereupon the Corporation or such trustee, as the case may be, shall pay such benefits in accordance with the Administrator's determination.

6.7(b) Benefit payments shall normally be made from the Fund to such payee(s), in such amounts, at such times and in such manner as the Administrator shall from time to time direct; provided, however, that the Corporation may advance any payment due subject to a right of reimbursement from the Fund. The payor may reserve such reasonable amount as it shall deem necessary, based upon information provided by the Administrator upon which the payor may rely, to pay any income or other taxes attributable to the payment or required to be withheld from the payment. If any payment is returned unclaimed, the payor shall notify the Administrator and shall dispose of the payment as the Administrator shall direct.

6.7(c) Notwithstanding the foregoing provisions of this paragraph:

(i) Payment may be delayed for a reasonable period in the event the payment is not administratively practical due to events beyond the recipient's control such as where the recipient is not competent to receive the benefit payment, there is a dispute as to amount due or the proper recipient of such benefit payment, additional time is needed to calculate the payment, or the payment would jeopardize the solvency of the Corporation.

(ii) Payment shall be delayed in the following circumstances:

(A) Where the Administrator reasonably anticipates that a delay in payment is necessary to comply with Federal securities laws or other applicable laws; or

(B) Where the Administrator reasonably determines that a delay is permissible for other events or conditions under applicable published guidance of the Internal Revenue Service for Section 409A of the Code;

provided that any payment delayed by operation of this clause (ii) will be made at the earliest date at which the Administrator reasonably anticipates that the payment will not be limited or will cease to be so delayed.

6.7(d) Notwithstanding any other provision of the Plan, the Administrator shall delay any benefit payment (including any withdrawal pursuant to ARTICLE VIII) if in the Administrator's judgment the payment would not be deductible under Section 162(m) of the Code and the delay will permit the deductibility of the payment, in which case the delayed payment shall be made as soon as it is possible to do so within the deduction limits of Section 162(m) of the Code but in no event later than the end of the Plan Sponsor's fiscal year in which the Corporation or the Administrator reasonably anticipates, or should reasonable anticipate, that the payment would be deductible or, any earlier time required under Section 409A of the Code.

6.7(e) The Corporation or Trustee may deduct from payments under the Plan any federal, state or local withholding or other taxes or charges that it is required to deduct under applicable law.

6.8 **Payments to Minors and Incompetents.** If a Participant or Beneficiary entitled to receive any benefits hereunder is a minor or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, or is deemed so by the Administrator, benefits will be paid to such person as the Administrator may designate for the benefit of such Participant or Beneficiary. Such payments shall be considered a payment to such Participant or Beneficiary and shall, to the extent made, be deemed a complete discharge of any liability for such payments under the Plan.

6.9 **Distribution of Benefit When Distributee Cannot Be Located.** The Administrator shall make all reasonable attempts to determine the whereabouts of a Participant entitled to benefits under the Plan, including the mailing by certified mail of a notice to the last known address shown on the Corporation's or the Administrator's records. If the Administrator is unable to locate such a Participant entitled to benefits hereunder, the Corporation will issue a payment in the appropriate amount and in the name of the Participant, and the Corporation will retain such benefit payment on behalf of the Participant, subject to any applicable statute of escheats.

6.10 **Claims Procedure.**

6.10(a) A Participant or Beneficiary (the "claimant") shall have the right to request any benefit under the Plan by filing a written claim for any such benefit with the Administrator on a form provided or approved by the Administrator for such purpose. The Administrator (or a claims fiduciary appointed by the Administrator) shall give such claim due consideration and shall either approve or deny it in whole or in part. The following procedure shall apply:

(i) The Administrator (or a claims fiduciary appointed by the Administrator) may schedule and hold a hearing.

(ii) If the claim is not a Disability Benefit Claim, within ninety (90) days following receipt of such claim by the Administrator, notice of any approval or denial thereof, in whole or in part, shall be delivered to the claimant or his duly authorized representative or such notice of denial shall be sent by mail (postage prepaid) to the claimant or his duly authorized representative at the address shown on the claim form or such individual's last known address. The aforesaid ninety (90) day response period may be extended to one hundred eighty (180) days after receipt of the claimant's claim if special circumstances exist and if written notice of the extension to one hundred eighty (180) days indicating the special circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within ninety (90) days after receipt of the claimant's claim.

(iii) If the claim is a Disability Benefit Claim, within forty-five (45) days following receipt of such claim by the Administrator, notice of any approval or denial thereof, in whole or in part, shall be delivered to the claimant or his duly authorized representative or such notice of denial shall be sent by mail to the claimant or his duly authorized representative at the address shown on the claim form or such individual's last known address. The aforesaid forty-five (45) day response period may be extended to seventy-five (75) days after receipt of the claimant's claim if it is determined that such an extension is necessary due to matters beyond the control of the Plan and if written notice of the extension to seventy-five (75) days indicating the circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within forty-five (45) days after receipt of the claimant's claim. Thereafter, the aforesaid seventy-five (75) day response period may be extended to one hundred five (105) days after receipt of the claimant's claim if it is determined that such an extension is necessary due to matters beyond the control of the Plan and if written notice of the extension to one hundred five (105) days indicating the circumstances involved and the date by which a decision is expected to be made is furnished to the claimant or his duly authorized representative within seventy-five (75) days after receipt of the claimant's claim. In the event of any such extension, the notice of extension shall specifically explain, to the extent applicable, the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall be afforded at least forty-five (45) days within which to provide any specified information which is to be provided by the claimant.

(iv) Any notice of denial shall be written in a manner calculated to be understood by the claimant and shall:

(A) Set forth a specific reason or reasons for the denial,

(B) Make reference to the specific provisions of the Plan document or other relevant documents, records or information on which the denial is based,

(C) Describe any additional material or information necessary for the claimant to perfect the claim and explain why such material or information is necessary,

(D) Explain the Plan's claim review procedures, including the time limits applicable to such procedures (which are generally contained in subparagraph 6.10(b)), and provide a statement of the claimant's right to bring a civil action in state or federal court under Section 502(a) of the Act following an adverse determination on review of the claim denial,

(E) In the case of a Disability Benefit Claim, if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either provide the specific rule, guideline, protocol or other similar criterion, or provide a statement that such a rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol or other criterion will be provided free of charge to the claimant or his duly authorized representative upon request in writing, and

(F) In the case of a Disability Benefit Claim, if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either provide an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or provide a statement that such explanation will be provided free of charge upon request in writing.

6.10(b) A Participant or Beneficiary whose claim filed pursuant to subparagraph 6.10(a) has been denied, in whole or in part, may, within sixty (60) days (or one hundred eighty (180) days in the case of a Disability Benefit Claim) following receipt of notice of such denial, make written application to the Administrator for a review of such claim, which application shall be filed with the Administrator. For purposes of such review, the following procedure shall apply:

(i) The Administrator (or a claims fiduciary appointed by the Administrator) may schedule and hold a hearing.

(ii) The claimant or his duly authorized representative shall be provided the opportunity to submit written comments, documents, records, and other information relating to the claim for benefits.

(iii) The claimant or his duly authorized representative shall be provided, upon request in writing and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to such claim and may submit to the Administrator written comments, documents, records, and other information relating to such claim.

(iv) The Administrator (or a claims fiduciary appointed by the Administrator) shall make a full and fair review of any denial of a claim for benefits, which shall include:

(A) Taking into account all comments, documents, records, and other information submitted by the claimant or his duly authorized representative relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination, and

(B) In the case of a Disability Benefit Claim:

(I) Providing for a review that does not afford deference to the initial claim denial and that is conducted by an appropriate named fiduciary of the Plan who is neither the individual who made the claim denial that is the subject of the review, nor the subordinate of such individual,

(II) In making its decision on a review of any claim denial that is based in whole or in part on a medical judgment, including determinations with regard to whether a particular treatment, drug, or other item is experimental, investigational, or not medically necessary or appropriate, consulting with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment,

(III) Providing to the claimant or his authorized representative, either upon request in writing and free of charge or automatically, the identification of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the claim denial that is the subject of the review, without regard to whether the advice was relied upon in making the benefit determination, and

(IV) Ensuring that the health care professional engaged for purposes of a consultation under clause (iv)(B)(II) of this subparagraph shall be an individual who is neither an individual who was consulted in connection with the claim denial that is the subject of the review, nor the subordinate of any such individual.

(v) If the claim is not a Disability Benefit Claim, the decision on review shall be issued promptly, but no later than sixty (60) days after receipt by the Administrator of the claimant's request for review, or one hundred twenty (120) days after such

receipt if a hearing is to be held or if other special circumstances exist and if written notice of the extension to one hundred twenty (120) days indicating the special circumstances involved and the date by which a decision is expected to be made on review is furnished to the claimant or his duly authorized representative within sixty (60) days after the receipt of the claimant's request for a review.

(vi) If the claim is a Disability Benefit Claim, the decision on review shall be issued promptly, but no later than forty-five (45) days after receipt by the Administrator of the claimant's request for review, or ninety (90) days after such receipt if a hearing is to be held or if other special circumstances exist and if written notice of the extension to ninety (90) days indicating the special circumstances involved and the date by which a decision is expected to be made on review is furnished to the claimant or his duly authorized representative within forty-five (45) days after the receipt of the claimant's request for a review.

(vii) The decision on review shall be in writing, shall be delivered or mailed by the Administrator to the claimant or his duly authorized representative in the manner prescribed in subparagraph 6.10(a) for notices of approval or denial of claims, shall be written in a manner calculated to be understood by the claimant and shall in the case of an adverse determination:

(A) Include the specific reason or reasons for the adverse determination,

(B) Make reference to the specific provisions of the Plan on which the adverse determination is based,

(C) Include a statement that the claimant is entitled to receive, upon request in writing and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits,

(D) Include a statement of the claimant's right to bring a civil action in state or federal court under Section 502(a) of the Act following the adverse determination on review,

(E) In the case of a Disability Benefit Claim, if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either provide the specific rule, guideline, protocol or other similar criterion, or provide a statement that such a rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol or other criterion will be provided free of charge to the claimant or his duly authorized representative upon request in writing,

(F) In the case of a Disability Benefit Claim, if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either provide an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or provide a statement that such explanation will be provided free of charge upon request in writing, and

(G) In the case of a Disability Benefit Claim, provide the following statement (if applicable and appropriate): "You and your plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency."

The Administrator's decision made in good faith shall be final.

6.10(c) The period of time within which a benefit determination initially or on review is required to be made shall begin at the time the claim or request for review is filed in accordance with the procedures of the Plan, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended as permitted pursuant to this paragraph due to the failure of a claimant or his duly authorized representative to submit information necessary to decide a claim or review, the period for making the benefit determination shall be tolled from the date on which the notification of the extension is sent to the claimant or his duly authorized representative until the date on which the claimant or his duly authorized representative responds to the request for additional information.

6.10(d) For purposes of the Plan's claims procedure:

(i) A "Disability Benefit Claim" is a claim for a Plan benefit whose availability is conditioned on a determination of disability and where the Plan's claim's adjudicator must make a determination of disability in order to decide the claim. A claim is not a Disability Benefit Claim where the determination of disability is made by a party (other than the Plan's claim's adjudicator or other fiduciary) outside the Plan for purposes other than making a benefit determination under the Plan (such as a determination of disability by the Social Security Administration or under the Employer's long term disability plan).

(ii) A document, record, or other information shall be considered "relevant" to a claimant's claim if such document, record, or other information (A) was relied upon in making the benefit determination, (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination, (C) demonstrates compliance with the administrative processes and safeguards required in making the benefit determination, or (D) in the case of a Disability Benefit Claim, constitutes a statement of policy or guidance with respect to the Plan concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.

6.10(e) The Administrator may establish reasonable procedures for determining whether a person has been authorized to act on behalf of a claimant.

ARTICLE VII **Withdrawals**

7.1 Hardship Withdrawals.

7.1(a) If permitted in Option 6 of the Adoption Agreement, in the event of any Unforeseeable Emergency and upon written request of the Participant (or, if subsequent to his death, his Beneficiary), the Administrator in its sole discretion may direct the payment in one lump sum to the Participant or his Beneficiary of all or any portion of the Participant's vested Deferral Benefit which the Administrator determines is necessary to alleviate the financial need related to the Unforeseeable Emergency. For purposes hereof:

(i) An "Unforeseeable Emergency" means an unforeseeable emergency as defined in Section 409A of the Code and generally means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary, or the Participant's dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)) thereof); loss of the Participant's or the Participant's Beneficiary's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or Beneficiary.

(ii) The existence of an Unforeseeable Emergency shall be determined by the Administrator on the basis of the facts and circumstances of each case.

(iii) Distributions because of an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the need (which may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution), taking in to account the potential that the need is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's, to the extent the liquidation of such assets would not cause an Unforeseeable Emergency, or by cessation of deferrals under the Plan (if the Plan provides for cancellation of a deferral election upon a payment due to an Unforeseeable Emergency). The determination of amounts reasonably necessary to satisfy the need is not required to take into account any additional compensation that, due to the Unforeseeable Emergency, is available under another nonqualified deferred compensation plan but has not actually been paid, or that is available, due to the Unforeseeable Emergency, under another plan that would provide for deferred compensation except due to the application of the effective date provisions of Section 409A of the Code.

(iv) Examples of what may be considered an Unforeseeable Emergency include the imminent foreclosure of or eviction from the Participant's or Participant's Beneficiary's primary residence, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, the need to pay for the funeral expenses of the Participant's spouse, Beneficiary, or the Participant's dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)) thereof.

(v) Except as otherwise provided in clause (iii) of this subparagraph, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies.

7.2 **No Other Withdrawals Permitted**. No withdrawals or other distributions shall be permitted except as provided in ARTICLE VI or paragraph 7.1.

ARTICLE VIII **Funding**

8.1 Funding

8.1(a) The undertaking to pay benefits hereunder shall be an unfunded obligation payable solely from the general assets of the Corporation and subject to the claims of the Corporation's creditors. The Deferral Accounts shall be maintained as book reserve accounts solely for accounting purposes.

8.1(b) Except as provided in the Rabbi Trust established as permitted in paragraph 8.2, nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create or be construed to create a trust of any kind or a fiduciary relationship between the Corporation and the Participant or his Beneficiary or any other person. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such rights shall be no greater than the right of any unsecured general creditor of the Corporation.

8.1(c) Where more than one Corporation participates in the Plan, the funding and payment provisions hereof shall apply separately to each such Corporation.

8.1(d) The Plan Sponsor may in its discretion make the payment of any or all benefits under the Plan in lieu of payment by one or more Corporation. Where the Plan Sponsor makes payments on behalf of other Corporations, the Plan Sponsor may require contributions by participating Corporations to the Plan Sponsor at such times (whether before, at or after the time of payment), in such amounts and on such basis as it may from time to time determine in order to defray the cost of benefits and administration of the Plan.

8.2 **Use of Rabbi Trust Permitted**. Notwithstanding any provision herein to the contrary, the Plan Sponsor may in its sole discretion elect to establish and fund a Rabbi Trust for the purpose of providing benefits under the Plan.

8.3 **Fund Divisions**.

8.3(a) It is contemplated that the Fund will be considered to be held in divisions (sometimes referred to as “divisions of the Fund”, “Fund divisions” or “investments funds” herein) as hereinafter provided, and each Participant’s Deferral Benefit shall be subdivided to reflect its deemed interest in each Fund division.

8.3(b) The Administrator shall establish from time to time the Fund divisions which shall be maintained in the Fund

8.3(c) If the Plan Sponsor permits investment in a Company Stock Fund, the availability, restrictions, limitations and special rules relating to such investment shall be established by the Plan Sponsor from time to time and communicated to Participants and to the Administrator.

8.4 **Participant Investment Directions**. The Deferral Benefit of a Participant in the Plan shall be divided or allocated to reflect the amount of each such Participant’s deemed interest in each Fund division as hereinafter provided for the purpose of determining the earnings or loss to be credited to his account, but any such direction shall not give the Participant any right, title or interest in any specific asset or assets of the Fund.

8.4(a) If permitted in Option 7(a) of the Adoption Agreement, upon becoming a Participant without a contribution investment direction in force, a Participant may direct that future contributions and Deferral Account balances shall be invested in the funds available for directed investment selected in Option 7(b) of the Adoption Agreement by filing an “investment direction” with the Administrator in accordance with the procedures established by the Administrator. The Administrator (or its designee) generally will process investment directions on a current basis after received, but shall not be obligated to process any investment directions on a retroactive basis.

8.4(b) If or to the extent a Participant (or if deceased, his Beneficiary) has no investment direction in effect, his Deferral Accounts shall be invested in the default fund designated by the Administrator from time to time.

8.4(c) The Administrator may, on a uniform and non-discriminatory basis from time to time, set or change the advance notice requirement for effecting investment directions, may limit the number of investment direction changes made in a Plan Year, may limit investment directions, if any, which can be made by telephone, electronically or through the internet, may impose blackout periods for changes, may temporarily or permanently suspend the offering of an investment fund, and generally may change any of the investment direction procedures or options from time to time and at any time.

ARTICLE IX
Plan Administrator

9.1 **Appointment of Plan Administrator**. The Plan Sponsor may appoint one or more persons to serve as the Plan Administrator (the “Administrator”) for the purpose of carrying out the duties specifically imposed on the Administrator by the Plan and the Code. In the event more than one person is appointed, the persons shall form a committee for the purpose of functioning as the Administrator of the Plan. The person or committeemen serving as Administrator shall serve for indefinite terms at the pleasure of the Plan Sponsor, and may, by thirty (30) days prior written notice to the Plan Sponsor, terminate such appointment. The Plan Sponsor shall inform the Trustee of any such appointment or termination, and the Trustee may assume that any person appointed continues in office until notified of any change.

9.2 **Plan Sponsor as Plan Administrator.** In the event that no Administrator is appointed or in office pursuant to paragraph 9.1, the Plan Sponsor shall be the Administrator.

9.3 **Procedure if a Committee.** If the Administrator is a committee, it shall appoint from its members a Chairman and a Secretary. The Secretary shall keep records as may be necessary of the acts and resolutions of such committee and be prepared to furnish reports thereof to the Plan Sponsor and the Trustee. Except as otherwise provided, all instruments executed on behalf of such committee may be executed by its Chairman or Secretary, and the Trustee may assume that such committee, its Chairman or Secretary are the persons who were last designated as such to them in writing by the Plan Sponsor or its Chairman or Secretary.

9.4 **Action by Majority Vote if a Committee.** If the Administrator is a committee, its action in all matters, questions and decisions shall be determined by a majority vote of its members qualified to act thereon. They may meet informally or take any action without the necessity of meeting as a group.

9.5 **Appointment of Successors.** Upon the death, resignation or removal of a person serving as, or on a committee which is, the Administrator, the Corporation may, but need not, appoint a successor.

9.6 **Duties and Responsibilities of Plan Administrator.** The Administrator shall have the following duties and responsibilities under the Plan:

9.6(a) The Administrator shall be responsible for the fulfillment of all relevant reporting and disclosure requirements set forth in the Plan, the Code and the Act, the distribution thereof to Participants and their Beneficiaries and the filing thereof with the appropriate governmental officials and agencies.

9.6(b) The Administrator shall maintain and retain necessary records respecting its administration of the Plan and matters upon which disclosure is required under the Plan, the Code and the Act.

9.6(c) The Administrator shall make any elections for the Plan required to be made by it under the Plan, the Code and the Act.

9.6(d) The Administrator is empowered to settle claims against the Plan and to make such equitable adjustments in a Participant's or Beneficiary's rights or entitlements under the Plan as it deems appropriate in the event an error or omission is discovered or claimed in the operation or administration of the Plan.

9.6(e) The Administrator may construe the Plan, correct defects, supply omissions or reconcile inconsistencies to the extent necessary to effectuate the Plan and such action shall be conclusive.

9.7 **Power and Authority.**

9.7(a) The Administrator is hereby vested with all the power and authority necessary in order to carry out its duties and responsibilities in connection with the administration of the Plan imposed hereunder. For such purpose, the Administrator shall have the power to adopt rules and regulations consistent with the terms of the Plan.

9.7(b) The Administrator shall exercise its power and authority in its discretion. It is intended that a court review of the Administrator's exercise of its power and authority with respect to matters relating to claims for benefits by, and to eligibility for participation in and benefits of, Participants and Beneficiaries shall be made only on an arbitrary and capricious standard.

9.8 **Availability of Records.** The Corporation and the Trustee shall, at the request of the Administrator, make available necessary records or other information they possess which may be required by the Administrator in order to carry out its duties hereunder.

9.9 **No Action with Respect to Own Benefit.** No Administrator who is a Participant shall take any part as the Administrator in any discretionary action in connection with his participation as an individual. Such action shall be taken by the remaining Administrator, if any, or otherwise by the Plan Sponsor.

ARTICLE X

Amendment and Termination of Plan

10.1 Amendment or Termination of the Plan.

10.1(a) The Plan may be terminated at any time by the Board, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. The Plan may be amended in whole or in part from time to time by the Board effective as of any date specified, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. No amendment or termination shall operate to decrease a Participant's vested Deferral Benefit as of the earlier of the date on which the amendment or termination is approved by the Board or the date on which an instrument of amendment or termination is signed on behalf of the Plan Sponsor. No amendment shall increase the Trustee's duties or obligations or decrease its compensation unless contained in an amendment of, or document expressly pertaining to, the Rabbi Trust which includes the Trustee's written consent or for which the Trustee's written consent is separately obtained. Any such termination of or amendment to the Plan may provide for the acceleration of payment of benefits under the Plan to one or more Participants or Beneficiaries. Any such termination of or amendment to the Plan shall be in writing and shall be adopted pursuant to action by the Board (including pursuant to any standing authorization for any officer, director or committee to adopt amendments) in accordance with its applicable procedures, including where applicable by majority vote or consent in writing.

10.1(b) In addition, and as an alternative, to amendment of the Plan by action of the Board, but subject to the limitations on amendment contained in subparagraph 10.1(a), the Administrator shall be and is hereby authorized to adopt on behalf of the Board and to execute any technical amendment or amendments to the Plan which in the opinion of counsel for the Plan Sponsor are required by law and are deemed advisable by the Administrator and to so adopt and execute any other discretionary amendment or amendments to the Plan which are deemed advisable by the Administrator so long as any such amendments do not, in view of the Administrator, materially affect the eligibility, vesting or benefit accrual or allocation provisions of the Plan.

10.1(c) Termination of the Plan shall mean termination of active participation by Participants, but shall not mean immediate payment of all vested Deferral Benefits unless the Plan Sponsor so directs, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code. On termination of the Plan, the Board of the Plan Sponsor may provide for the acceleration of payment of the vested Deferral Benefits of all affected Participants on such basis as it may direct.

10.2 **Effect of Corporation Merger, Consolidation or Liquidation.** Notwithstanding the foregoing provisions of this ARTICLE X, the merger or liquidation of any Corporation into any other Corporation or the consolidation of two (2) or more of the Corporations shall not cause the Plan to terminate with respect to the merging, liquidating or consolidating Corporations, provided that the Plan has been adopted or is continued by and has not terminated with respect to the surviving or continuing Corporation.

ARTICLE XI
Participation by Additional Corporations

11.1 **Adoption by Additional Corporations.** Any Affiliate of the Plan Sponsor may adopt the Plan with the consent of the Board of the Plan Sponsor and approval by its Board.

11.2 **Termination Events with Respect to Corporations Other Than the Plan Sponsor.**

11.2(a) The Plan shall terminate with respect to any Corporation other than the Plan Sponsor, and such Corporation shall automatically cease to be a participating Corporation in the Plan, upon the happening of any of the following events, subject to the restrictions imposed by and consistent with applicable provisions of Section 409A of the Code:

(i) The Corporation's ceasing to be an Affiliate.

(ii) Action by the Board or Chief Executive Officer of the Plan Sponsor terminating an Corporation's participation in the Plan and specifying the date of such termination. Notice of such termination shall be delivered to the Administrator and the former participating Corporation.

11.2(b) Termination of the Plan with respect to any Corporation shall mean termination of active participation of the Participants employed by such Corporation, but shall not mean immediate payment of all vested Deferral Benefits with respect to the Directors of such Corporation unless the Plan Sponsor so directs consistent with applicable provisions of Section 409A of the Code. On termination of the Plan with respect to any Corporation, the Administrator may provide for the acceleration of payment of the vested Deferral Benefits of all affected Participants of that former participating Corporation on such basis as it may direct.

ARTICLE XII
Miscellaneous

12.1 **Nonassignability.** The interests of each Participant under the Plan are not subject to claims of the Participant's creditors; and neither the Participant, nor his Beneficiary, shall have any right to sell, assign, transfer or otherwise convey the right to receive any payments hereunder or any interest under the Plan, which payments and interest are expressly declared to be nonassignable and nontransferable.

12.2 **Right to Require Information and Reliance Thereon.** The Corporation and Administrator shall have the right to require any Participant, Beneficiary or other person receiving benefit payments to provide it with such information, in writing, and in such form as it may deem necessary to the administration of the Plan and may rely thereon in carrying out its duties hereunder. Any payment to or on behalf of a Participant or Beneficiary in accordance with the provisions of the Plan in good faith reliance upon any such written information provided by a Participant or any other person to whom such payment is made shall be in full satisfaction of all claims by such Participant and his Beneficiary; and any payment to or on behalf of a Beneficiary in accordance with the provision so the Plan in good faith reliance upon any such written information provided by such Beneficiary or any other person to whom such payment is made shall be in full satisfaction of all claims by such Beneficiary.

12.3 **Notices and Elections.**

12.3(a) Except as provided in subparagraph 12.3(b), all notices required to be given in writing and all elections, consents, applications and the like required to be made in writing, under any provision of the Plan, shall be invalid unless made on such forms as may be provided or approved by the Administrator and, in the case of a notice, election, consent or application by a Participant or Beneficiary, unless executed by the Participant or Beneficiary giving such notice or making such election, consent or application.

12.3(b) Subject to limitations under applicable provisions of the Code or the Act, the Administrator is authorized in its discretion to accept other means for receipt of effective notices, elections, consents, applications and/or other forms or communications by Participants and/or Beneficiaries, including but not limited to electronic transmissions through interactive on-line transmissions, e-mail, voice mail, recorded messages on electronic telephone systems, and other permissible methods, on such basis and for such purposes as it determines from time to time.

12.4 **Delegation of Authority.** Whenever the Plan Sponsor or any other Corporation is permitted or required to perform any act, such act may be performed by its President or Chief Executive Officer or other person duly authorized by its President or Chief Executive Officer or the Board of the Corporation.

12.5 **Service of Process.** The Administrator shall be the agent for service of process on the Plan.

12.6 **Governing Law.** The Plan shall be construed, enforced and administered in accordance with the laws of the Commonwealth of Virginia, and any federal law which preempts the same.

12.7 **Binding Effect.** The Plan shall be binding upon and inure to the benefit of the Corporation, its successors and assigns, and the Participant and his heirs, executors, administrators and legal representatives.

12.8 **Severability.** If any provision of the Plan should for any reason be declared invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall nevertheless remain in full force and effect.

12.9 **No Effect on Employment Agreement.** The Plan shall not be considered or construed to modify, amend or supersede any employment or other agreement between the Corporation and the Participant heretofore or hereafter entered into unless so specifically provided.

12.10 **Gender and Number.** In the construction of the Plan, the masculine shall include the feminine or neuter and the singular shall include the plural and vice-versa in all cases where such meanings would be appropriate.

12.11 **Titles and Captions.** Titles and captions and headings herein have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

12.12 **Construction.** The Plan and Fund are intended to be construed as a “plan which is unfunded and is maintained by the Corporation primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees,” within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of the Act, as amended, and shall be interpreted and administered accordingly. Likewise, the Plan is also intended to comply with Section 409A of the Code and shall be interpreted and administered accordingly.

12.13 **Nonqualified Deferred Compensation Plan Omnibus Provision.**

12.13(a) It is intended that any compensation, benefits or other remuneration which is provided pursuant to or in connection with the Plan which is considered to be nonqualified deferred compensation subject to Code Section 409A shall be provided and paid in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid a plan failure described in Section 409A (a)(1) of the Code, including without limitation, deferring payment until the occurrence of a specified payment event described in Section 409A(a) (2) of the Code and to avoid the unfavorable tax consequences provided therein for non-compliance, and that, notwithstanding any other provision thereof or document pertaining to any such compensation, benefit or other remuneration subject to the provisions of Section 409A of the Code, each provision of any plan, program or arrangement (including without limitation the Plan) relating to the provision of such compensation, benefit or other remuneration to or with respect to the Eligible Director, shall be so construed and interpreted.

12.13(b) It is specifically intended that all elections, consents and modifications thereto under the Plan will comply with the requirements of Section 409A of the Code (including any transition or grandfather rules thereunder). The Administrator is authorized to adopt rules or regulations deemed necessary or appropriate in connection therewith to anticipate and/or comply the requirements of Section 409A of the Code (including any transition or grandfather rules thereunder).

12.13(c) It is also intended that if any compensation, benefits or other remuneration which is provided pursuant to or in connection with the Plan is considered to be nonqualified deferred compensation subject to Section 409A of the Code but for being earned and vested as of December 31, 2004, then no material modification of the Plan after October 3, 2004 shall apply to such Plan benefits which are earned and vested as of December 31, 2004 unless such modification expressly so provides.

12.14 Distributions in the Event of Income Inclusion. If any portion of a Participant's Deferral Account under the Plan is required to be included in income by the Participant prior to receipt due to a failure of the Plan to comply with the requirements of Section 409A of the Code, the Administrator may determine that such Participant shall receive a distribution from the Plan in an amount equal to the lesser of (i) the portion of the Deferral Account required to be included in income as a result of such failure or (ii) the unpaid vested Deferral Account.

August 28, 2007

- 23 -

[\(Back To Top\)](#)

Section 6: EX-10.5.1 (ADOPTION AGREEMENT FOR THE RESTATED VBA DIRECTOR'S DEFERRED COMPENSATION PLAN)

Exhibit 10.5.1

**VIRGINIA BANKERS ASSOCIATION
MODEL NON-QUALIFIED DEFERRED COMPENSATION PLAN
FOR DIRECTORS
(As Restated Effective January 1, 2008)**

ADOPTION AGREEMENT

If the Corporation completing this document has any questions about the adoption of the Plan, the provisions of the Plan, its representative should contact Bette J. Albert, C.L.U. at the Virginia Bankers Association Benefits Corporation, 4490 Cox Road, Glen Allen, VA 23060-3341 - telephone number (804) 643-7469 during business hours.

Each Corporation named below hereby adopts the Plan through this Adoption Agreement (the "Adoption Agreement"), to be effective as of the date(s) specified below, and elects the following specifications and provides the following information relating thereto:

In completing this Adoption Agreement, if additional space is required insert additional sheets.

Adoption Agreement Contents

	<u>Page</u>
Option 1 Corporation(s) Adopting Plan Named in Paragraph 1.11 of the Plan	1
Option 2 General Plan Information	2
Option 3 Status of Plan and Effective Date(s)	2
Option 4 Definitions and Other Optional Provisions	3
Option 5 Time and Form of Benefit Payments	6
Option 6 Hardship Withdrawals	10
Option 7 Participant Deemed Investment Direction	11
Option 8 409A Transition Elections	11

1. CORPORATION(S) ADOPTING PLAN NAMED IN PARAGRAPH 1.11 OF THE PLAN.

(a) Name of Plan Sponsor:
C&F Financial Corporation

(b) Plan Sponsor's
Telephone Number:
(804) 843-2360

(c) Address of Plan Sponsor :
Post Office Box 391
West Point, VA 23181

(d) Plan Sponsor's EIN:
54-1680165

(e) Plan Sponsor's Tax
Year End: 12/31

(f) Information of Other Participating Corporations Adopting the Plan:

- (1) All Affiliate are automatically Participating Corporations in the Plan except for the following:

- (2) Participating Corporations are listed individually on the attachment captioned List of Participating Corporations, which shall be updated as needed from time to time.

2. GENERAL PLAN INFORMATION.

- (a) Name of Plan:

VBA Director's Non-Qualified Deferred Compensation Plan for C&F Financial Corporation

- (b) Name, Address and EIN of Plan Administrator(s): [If other than Plan Sponsor, appointment must be by resolution]

3. STATUS OF PLAN AND EFFECTIVE DATE(S).

- (a) Effective Date of Plan: The Effective Date of the Plan is January 1, 1997.

- (b) Plan Status. The adoption of the Plan through this Adoption Agreement is:

- (1) Initial Establishment. The initial adoption and establishment of the Plan.

- (2) Restated Plan. An amendment and restatement of the Plan (a Restated Plan).

(A) Effective Date of this Restatement. The Effective Date of this Restatement of the Plan is January 1, 2008.

(B) Prior Plan. The Plan was last maintained under document dated January 1, 1997 and was known as the VBA Director's Non-Qualified Deferred Compensation Plan for C&F Financial Corporation.

(C) Transitional or Special Provisions

- Election NOT to Grandfather Pre-January 1, 2005 Vested Balances. If this Option is elected, all Deferral Accounts shall be subject to the rules set forth in the post December 31, 2004 restatement.

If the Option is not elected, the Deferral Accounts attributable to transfers from predecessor plans prior to December 31, 2004 and contributions that are vested as of December 31, 2004 shall be segregated from the Deferral Accounts attributable to contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to transfers and contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005.

[Enter any other transitional or special provisions relating to any Predecessor Plan Account and the Plan as restated]

4. DEFINITIONS AND OTHER OPTIONAL PROVISIONS.

- (a) Compensation
Paragraph 1.10

Compensation is used throughout the basic plan document for different purposes. The following specific rules apply.

- (1) General Definition. The Compensation definition in paragraph 1.10 of the basic plan document is modified as follows:
 - (A) Retainer. Retainer is more specifically defined to mean:

(B) Fees. Fees is more specifically defined to mean:

(2) Specific Definitions. When used with respect Deferral Contributions under the Plan, Compensation shall include:

- (A) Retainer.
- (B) Fees.
- (C) Retainers and Fees.

Eligible Director shall mean only the following:

- (1) All Directors. Any individual serving as Director of the Corporation
- (2) All Non-Employee Directors. Any individual serving as a Director of the Corporation, except Directors who are also common law employees of the Corporation.
- (3) Determination by Board. Any individual who is designated as an Eligible Director by resolution of the Plan Sponsor's Corporation's Board of Directors. A copy of the resolution shall be attached to and incorporated by reference into the Plan.

In the case of a Restated Plan which prior to the Effective Date of this Restatement was maintained on the basis of a Plan Year beginning on a date other than January 1, the Plan Year shall begin on _____, ____ and ending on _____, ____ with the short Plan Year beginning on _____, ____ and ending on December 31, _____. Thereafter, the Plan Year shall be the 12 month period beginning each January 1.

The effective date of coverage for an Eligible Employee shall be [Check one]:

(b) Eligible Director
Paragraph 1.18

(c) Plan Year
Paragraph 1.23

(d) Effective Date of Coverage
Subparagraph 2.1

- (1) Immediately. The first day of the first payroll period beginning on or after the date the individual became an Eligible Director.
- (2) Monthly. The first day of the first payroll period beginning on or after the first day of _____ [Complete with 1st 2nd or other] month next following the date the individual became an Eligible Director.
- (2) Semi-Annually. The first day of the Plan Year or the first day of the seventh month of the Plan Year on or next following the date the individual became an Eligible Director.
- (3) Annually. The first day of the Plan Year on or next following the date the individual became an Eligible Director.

The Deferred Compensation Election filed for the Plan Year which contains the effective date of coverage as of a date other than the first day of a Plan Year shall be effective to defer only Compensation for services performed in periods after the period in which it is filed.

If this Option is elected, the Plan Sponsor:

- (e) Cancellation of Deferred Compensation Election For Disability Paragraph 2.5

- (1) Mandatory Cancellation. Will cancel the Deferred Compensation Election of an Eligible Director who experiences a Disability as defined in paragraph 2.5.
- (2) Optional Cancellation. May permit an Eligible Director who experiences a Disability as defined in paragraph 2.5 to cancel is Deferred Compensation Election.

If the Option is not selected, no cancellation will be required or permitted upon the occurrence of a Disability.

- (f) Rules Relating to Final Check of Year

If this Option is elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the taxable year in which the payroll period began.

Otherwise, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the subsequent taxable year in which the payment is made.

Any amendment to this provision relating to the final check of the Participant's taxable year may not be effective for 12 months from the date the amendment is adopted and executed.

5. TIME AND FORM OF BENEFIT PAYMENTS.

- (a) Benefit Commencement Date
Paragraphs 1.6 and 6.1

The term Benefit Commencement Date shall mean the first day of calendar quarter coinciding with or next following the designated time or event.

- (1) Separation from Service as Director. The Participant's Separation from Service as a Director of the Corporation for whatever reason.
- (2) Selected By Participant. The date selected by the Participant in accordance with the following:
- (i) His Separation from Service as a Director of the Corporation (for reasons other than death).
 - (ii) A date certain stated clearly in his election form which shall be without regard to when his service as a Director of the Corporation ends.
 - (iii) The later of a date certain or his Separation from Service as a Director of the Corporation (for reasons other than death).
 - (iv) The earlier of a date certain or his Separation from Service as a Director of the Corporation (for reasons other than death).
- (v) Change in Control. Upon a Change in Control as defined in Paragraph 1.8 of the Plan
- Timing of Participant Election. The Participant shall elect the timing of payment at the time his Deferred Contribution Election is filed under the Plan. Any new elections filed with future Deferred Contribution Elections by the Participant shall only apply prospectively.

(b) Form of Payment to Participant
Paragraph 6.2

The form of benefit payments available to the Participant shall be determined in accordance with the following rules:

- (1) Selected By Corporation. The Corporation selects the following form of payment:
 - (A) Lump Sum Payment. Deferral Benefits will be paid to the Participant in the form of a lump sum payment.
 - (B) Periodic Installments. Deferral Benefits will be paid to the Participant in the form of periodic installment payments made:
 - (i) Frequency:
 - (a) Monthly.
 - (b) Annually.
 - (ii) Duration. Over the following period:
 - (a) Five (5) years.
 - (b) Ten (10) years.
 - (c) Fifteen (15) years.
 - (d) Twenty (20) years.
- (2) Selected By Participant. The form of payment to be paid to the Participant shall be selected by the Participant in accordance with the following:
 - (A) Participant's Options. The Participant may elect from among the following forms of payment [Select options to be available to Participants]:
 - (i) Lump Sum Payment. Deferral Benefits may be paid to the Participant only in the form of a lump sum payment.

-
- (ii) Periodic Installments. Deferral Benefits may be paid to the Participant in the form of periodic installment payments made:
 - (a) Frequency:
 - (I) Monthly.
 - (II) Annually.
 - (b) Duration. Over the following period:
 - (I) Five (5) years.
 - (II) Ten (10) years.
 - (III) Fifteen (15) years.
 - (IV) Twenty (20) years.
 - (B) Timing of Participant Election. The Participant shall elect the form of payment subdivision of his Deferral Account related to the compensation deferred by a specific Deferred Compensation Election at the time his Deferred Contribution Election is filed for such deferral. The Timing of Payment may be changed only in accordance with the rule of Section 409A of the Code.

(c) Form of Payment to Beneficiary
Paragraph 6.2

The form of benefit payments available to the Beneficiary shall be determined in accordance with the following rules:

- (1) Selected By Corporation. The Corporation selects the following form of payment:
 - (A) Lump Sum Payment. Deferral Benefits will be paid to the Beneficiary in the form of a lump sum payment.
 - (B) Periodic Installments. Deferral Benefits will be paid to the Beneficiary in the form of periodic installment payments made:
 - (i) Frequency:
 - (a) Monthly.
 - (b) Annually.
 - (ii) Duration. Over the following period:
 - (a) Five (5) years.
 - (b) Ten (10) years.
 - (c) Fifteen (15) years.
 - (d) Twenty (20) years.
- (2) Selected By Participant. The form of payment to the Beneficiary shall be selected by the Participant in accordance with the following:
 - (A) Participant's Options. The Participant may elect the form of payment to the Beneficiary from among the following forms of payment [Select options to be available to Participants]:

-
- (i) Lump Sum Payment. Deferral Benefits may be paid to the Beneficiary only in the form of a lump sum payment.
 - (ii) Periodic Installments. Deferral Benefits may be paid to the Beneficiary in the form of periodic installment payments made:
 - (a) Frequency:
 - (I) Monthly.
 - (II) Annually.
 - (b) Duration. Over the following period:
 - (I) Five (5) years.
 - (II) Ten (10) years.
 - (III) Fifteen (15) years.
 - (IV) Twenty (20) years.

6. HARDSHIP WITHDRAWALS.

ARTICLE VII

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. May not make a Hardship Withdrawals.
- (2) Permitted. May make a Hardship Withdrawal as defined in for an Unforseeable Emergency as defined in Paragraph 7.1 of the Plan from his Deferral Account.

7. PARTICIPANT DEEMED INVESTMENT DIRECTION.

Paragraph 8.4

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. May not make deemed investment directions.
- (2) Permitted. May make deemed investment directions for hi Deferral Account (“directable accounts”)

(b) Permissible Investments

Unless the Plan Sponsor elects a different Option below the funds available for directed investment under the VBA Plan as adopted by the Plan Sponsor:

- (1) VBA Plan Plus Company Stock. In addition to the funds available under the VBA plan, a Company Stock Fund will also be available for directed investment.
- (2) VBA Plan Without Company Stock. Regardless of whether a Company Stock Fund is available under the VBA plan, no Company Stock Fund will be available for directed investment.
- (3) Company Stock Only. In lieu of the funds available under the VBA Plan, a Company Stock Fund will be the only fund available for directed investment.

8. 409A TRANSITION ELECTIONS.

Paragraph 6.4

(a) Availability Generally

A Participant [Check one]:

- (1) Not Permitted. Shall not be permitted to change Deferred Compensation Elections made for the Plan Years 2005, 2006 and 2007 except as may otherwise be permitted in paragraph 7.3.
- (2) Permitted. Shall be permitted to change Deferred Compensation Elections made for Plan Years 2005, 2006 and 2007 prior to December 31, 2007 as follows [Check one]:
 - (A) A separate change election may be made for each Plan Year.
 - (B) Only one change election may be made which shall to apply to all three Plan Years.

IN WITNESS WHEREOF, each Corporation, by its duly authorized representatives, has executed this instrument this 18th day of December 2007.

C&F Financial Corporation
[Enter Name of Corporation]

By /s/ Robert L. Bryant
Its EVP & Chief Operating Officer

[SEAL]

ATTEST:

Its _____

- 12 -

[\(Back To Top\)](#)

Section 7: EX-10.6 (AMENDED AND RESTATED C&F FINANCIAL CORPORATION 1994 INCENTIVE STOCK PLAN)

EXHIBIT 10.6

AMENDED AND RESTATED
C&F FINANCIAL CORPORATION
1994 INCENTIVE STOCK PLAN
(as of December 18, 2007)

ARTICLE I Establishment, Purpose, and Duration

1.1 Establishment of the Plan. C&F Financial Corporation, a Virginia corporation (the "Company"), hereby establishes an incentive compensation plan for the Company and its subsidiaries to be known as the "1994 Incentive Stock Plan," as set forth in this document. Unless otherwise defined herein, all capitalized terms shall have the meanings set forth in Section 2.1 herein. The Plan permits the grant of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights and Restricted Stock.

The Plan was adopted by the Board of Directors of the Company on March 15, 1994, and shall become effective on May 1, 1994 (the "Effective Date"), subject to the approval by vote of shareholders of the Company in accordance with applicable laws.

1.2 Purpose of the Plan. The purpose of the Plan is to promote the success of the Company and its subsidiaries by providing incentives to Key Employees that will promote the identification of their personal interest with the long-term financial success of the Company and with growth in shareholder value. The Plan is designed to provide flexibility to the Company, including its subsidiaries, in its ability to motivate, attract, and retain the services of Key Employees upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

1.3 Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article XI herein, until April 30, 2004, at which time it shall terminate except with respect to Awards made prior to, and outstanding on, that date which shall remain valid in accordance with their terms.

ARTICLE II Definitions

2.1 Definitions. Except as otherwise defined in the Plan, the following terms shall have the meanings set forth below:

- (a) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").
- (b) "Agreement" means a written agreement implementing the grant of each Award signed by an authorized officer of the Company and by the Participant.

(c) "Award" means, individually or collectively, a grant under this Plan of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights, and Restricted Stock.

(d) "Award Date" or "Grant Date" means the date on which an Award is made by the Committee under this Plan.

(e) "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

(f) "Board" or "Board of Directors" means the Board of Directors of the Company, unless otherwise indicated.

(g) "Change in Control" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i) any Person (other than the Company, any Subsidiary, a trustee or other fiduciary holding securities under any employee benefit plan of the Company, or its Subsidiaries), who or which, together with all Affiliates and Associates of such Person, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(ii) if, at any time after the Effective Date, the composition of the Board of Directors of the Company shall change such that a majority of the Board of the Company shall no longer consist of Continuing Directors; or

(iii) if at any time, (1) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (2) any Person shall consolidate with or merge with the Company, and the Company shall be the continuing or surviving corporation and, in connection therewith, all or part of the outstanding Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, (3) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a subsidiary of any other Person, or (4) the Company shall sell or otherwise transfer 50% or more of the assets or earnings power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

(h) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(i) "Committee" means the committee of the Board of Directors of Citizens and Farmers Bank (the "Bank") appointed by the Company to administer the Plan pursuant to Article III herein, all of the members of which shall be "disinterested persons" as defined in Rule 16b-3, as amended, under the Exchange Act or any similar or successor rule. Unless otherwise determined by the Board of Directors of the Bank, the members of the committee responsible for executive compensation who are not employees of the Company or its Subsidiaries shall constitute the Committee.

(j) “Continuing Director” means an individual who was a member of the Board of Directors Corporation on the Effective Date or whose subsequent nomination for election or re-election to the Board of Directors Corporation was recommended or approved by the affirmative vote of two-thirds of the Continuing Directors then in office.

(k) “Corporation” means C&F Financial Corporation, or any successor thereto as provided in Article XIII herein.

(l) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(m) “Fair Market Value” of a Share means the fair market value as determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose.

(n) “Incentive Stock Option” or “ISO” means an option to purchase Stock, granted under Article VI herein, which is designated as an incentive stock option and is intended to meet the requirements of Section 422A of the Code.

(o) “Key Employee” means an officer or other key employee of the Company or its Subsidiaries, who, in the opinion of the Committee, can contribute significantly to the growth and profitability of, or perform services of major importance to, the Company and its Subsidiaries.

(p) “Non-qualified Stock Option” or “NQSO” means an option to purchase Stock, granted under Article VI herein, which is not intended to be an Incentive Stock Option.

(q) “Option” means an Incentive Stock Option or a Non-qualified Stock Option.

(r) “Participant” means a Key Employee who is granted an Award under the Plan.

(s) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock is restricted, pursuant to Article VIII herein.

(t) “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d).

(u) “Plan” means the C&F Financial Corporation 1994 Incentive Stock Plan, as described and as hereafter from time to time amended.

(v) “Related Option” means an Option with respect to which a Stock Appreciation Right has been granted.

(w) “Restricted Stock” means an Award of Stock granted to a Participant pursuant to Article VIII herein.

(x) “Stock” or “Shares” means the common stock of the Company.

(y) "Stock Appreciation Right" or "SAR" means as Award, designated as a stock appreciation right, granted to a Participant pursuant to Article VII herein.

(z) "Subsidiary" shall mean a corporation at least 50% of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more of its Subsidiaries

ARTICLE III Administration

3.1 The Committee. The Plan shall be administered by the Committee which shall have all powers necessary or desirable for such administration. The express grant in this Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. In addition to any other powers and, subject to the provisions of the Plan, the Committee shall have the following specific powers: (i) to determine the terms and conditions upon which the Awards may be made and exercised; (ii) to determine all terms and provisions of each Agreement, which need not be identical; (iii) to construe and interpret the Agreement and the Plan; (iv) to establish, amend or waive rules or regulations for the Plan's administration; (v) to accelerate the exercisability of any Award or the termination of any Period of Restriction; and (vi) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

3.2 Selection of Participants. The Committee shall have the authority to grant Awards under the Plan, from time to time, to such Key Employees as may be selected by it. Each Award shall be evidenced by an Agreement.

3.3 Decisions Binding. All determinations and decisions made by the Board or the Committee pursuant to the provisions of the Plan shall be final, conclusive and binding.

3.4 Rule 16b-3 Requirements. Notwithstanding any other provision of the Plan, the Board or the Committee may impose such conditions on any Award, and amend the Plan in any such respects, as may be required to satisfy the requirements of Rule 16b-3, as amended (or any successor or similar rule), under the Exchange Act.

3.5 Indemnification of Committee. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted or made hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company and its Subsidiaries.

ARTICLE IV
Stock Subject to the Plan

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3 herein, the maximum aggregate number of Shares that may be issued pursuant to Awards made under the Plan shall not exceed 500,000. No more than one-third of the aggregate number of such Shares shall be issued in connection with Restricted Stock Awards. Except as provided in Sections 4.2 herein, the issuance of Shares in connection with the exercise of, or as other payment for Awards, under the Plan shall reduce the number of Shares available for future Awards under the Plan.

4.2 Lapsed Awards or Forfeited Shares. If any Award granted under this Plan (for which no material benefits of ownership have been received, including dividends) terminates, expires, or lapses for any reason other than by virtue of exercise of the Award, or if Shares issued pursuant to Awards (for which no material benefits of ownership have been received, including dividends) are forfeited, any Stock subject to such Award again shall be available for the grant of an Award under the Plan, subject to Section 7.2.

4.3 Capital Adjustments. The number and class of Shares subject to each outstanding Award, the Option Price, and the aggregate number and class of Shares for which Awards thereafter may be made shall be proportionately, equitably, and appropriately adjusted in such manner as the Committee shall determine in order to retain the economic value or opportunity to reflect any stock dividend, stock split, recapitalization, merger, consolidation, reorganization, reclassification, combination, exchange of shares or similar event in which the number or class of Shares is changed without the receipt or payment of consideration by the Company. Where an Award being adjusted is an ISO or is subject to Section 409A of the Code, the adjustment shall also be effected so as to comply with Section 424(a) of the Code and not to constitute a modification within the meaning of Section 424(h) or 409A, as applicable, of the Code. Any determination made under this Section 4.3 by the Committee shall be final and conclusive.

ARTICLE V
Eligibility

Persons eligible to participate in the Plan include all employees of the Company and its Subsidiaries who, in the opinion of the Committee, are Key Employees. Key Employees may not include directors of the Company who are not employees of the Company or its Subsidiaries.

ARTICLE VI
Stock Options

6.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Key Employees at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant, provided, however, that the aggregate Fair Market Value (determined at the time the Award is made) of Shares with respect to which any Participant may first exercise ISOs granted under the Plan during any calendar year may not exceed \$100,000 or such amount as shall be specified in Section 422A of the Code and rules and regulation thereunder.

6.2 Option Agreement. Each Option grant shall be evidenced by an Agreement that shall specify the type of Option granted, the Option Price (as hereinafter defined), the duration of the Option, the number of Shares to which the Option pertains, any conditions imposed upon the exercisability of Options in the event of retirement, death, disability or other termination of employment, and such other provisions as the Committee shall determine. The Agreement shall specify whether the Option is intended to be an Incentive Stock Option within the meaning of Section 422A of the Code, or Nonqualified Stock Option not intended to be within the provisions of Section 422A of the Code.

6.3 Option Price. The exercise price per share of Stock covered by an Option ("Option Price") shall be determined by the Committee subject to the following limitations. The Option Price shall not be less than 100% of the Fair Market Value of such Stock on the Grant Date. An ISO granted to an employee who, at the time of grant, owns (within the meaning of Section 425(d) of the Code) Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company, shall have an Option Price which is at least equal to 110% of the Fair Market Value of the Stock.

6.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant provided, however, that no ISO shall be exercisable later than the tenth (10th) anniversary date of its Award Date.

6.5 Exercisability. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine, which need not be the same for all Participants. No Option, however, shall be exercisable until the expiration of at least six months after the Award Date, except that such limitation shall not apply in the case of death or disability of the Participant.

6.6 Method of Exercise. Options shall be exercised by the delivery of a written notice to the Company in the form prescribed by the Committee setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price shall be payable to the Company in full either in cash, by delivery of Shares of Stock valued at Fair Market Value at the time of exercise, delivery of a promissory note (in the Committee's discretion) or by a combination of the foregoing. As soon as practicable, after receipt of written notice and payment, the Company shall deliver to the Participant, stock certificates in an appropriate amount based upon the number of Options exercised, issued in the Participant's name. No Participant who is awarded Options shall have rights as a shareholder until the date of exercise of the Options.

6.7 Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under the applicable Federal securities law, under the requirements of the National Association of Securities Dealers, Inc. or any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares.

6.8 Nontransferability of Options. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by the laws of descent and distribution. Further, all Options granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

ARTICLE VII Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, Stock Appreciation Rights may be granted to Participants, at the discretion of the Committee in connection with the grant, and exercisable in lieu of Options (“Tandem SARs”).

7.2 Exercise of Tandem SARs. Tandem SARs may be exercised with respect to all or part of the Shares subject to the Related Option. The exercise of Tandem SARs shall cause a reduction in the number of Shares subject to the related Option equal to the number of Shares with respect to which the Tandem SAR is exercised. Conversely, the exercise, in whole or in part, of a Related Option, shall cause a reduction in the number of Shares subject to the Related Option equal to the number of Shares with respect to which the Related Option is exercised. Shares with respect to which the Tandem SAR shall have been exercised may not be subject again to an Award under the Plan.

Notwithstanding any other provision of the Plan to the contrary, a Tandem SAR shall expire no later than the expiration of the Related Option, shall be transferable only when and under the same conditions as the Related Option and shall be exercisable only when the Related Option is eligible to be exercised. In addition, if the Related Option is an ISO, a Tandem SAR shall be exercised for no more than 100% of the difference between the Option Price of the Related Option and the Fair Market Value of Shares subject to the Related Option at the time the Tandem SAR is exercised.

7.3 Other Conditions Applicable to Tandem SARs. No Tandem SAR granted under the Plan shall be exercisable until the expiration of at least six months after the Grant Date, except that such limitation shall not apply in the case of the death or disability of the Participant. In no event shall the term of any Tandem SAR granted under the Plan exceed ten years from the Grant Date. A Tandem SAR may be exercised only when the Fair Market Value of a Share exceeds the Option Price of the Related Option. A Tandem SAR shall be exercised by delivery to the Committee of a notice of exercise in the form prescribed by the Committee.

7.4 Payment Under Exercise of Tandem SARs. Subject to the provisions of the Agreement, upon the exercise of a Tandem SAR, the Participant is entitled to receive, without any payment to the Company (other than required tax withholding amounts), an amount equal to the product of multiplying (i) the number of Shares with respect to which the Tandem SAR is exercised by (ii) an amount equal to the excess of (A) the Fair Market Value per Share on the date of exercise of the Tandem SAR over (B) the Option Price of the Related Option.

Payment to the Participant shall be made in Shares, valued at the Fair Market Value of the date of exercise, in cash if the Participant has so elected in his written notice of exercise and Committee has consented thereto, or a combination thereof. To the extent required to satisfy the conditions of Rule 16b-3(e) under the Exchange Act, or any successor or similar rule, or as otherwise provided in the Agreement, the Committee shall have the sole discretion to consent to or disapprove the election of any Participant to receive cash in full or partial settlement of a Tandem SAR. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or with in such period for taking action as is specified in the election, and failure to give consent shall be disapproved. Consent may be given in whole or as to a portion of the Tandem SAR surrendered by the Participant. If the election to receive cash is disapproved in whole or in part, the Tandem SAR shall be deemed to have been exercised for Shares, or, if so specified in the notice of exercise and election, not to have been exercised to the extent the election to receive cash is disapproved.

7.5 Nontransferability of Tandem SARs. No Tandem SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by the laws of descent and distribution. Further, all Tandem SARs granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

ARTICLE VIII Restricted Stock

8.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant shares of Restricted Stock under the Plan to such Participants and in such amounts as it shall determine. Participants receiving Restricted Stock Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services.

8.2 Restricted Stock Agreement. Each Restricted Stock grant shall be evidenced by an Agreement that shall specify the Period of Restriction, the number of Restricted Stock Shares granted, and such other provisions as the Committee shall determine.

8.3 Transferability. Except as provided in this Article VIII and subject to the limitation in the next sentence, the Shares of Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction or upon earlier satisfaction of other conditions as specified by the Committee in its sole discretion and set forth in the Agreement. No shares of Restricted Stock shall be sold until the expiration of at least six months

after the Award Date, except that such limitation shall not apply in the case of death or disability of the Participant. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

8.4 Other Restrictions. The Committee shall impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

8.5 Certificate Legend. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing shares of Restricted Stock granted pursuant to the Plan shall bear the following legend:

The sale or other transfer of the Shares of Stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer set forth in the 1994 Incentive Stock Plan of C&F Financial Corporation, in the rules and administrative procedures adopted pursuant to such Plan, and in an Agreement dated _____. A copy of the Plan, such rules and procedures, and such Restricted Stock Agreement may be obtained from the Secretary of C&F Financial Corporation.

8.6 Removal of Restrictions. Except as otherwise provided in this Article, Shares of Restricted Stock covered by each Restricted Stock Award made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.5 herein removed from his Stock certificate.

8.7 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

8.8 Dividends and Other Distributions. During the Period of Restriction, Participants holding shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those shares while they are so held. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability as the Shares of Restricted Stock with respect to which they were distributed.

8.9 Termination of Employment Due to Retirement. Unless otherwise provided in the Agreement, in the event that a Participant terminates his employment with the Company or one of its Subsidiaries because of normal retirement (as defined in the rules of the Company in effect at the time), any remaining Period of Restriction applicable to the Restricted Stock Shares pursuant to Section 8.3 herein shall automatically terminate and, except as otherwise provided in Section 8.4 herein the Shares of Restricted Stock shall thereby be free of restrictions and freely transferable. Unless otherwise provided in the Agreement, in the event that a Participant terminates his employment with the Company because of early retirement (as defined in the rules of the Company in effect at the time), the Committee, in its sole discretion, may waive the restrictions remaining on any or all Shares of Restricted Stock pursuant to Section 8.3 herein and add such new restrictions to those Shares of Restricted Stock as it deems appropriate.

8.10 Termination of Employment Due to Death or Disability. In the event a Participant's employment is terminated because of death or disability during the Period of Restriction, any remaining Period of Restriction applicable to the Restricted Stock pursuant to Section 8.3 herein shall automatically terminate and, except as otherwise provided in Section 8.4 herein the shares of Restricted Stock shall thereby be free of restrictions and fully transferable.

8.11 Termination of Employment for Other Reasons. Unless otherwise provided in the Agreement, in the event that a Participant terminates his employment with the Company for any reason other than for death, disability, or retirement, as set forth in Section 8.9 and 8.10 herein, during the Period of Restriction, then any shares of Restricted Stock still subject to restrictions as of the date of such termination shall automatically be forfeited and returned to the Company.

ARTICLE IX Change in Control

In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, in its sole discretion may, as to any outstanding Award, either at the time the Award is made or any time thereafter, take any one or more of the following actions: (i) provide for the acceleration of any time periods relating to the exercise or realization of any such Award so that such Award may be exercised or realized in full on or before a date initially fixed by the Committee; (ii) provide for the purchase or settlement of any such Award by the Company, upon a Participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such Participant's rights had such Award been currently exercisable or payable; (iii) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change in Control; or (iv) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change in Control.

ARTICLE X Modification, Extension and Renewals of Awards

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Awards, or, if authorized by the Board, accept the surrender of outstanding Awards (to the extent not yet exercised) granted under the Plan and authorize the granting of new Awards pursuant to the Plan in substitution therefor, and the substituted Awards may specify a lower exercise price than the surrendered Awards, a longer term than the surrendered Awards or may contain any other provisions that are authorized by the Plan. The Committee may also modify the terms of any outstanding Agreement. Notwithstanding the foregoing, however, no modification of an Award, shall, without the consent of the Participant, adversely affect the rights or obligations of the Participant.

ARTICLE XI
Amendment, Modification and Termination of the Plan

11.1 Amendment, Modification and Termination. AT any time and from time to time, the Board may terminate, amend, or modify the Plan. Such amendment or modification may be without shareholder approval except to the extent that such approval is required by the Code, pursuant to the rules under Section 16 of the Exchange Act, by any national securities exchange or system on which the Stock is then listed or reported, by an regulatory body having jurisdiction with respect thereto or under any other applicable laws, rules or regulations.

11.2 Awards Previously Granted. No termination, amendment or modification f the Plan other than pursuant to Section 4.4 herein shall in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant.

ARTICLE XII
Withholding

12.1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, State and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of this Plan.

12.2 Stock Withholding. With respect to withholding required upon the exercise of Nonqualified Stock Options, or upon the lapse of restrictions on Restricted Stock, or upon the occurrence of any other similar taxable event, participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares of Stock having a Fair Market Value equal to the amount required to be withheld. The value of the Shares to be withheld shall be based on Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined. All elections shall be irrevocable and be made in writing, signed by the Participant on forms approved by the Committee in advance of the day that the transaction becomes taxable.

ARTICLE XIII
Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE XIV
General

14.1 Requirements of Law. The granting of Awards and the issuance of Shares of Stock under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or SROs as may be required.

14.2 Effect of Plan. The establishment of the Plan shall not confer upon any Key Employee any legal or equitable right against the Company, a Subsidiary or the Committee, except as expressly provided in the Plan. The Plan does not constitute an inducement or consideration for the employment of any Key Employee, nor is it a contract between the Company or any of its Subsidiaries and any Key Employee. Participation in the Plan shall not give any Key Employee any right to be retained in the service of the Company or any of its Subsidiaries.

14.3 Creditors. The interests of any Participant under the Plan or any agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered.

14.4 Governing Law. The Plan, and all Agreements hereunder, shall be governed, construed and administered in accordance with and governed by the laws of the Commonwealth of Virginia and the intention of the Company is that ISOs granted under the Plan qualify as such under Section 422A of the Code.

14.5 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

[\(Back To Top\)](#)

Section 8: EX-10.7 (AMENDED AND RESTATED C&F FINANCIAL CORPORATION 1998 NON-EMPLOYEE DIRECTOR STOCK)

EXHIBIT 10.7

AMENDED & RESTATED
C&F FINANCIAL CORPORATION
1998 NON-EMPLOYEE DIRECTOR STOCK COMPENSATION PLAN
(as amended December 18, 2007)

ARTICLE I

DEFINITIONS

- 1.01. Affiliate and Associate shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").
- 1.02. Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of an Award granted to such Participant.
- 1.03. Award means an award of Options as provided for hereunder.
- 1.04. Bank means Citizens and Farmers Bank, or its successors.
- 1.05. Beneficial Owner shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.
- 1.06. Board means the Board of Directors of the Company.
- 1.07. Change in Control shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:
- (i) any Person (other than the Company, any Subsidiary, a trustee or other fiduciary holding securities under any employee benefit plan of the Company, or its Subsidiaries), who or which, together with all Affiliates and Associates of such Person, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; or
 - (ii) if, at any time after the Effective Date, the composition of the Board of Directors of the Company shall change such that a majority of the Board of the Company shall no longer consist of Continuing Directors; or
 - (iii) if at any time, (1) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (2) any Person shall consolidate with or merge with the Company, and the Company shall be the continuing or surviving corporation and, in connection therewith, all or part of the outstanding Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, (3) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a subsidiary of any other Person, or (4) the Company shall sell or otherwise transfer 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

-
- 1.08. Code means the Internal Revenue Code of 1986, as amended.
- 1.09. Common Stock means the common stock of the Company.
- 1.10. Company means C&F Financial Corporation, or its successors.
- 1.11. Continuing Director means an individual who was a member of the Board of Directors of the Company on the Effective Date or whose subsequent nomination for election or re-election to the Board of Directors of the Company was recommended or approved by the affirmative vote of two-thirds of the Continuing Directors then in office.
- 1.12. Date of Grant means September 1, 1998 and May 1 for each year thereafter during the term of the Plan.
- 1.13. Fair Market Value means the closing price (or, if there are no trades on the Date of Grant, then the next preceding date upon which a closing price is available) of the Common Stock as reported on NASDAQ (or other applicable listing service or exchange used by the Company) on the Option's Date of Grant, or if in the judgment of the Board of Directors there is insufficient recent trading activity to warrant determination of the Fair Market Value solely on the basis of such closing prices on the listing service or exchange, then the Fair Market.
- 1.14. Option means a stock option granted pursuant to Article IV, and that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the shares' Fair Market Value.
- 1.15. Participant means a member of the Board of the Company or the Bank who is not an employee of the Company or the Bank on the applicable Date of Grant; provided, directors serving on both the Board of the Company and the Bank shall be entitled to participate only as to one Award under the Plan per year.
- 1.16. Person shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).
- 1.17. Plan means the C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan.

-
- 1.18. Subsidiary shall mean a corporation at least 50% of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more of its Subsidiaries.
- 1.19. Committee shall mean the committee of the Board appointed to administer the Plan pursuant to Article III herein, all of the members of which shall be “non-employee directors” as defined in Rule 16b-3, as amended, under the Exchange Act, or any similar or successor rule, and “outside directors” within the meaning of Section 162(m)(4)(C)(i) of the Code, as amended. Unless otherwise determined by the Board, the Committee shall consist of compensation committee of the Board.

ARTICLE II

PURPOSE

The Plan is intended to promote a greater identity of interest between Participants and the Company’s shareholders by increasing the Participants proprietary interest in the Company through the receipt of Awards in the form of Options.

ARTICLE III

ADMINISTRATION

The Plan shall be administered by the Committee which shall have all powers necessary or desirable for such administration. The express grant in this Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. In addition to any other powers and subject to the provisions of the Plan, the Committee shall have the following specific powers: (i) to determine the terms and conditions upon which the Awards may be made and exercised; (ii) to determine all terms and provisions of each Agreement, which need not be identical; (iii) to construe and interpret the Agreements and the Plan; (iv) to establish, amend, or waive rules or regulations for the Plan’s administration; (v) to accelerate the exercisability of any Award; and (vi) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan. All expenses of administering this Plan shall be borne by the Company.

ARTICLE IV

GRANT OF OPTIONS

On each Date of Grant during the term of the Plan, each Participant automatically will receive an Option for shares of Common Stock determined in accordance with the following schedule:

<u>Date of Grant</u>	<u>Number of Shares Subject to Option</u>
September 1, 1998	1,000
May 1, 1999	1,000
May 1, 2000	1,000
May 1, 2001	1,000
May 1, 2002	1,000
May 1, 2003	1,000
May 1, 2004	1,000
May 1, 2005	1,000
May 1, 2006	1,000
May 1, 2007	1,000
May 1, 2008	1,000

At the discretion of the Committee, the number of shares subject to the automatic option may be increased up to 250 shares per year per participant, on a cumulative basis (1,250 shares in 1999, 1,500 shares in 2000, etc.), during the term of the Plan, subject to a maximum of 2,000 shares granted per year per participant. Any deferred increase may be applied in a subsequent year (e.g., if there is no increase in 1999, 1,750 shares may be granted in 2000). Such increase shall be evidenced by an appropriate resolution adopted by a majority of the members of the Board. All Options shall be evidenced by Agreements which shall be subject to the applicable provisions of the Plan and to such other provisions as the Committee may adopt.

ARTICLE V

STOCK SUBJECT TO OPTIONS

Upon the exercise of any Option, the Company may deliver to the Participant (or the Participant's broker if the Participant so directs) authorized but unissued Common Stock. The maximum aggregate number of shares of Common Stock that may be issued pursuant to the exercise of Options under this Plan is 150,000, subject to adjustment as provided in Article IX. If an Option is terminated, in whole or in part, for any reason other than its exercise, the number of shares of Common Stock allocated to the Option or portion thereof may be reallocated to other Options to be granted under this Plan.

ARTICLE VI

OPTION PRICE

The price per share for Common Stock purchased on the exercise of an Option shall be the share's Fair Market Value.

ARTICLE VII

EXERCISE OF OPTIONS

- 7.01. Maximum Option Period. No Option shall be exercisable after the expiration of ten years from its Date of Grant.
- 7.02. Nontransferability. Options granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. During the lifetime of the Participant to whom the Option is granted, the Option may be exercised only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

ARTICLE VIII

METHOD OF EXERCISE OF OPTIONS

- 8.01. Exercisability of Options. Subject to the provisions of Section 8.04 and Articles VII and X hereof, an Option becomes exercisable on April 30 in the calendar year following its Date of Grant. However, an Option granted to a Participant shall be immediately exercisable if the Participant's membership on the Board terminates as a result of the Participant's retirement in accordance with the Company's, or any of its subsidiaries', policies, death or permanent and total disability (as such term is defined in Section 22(e)(3) of the Code) or a Change in Control. An Option shall be forfeited if, as of the termination of the Participant's membership on the Board, the Option is not then exercisable and such termination occurs for any reason other than the Participant's retirement in accordance with Company's, or any of its subsidiaries' policies, death or disability (as defined above) or a Change in Control. Options that are exercisable or that become exercisable upon the Participant's termination of membership on the Board will remain exercisable until the tenth anniversary of the Option's Date of Grant. An Option may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to the shares remaining subject to the Option.
- 8.02. Payment. Unless otherwise provided by the Agreement, payment of the Option price shall be made in cash or a cash equivalent acceptable to the Board. In addition, all or part of the Option price may be paid by surrendering shares of Common

Stock to the Company. If Common Stock is used to pay all or part of the Option price, the shares surrendered must have a fair market value that is not less than such price or part thereof. For purposes of this paragraph 8.02 only, the fair market value of the surrendered shares shall be based on the closing price on the most recent date immediately prior to the date of exercise (or, if there are no trades on such date, then the next preceding date upon which a closing price is available) of the Common Stock as reported on NASDAQ (or other applicable listing service or exchange used by the Company).

- 8.03. Shareholder Rights. No Participant shall have any rights as a shareholder with respect to shares subject to his Option until the date of exercise of such Option.
- 8.04. Change in Control. In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, in its sole discretion may, as to any outstanding Award, either at the time the Award is made or any time thereafter, take any one or more of the following actions: (i) provide for the acceleration of any time periods relating to the exercise or realization of any such Award so that such Award may be exercised or realized in full on or before a date initially fixed; (ii) provide for the purchase or settlement of any such Award by the Company, upon a Participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such Participant's rights had such Award been currently exercisable or payable; (iii) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change in Control; or (iv) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change in Control.

ARTICLE IX

ADJUSTMENT UPON CHANGE IN COMMON STOCK

The number and class of shares subject to each outstanding Option, the Option price, and the annual limits on and the aggregate number and class of shares for which Awards thereafter may be made shall be proportionately, equitably, and appropriately adjusted in such manner as the Committee shall determine in order to retain the economic value or opportunity to reflect any stock dividend, stock split, recapitalization, merger, consolidation, reorganization, reclassification, combination, exchange of shares or similar event in which the number or class of shares is changed without the receipt or payment of consideration by the Company. Any determination made under this Article IX by the Committee shall be final and conclusive.

The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares of obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Awards.

ARTICLE X

COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No Option shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), and applicable requirements of any exchange or other market having authority over the trading of the Company's shares.

ARTICLE XI

GENERAL PROVISIONS

- 11.01. Effect on Service. Neither the adoption of this Plan, its operation, documents describing or referring to this Plan (or any part thereof) shall confer on any Participant any right to continue service as a member of the Board.
- 11.02. Unfunded Plan. The Plan, insofar as it provides for grants, shall be unfunded and the Company shall not be required to segregate any assets that may be represented at any time by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon any contractual obligations that are created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.
- 11.03. Rules of Construction. Headings are given to the articles and sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or provision of law shall be construed to refer to any amendment to or successor of such provision of law.

ARTICLE XII

AMENDMENT

The Board may amend this Plan from time to time; provided that, if the Board determines that shareholder approval is required and the Plan is submitted for such approval and adopted, then no subsequent amendment may become effective until shareholder approval is obtained if the amendment (i) materially increases the aggregate number of shares of Common Stock that may be issued under the Plan, except in accordance with the provisions of Article IX, (ii) materially changes the class of individuals eligible to become Participants or (iii) materially increases the benefits that may accrue to Participants under the Plan, and provided further that the Board may not amend the Plan more than once in any six month period unless such amendment is required to comply with the Code. No amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Option outstanding at the time such amendment is made.

ARTICLE XIII

TERMINATION

The Board may terminate this Plan at any time. This Plan will terminate automatically, without any action of the Board, if, on any Date of Grant, there are insufficient shares available for the grant of Awards in accordance with the terms of the Plan. The termination of this Plan shall not affect any rights of a Participant under any Option outstanding at the time of such termination.

ARTICLE XIV

DURATION OF PLAN

No Award may be granted under this Plan after ten years from the date of the first grant of an Option under the Plan. Options granted on or before such date shall remain valid in accordance with their terms.

ARTICLE XV

EFFECTIVE DATE OF PLAN

This Plan was approved by the Board of Directors of the Company on August 18, 1998. The Effective Date of the Plan shall be September 1, 1998 and no Awards may be granted prior to the Effective Date.

8

[\(Back To Top\)](#)

Section 9: EX-10.8 (AMENDED AND RESTATED C&F FINANCIAL CORPORATION 1999 REGIONAL DIRECTOR STOCK)

EXHIBIT 10.8

AMENDED AND RESTATED
C&F FINANCIAL CORPORATION
1999 REGIONAL DIRECTOR STOCK COMPENSATION PLAN
(as amended December 18, 2007)

ARTICLE I
DEFINITIONS

1.01. Regional Board means the group known as the regional board of the Citizens and Commerce Bank, which is a division of the Bank, or any other regional board of the Company, the Bank (including any other division of the Bank) or any other Subsidiary approved by the Committee for participation in the Plan.

1.02. Affiliate and Associate shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

1.03. Agreement means a written agreement (including any amendment or supplement thereto), sometimes referred to as a Memorandum of Option, between the Company and a Participant specifying the terms and conditions of an Award granted to such Participant.

1.04. Award means an award of Options as provided for hereunder.

1.05. Bank means Citizens and Farmers Bank, or its successors.

1.06. Beneficial Owner shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

1.07. Board means the Board of Directors of the Company.

1.08. Change in Control shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i) any Person (other than the Company, any Subsidiary, a trustee or other fiduciary holding securities under any employee benefit plan of the Company, or its Subsidiaries), who or which, together with all Affiliates and Associates of such Person, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(ii) if, at any time after the Effective Date, the composition of the Board shall change such that a majority of the Board shall no longer consist of Continuing Directors; or

(iii) if at any time, (1) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (2) any Person shall consolidate with or merge with the Company, and the Company shall be the continuing or surviving

corporation and, in connection therewith, all or part of the outstanding Common Stock shall be changed into

or exchanged for stock or other securities of any other Person or cash or any other property, (3) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a subsidiary of any other Person, or (4) the Company shall sell or otherwise transfer 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

1.09. Code means the Internal Revenue Code of 1986, as amended.

1.10. Common Stock means the common stock of the Company.

1.11. Company means C&F Financial Corporation, or its successors.

1.12. Continuing Director means an individual who was a member of the Board on the Effective Date or whose subsequent nomination for election or re-election to the Board was recommended or approved by the affirmative vote of two-thirds of the Continuing Directors then in office.

1.13. Date of Grant means each date as of which an Award is made under the Plan.

1.14. Fair Market Value means the closing price (or, if there are no trades on the Date of Grant, then the next preceding date upon which a closing price is available) of the Common Stock as reported on NASDAQ (or other applicable listing service or exchange used by the Company) on the Option's Date of Grant, or if in the judgment of the Committee there is insufficient recent trading activity to warrant determination of the Fair Market Value solely on the basis of such closing prices on the listing service or exchange, then the Fair Market Value shall be determined as of the Date of Grant in good faith by the Committee.

1.15. Option means a stock option granted pursuant to Article IV, and that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the shares' Fair Market Value.

1.16. Participant means a member of the Regional Board who is not an employee of, or member of the Board of Directors of, the Company, the Bank or any other Subsidiary on the applicable Date of Grant; provided, persons serving on more than one regional board shall be entitled to participate only as to one Award under the Plan per year.

1.17. Person shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

1.18. Plan means the C&F Financial Corporation 1999 Regional Director Stock Compensation Plan.

1.19. Subsidiary shall mean a corporation at least 50% of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more of its Subsidiaries.

ARTICLE II
PURPOSE

The Plan is intended to promote a greater identity of interest between Participants and the Company's shareholders by increasing the Participants' proprietary interest in the Company through the receipt of Awards in the form of Options.

ARTICLE III
ADMINISTRATION

The Plan shall be administered by a Stock Option Committee consisting of one or more persons appointed by the Board who are members of the Board (the "Committee"), and such employees as the Committee shall appropriately designate, who shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. Any decision made, or action taken, by the Committee in connection with the administration of this Plan shall be final and conclusive. All expenses of administering this Plan shall be borne by the Company.

ARTICLE IV
GRANT OF OPTIONS

4.01. Initial Awards. At the first meeting of the Committee after the Effective Date, Options for 1,000 shares of Stock shall be granted to persons then serving on the Regional Board.

4.02. Discretionary Awards. Subject to the terms and provisions of the Plan, Options may be granted at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant.

ARTICLE V
STOCK SUBJECT TO OPTIONS

Upon the exercise of any Option, the Company may deliver to the Participant (or the Participant's broker if the Participant so directs) authorized but unissued Common Stock. The maximum aggregate number of shares of Common Stock that may be issued pursuant to the exercise of Options under this Plan is 25,000, subject to adjustment as provided in Article IX. If an Option is terminated, in whole or in part, for any reason other than its exercise, the number of shares of Common Stock allocated to the Option or portion thereof may be reallocated to other Options to be granted under this Plan.

ARTICLE VI
OPTION PRICE

The price per share for Common Stock purchased on the exercise of an Option shall be the share's Fair Market Value.

ARTICLE VII
EXERCISE OF OPTIONS

7.01. Maximum Option Period. No Option shall be exercisable after the expiration of ten years from its Date of Grant.

7.02. Nontransferability. Options granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. During the lifetime of the Participant to whom the Option is granted, the Option may be exercised only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

ARTICLE VIII
METHOD OF EXERCISE OF OPTIONS

8.01. Exercisability of Options. Subject to the provisions of Section 8.04 and Articles VII and X hereof, one-third of each Option shall become exercisable on the first anniversary of its Date of Grant, the second one-third of each Option shall become exercisable on the second anniversary of its Date of Grant, and the final one-third of each Option shall become exercisable on the third anniversary of its Date of Grant. However, an Option granted to a Participant shall be immediately exercisable in full if the Participant's membership on the Regional Board terminates as a result of the Participant's retirement in accordance with the Regional Board's or the Company's, the Bank's or any other Subsidiary's applicable policy, death or permanent and total disability (as such term is defined in Section 22(e)(3) of the Code) or upon the occurrence of a Change in Control. An Option shall be forfeited if, as of the termination of the Participant's membership on the Regional Board, the Option is not then exercisable and such termination occurs for any reason other than the Participant's retirement in accordance with the Regional Board's or the Company's, the Bank's or any other Subsidiary's applicable policy, death or disability (as defined above) or the occurrence of a Change in Control. For purposes of determining exercisability and forfeiture, promotion to service on the board of directors of the Company, the Bank or another Subsidiary of the Company will be considered continuing service as an Regional Director. Options that are exercisable or that become exercisable upon the Participant's termination of membership on the Regional Board will remain exercisable until the tenth anniversary of the Option's Date of Grant. An Option may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to the shares remaining subject to the Option.

8.02. Payment. Unless otherwise provided by the Agreement, payment of the Option price shall be made in cash or a cash equivalent acceptable to the Committee. In addition, to the extent provided in the Agreement or otherwise permitted by the Committee, all or part of the Option price may be paid by surrendering shares of Common Stock to the Company. If Common Stock is used to pay all or part of the Option price, the shares surrendered must have a fair market value that is not less than such price or part thereof. For purposes of this paragraph 8.02 only, the fair market value of the surrendered shares shall be based on the closing price on the most recent date immediately prior to the date of exercise (or, if there are no trades on such date, then the next preceding date upon which a closing price is available) of the Common Stock as reported on NASDAQ (or other applicable listing service or exchange used by the Company).

8.03. Shareholder Rights. No Participant shall have any rights as a shareholder with respect to shares subject to his Option until the date of exercise of such Option.

8.04. Change in Control. In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, in its sole discretion may, as to any outstanding Award, either at the time the Award is made or any time thereafter, take any one or more of the following actions: (i) provide for the acceleration of any time periods relating to the exercise or realization of any such Award so that such Award may be exercised or realized in full on or before a date initially fixed; (ii) provide for the purchase or settlement of any such Award by the Company, upon a Participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such Participant's rights had such Award been currently exercisable or payable; (iii) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change in Control; or (iv) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change in Control.

ARTICLE IX ADJUSTMENT UPON CHANGE IN COMMON STOCK

The number and class of shares subject to each outstanding Award, the Option price, and the aggregate number and class of shares for which Awards thereafter may be made shall be proportionately, equitably, and appropriately adjusted in such manner as the Committee shall determine in order to retain the economic value or opportunity to reflect any stock dividend, stock split, recapitalization, merger, consolidation, reorganization, reclassification, combination, exchange of shares or similar event in which the number or class of shares is changed without the receipt or payment of consideration by the Company. Any determination made under this Article IX by the Committee shall be final and conclusive.

The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares of obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Awards.

ARTICLE X
COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No Option shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), and applicable requirements of any exchange or other market having authority over the trading of the Company's shares.

ARTICLE XI
GENERAL PROVISIONS

11.01. Effect on Service. Neither the adoption of this Plan, its operation, documents describing or referring to this Plan (or any part thereof) shall confer on any Participant any right to continue service as a member of the Regional Board.

11.02. Unfunded Plan. The Plan, insofar as it provides for grants, shall be unfunded and the Company shall not be required to segregate any assets that may be represented at any time by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon any contractual obligations that are created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

11.03. Rules of Construction. Headings are given to the articles and sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or provision of law shall be construed to refer to any amendment to or successor of such provision of law.

ARTICLE XII
AMENDMENT

The Board may amend this Plan from time to time; provided that, if the Board determines that shareholder approval is required and the Plan is submitted for such approval and adopted, then no subsequent amendment may become effective until shareholder approval is obtained if the amendment (i) materially increases the aggregate number of shares of Common Stock that may be issued under the Plan, except in accordance with the provisions of Article IX, (ii) materially changes the class of individuals eligible to become Participants or (iii) materially increases the benefits that may accrue to Participants under the Plan, and provided further that the Board may not amend the Plan more than once in any six month period unless such amendment is required to comply with the Code. No amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Option outstanding at the time such amendment is made.

ARTICLE XIII
TERMINATION

The Board may terminate this Plan at any time. This Plan will terminate automatically, without any action of the Board, if, on any Date of Grant, there are insufficient shares available for the grant of Awards in accordance with the terms of the Plan. The termination of this Plan shall not affect any rights of a Participant under any Option outstanding at the time of such termination.

ARTICLE XIV
DURATION OF PLAN

No Award may be granted under this Plan after ten years from the Effective Date of the Plan. Options granted on or before such date shall remain valid in accordance with their terms.

ARTICLE XV
EFFECTIVE DATE OF PLAN

This Plan was approved by the Board of Directors of the Company on October 19, 1999. The Effective Date of the Plan shall be October 19, 1999 and no Awards may be granted prior to the Effective Date.

7

[\(Back To Top\)](#)

Section 10: EX-10.10 (AMENDED AND RESTATED C&F FINANCIAL CORPORATION 2004 INCENTIVE STOCK PLAN)

EXHIBIT 10.10

**AMENDED AND RESTATED
C&F FINANCIAL CORPORATION
2004 INCENTIVE STOCK PLAN
(As Amended and Restated December 18, 2007)**

**ARTICLE I
Establishment, Purpose, and Duration**

1.1 **Establishment and Amendment of the Plan.** C&F Financial Corporation, a Virginia corporation (the “Company”), hereby amends and restates its 2004 Incentive Stock Plan. The Plan as so amended and restated shall be known as the “Amended and Restated 2004 Incentive Stock Plan”, as set forth in this document. Unless otherwise defined herein, all capitalized terms shall have the meanings set forth in Section 2.1 herein. The Plan permits the grant of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units.

The Plan was originally adopted by the Board of Directors of the Company on February 17, 2004, and became effective on May 1, 2004 (the “Effective Date”), upon approval by vote of shareholders of the Company in accordance with applicable laws. The Plan was amended and restated by the Board of Directors of the Company on December 18, 2007 to (i) add Non-Employee Directors as Participants under the Plan, (ii) require mandatory adjustments to retain the economic value or opportunity of outstanding Awards in the event of certain capital adjustments, (iii) change the definition of Fair Market Value for Awards made after December 18, 2007, (iv) to expand the definition of Subsidiary to include non-corporate entities, (v) to make certain changes in connection with the potential applicability of Section 409A of the Code to Awards under the Plan and (vi) to permit the award of Restricted Stock Units, as well as to clarify certain terms and provisions of the Plan (the “Plan Amendments”).

The Plan Amendments to add Non-Employee Directors as Participants under the Plan, to expand the definition of Subsidiary and to permit the award of Restricted Stock Units will only become effective upon approval of such Plan Amendments by vote of shareholders of the Company in accordance with applicable laws. Awards to Non-Employee Directors under the Plan, Awards to persons who are not Key Employees of the Company or any Subsidiary (as defined prior to the Plan Amendments) and Awards of Restricted Stock Units may not be granted prior to the date of such shareholder approval.

1.2 **Purpose of the Plan.** The purpose of the Plan is to promote the success of the Company and its Subsidiaries by providing incentives to Key Employees and Non-Employee Directors that will promote the identification of their personal interest with the long-term financial success of the Company and with growth in shareholder value. The Plan is designed to provide flexibility to the Company and its Subsidiaries, in its ability to motivate, attract, and retain the services of Key Employees and Non-Employee Directors upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

1.3 **Duration of the Plan.** The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article XII herein, until April 30, 2014, at which time it shall terminate except with respect to Awards made prior to, and outstanding on, that date which shall remain valid in accordance with their terms.

ARTICLE II
Definitions

2.1 Definitions. Except as otherwise defined in the Plan, the following terms shall have the meanings set forth below:

(a) “Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

(b) “Agreement” means a written agreement implementing the grant of each Award signed by an authorized officer of the Company and by the Participant.

(c) “Award” means, individually or collectively, a grant under this Plan of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights, Restricted Stock, and Restricted Stock Units.

(d) “Award Date” or “Grant Date” means the date on which an Award is made by the Committee under this Plan.

(e) “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

(f) “Board” or “Board of Directors” means the Board of Directors of the Company, unless otherwise indicated.

(g) “Change in Control” shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i) any Person (other than the Company, any Subsidiary, a trustee or other fiduciary holding securities under any employee benefit plan of the Company, or its Subsidiaries), who or which, together with all Affiliates and Associates of such Person, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities; or

(ii) if, at any time after the Effective Date, the composition of the Board of Directors of the Company shall change such that a majority of the Board of the Company shall no longer consist of Continuing Directors; or

(iii) if at any time, (A) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (B) any Person shall consolidate with or merge with the Company, and the Company shall be the continuing or surviving corporation and, in connection therewith, all or part of the outstanding Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, (C) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a subsidiary of any other Person, or (D) the Company shall sell or otherwise transfer 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

(h) “Code” means the Internal Revenue Code of 1986, as amended from time to time.

(i) “Committee” means the committee of the Board appointed to administer the Plan pursuant to Article III herein, all of the members of which shall be “non-employee directors” as defined in Rule 16b-3, as amended, under the Exchange Act, or any similar or successor rule, and “outside directors” within the meaning of Section 162(m)(4)(C)(i) of the Code, as amended. Unless otherwise determined by the Board, the Committee shall consist of compensation committee of the Board.

(j) “Company” means C&F Financial Corporation, or any successor thereto as provided in Article XIV herein.

(k) “Continuing Director” means an individual who was a member of the Board of Directors of the Company on the Effective Date or whose subsequent nomination for election or re-election to the Board of Directors of the Company was recommended or approved by the affirmative vote of two-thirds of the Continuing Directors then in office.

(l) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(m) “Fair Market Value” of a Share means: (i) with respect to Awards made prior to December 18, 2007, the fair market value as determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose; or (ii) (A) with respect to Awards made on or after December 18, 2007, the closing market price (that is, the price at which last sold on the applicable principal U.S. market) of the Stock on the relevant date if it is a trading date or, if not, on the most recent date on which the Stock was traded prior to such date, as reported by the NASDAQ Stock Market, or (B) if, in the opinion of the Committee, the respective method is inapplicable or inappropriate for any reason, the fair market value as determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose.

(n) “Incentive Stock Option” or “ISO” means an option to purchase Stock, granted under Article VI herein, which is designated as an incentive stock option and is intended to meet the requirements of Section 422 of the Code.

(o) “Key Employee” means an officer or other key employee of the Company or its Subsidiaries, who, in the opinion of the Committee, can contribute significantly to the growth and profitability of, or perform services of major importance to, the Company and its Subsidiaries.

(p) “Non-Employee Director” means an individual who is a member of the Board of the Company or a Subsidiary or the group known as the “regional” or “advisory” board of the Company or any Subsidiary (including any division of a Subsidiary) and, in either case, who is not an employee of the Company or a Subsidiary. For purposes hereof the term Subsidiary includes any corporation, partnership, limited liability company, or joint venture, which becomes a Subsidiary after the adoption of the Plan by the Board.

(q) “Non-qualified Stock Option” or “NQSO” means an option to purchase Stock, granted under Article VI herein, which is not intended to be an Incentive Stock Option.

(r) “Option” means an Incentive Stock Option or a Non-qualified Stock Option.

(s) "Participant" means a Key Employee or Non-Employee Director who is granted an Award under the Plan.

(t) "Performance Criteria" means one or more specified performance goals, which may be stated in terms of the value of the Stock, return on equity, earnings per share, total earnings, earnings growth, return on assets, or return on capital, with respect to Awards of Restricted Stock pursuant to Article VIII herein.

(u) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is restricted or the earning and vesting of Restricted Stock Units occur, pursuant to Article VIII or IX herein.

(v) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

(w) "Plan" means the C&F Financial Corporation 2004 Incentive Stock Plan, as described and as hereafter from time to time amended.

(x) "Related Option" means an Option with respect to which a Stock Appreciation Right has been granted.

(y) "Restricted Stock" means an Award of Stock granted to a Participant pursuant to Article VIII herein.

(z) "Restricted Stock Unit" means an Award, designated as a Restricted Stock Unit, which is a bookkeeping entry granted to a Participant pursuant to Article IX herein and valued by reference to the Fair Market Value of a Share, which is subject to restrictions and forfeiture until the designated conditions for the lapse of the restrictions are satisfied. A Restricted Stock Unit is sometimes referred to as a "Restricted Unit." Restricted Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Committee.

(aa) "Stock" or "Shares" means the common stock of the Company.

(bb) "Stock Appreciation Right" or "SAR" means an Award, designated as a stock appreciation right, granted to a Participant pursuant to Article VII herein.

(cc) "Subsidiary" shall mean any subsidiary corporation of the Company within the meaning of Section 424(f) of the Code ("Section 424(f) Corporation") and any partnership, limited liability company or joint venture in which either the Company or a Section 424(f) Corporation is at least a fifty percent (50%) equity participant.

ARTICLE III Administration

3.1 The Committee. The Plan shall be administered by the Committee which shall have all powers necessary or desirable for such administration. The express grant in this Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. In addition to any other powers and subject to the provisions of the Plan, the Committee shall have the following specific powers: (i) to determine the terms and conditions upon which the Awards may be made and exercised;

(ii) to determine all terms and provisions of each Agreement, which need not be identical; (iii) to construe and interpret the Agreements and the Plan; (iv) to establish, amend, or waive rules or regulations for the Plan's administration; (v) to accelerate the exercisability of any Award or the termination of any Period of Restriction or other restrictions with respect to Restricted Stock; and (vi) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

3.2 Selection of Participants. The Committee shall have the authority to grant Awards under the Plan, from time to time, to such Key Employees and/or Non-Employee Directors as may be selected by it to be Participants. Each Award shall be evidenced by an Agreement.

3.3 Decisions Binding. All determinations and decisions made by the Board or the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding.

3.4 Requirements of Rule 16b-3 and Code Section 162(m). Notwithstanding any other provision of the Plan, the Board or the Committee may impose such conditions on any Award, and amend the Plan in any such respects, as may be required to satisfy the requirements of Rule 16b-3, as amended (or any successor or similar rule), under the Exchange Act.

Any provision of the Plan to the contrary notwithstanding, and except to the extent that the Committee determines otherwise: (i) transactions by and with respect to officers and directors of the Company who are subject to Section 16(b) of the Exchange Act (hereafter, "Section 16 Persons") shall comply with any applicable conditions of SEC Rule 16b-3; (ii) transactions with respect to persons whose remuneration is subject to the provisions of Section 162(m) of the Code shall conform to the requirements of Section 162(m)(4)(C) of the Code; and (iii) every provision of the Plan shall be administered, interpreted, and construed to carry out the foregoing provisions of this sentence.

Notwithstanding any provision of the Plan to the contrary, the Plan is intended to give the Committee the authority to grant Awards that qualify as performance-based compensation under Code Section 162(m)(4)(C) as well as Awards that do not so qualify. Every provision of the Plan shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded; and any provision of the Plan that would prevent an Award that the Committee intends to qualify as performance-based compensation under Code Section 162(m)(4)(C) from so qualifying shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded.

3.5 Indemnification. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit, or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted or made hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit, or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company and its Subsidiaries.

ARTICLE IV
Stock Subject to the Plan

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3 herein, the maximum aggregate number of Shares that may be issued pursuant to Awards made under the Plan shall not exceed 500,000. Except as provided in Section 4.2 herein, the issuance of Shares in connection with the exercise of, or as other payment for Awards, under the Plan shall reduce the number of Shares available for future Awards under the Plan.

4.2 Lapsed Awards or Forfeited Shares. If any Award granted under this Plan (for which no material benefits of ownership have been received, including dividends) terminates, expires, or lapses for any reason other than by virtue of exercise of the Award, or if Shares issued pursuant to Awards (for which no material benefits of ownership have been received, including dividends) are forfeited, any Stock subject to such Award again shall be available for the grant of an Award under the Plan, subject to Section 7.2.

4.3 Capital Adjustments. The number and class of Shares subject to each outstanding Award, the Option Price, and the annual limits on and the aggregate number and class of Shares for which Awards thereafter may be made shall be proportionately, equitably, and appropriately adjusted in such manner as the Committee shall determine in order to retain the economic value or opportunity to reflect any stock dividend, stock split, recapitalization, merger, consolidation, reorganization, reclassification, combination, exchange of shares or similar event in which the number or class of Shares is changed without the receipt or payment of consideration by the Company. Where an Award being adjusted is an ISO or is subject to Section 409A of the Code, the adjustment shall also be effected so as to comply with Section 424(a) of the Code and not to constitute a modification within the meaning of Section 424(h) or 409A, as applicable, of the Code.

ARTICLE V
Eligibility

Persons eligible to participate in the Plan and receive Awards are all employees of the Company and its Subsidiaries and all Non-Employee Directors who, in the opinion of the Committee, merit becoming Participants.

ARTICLE VI
Stock Options

6.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Key Employees and/or Non-Employee Directors at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant, provided, however, that (i) no Participant may be granted Options in any calendar year for more than 25,000 Shares, (ii) the aggregate Fair Market Value (determined at the time the Award is made) of Shares with respect to which any Participant may first exercise ISOs granted under the Plan during any calendar year may not exceed \$100,000 or such amount as shall be specified in Section 422 of the Code and rules and regulations thereunder, (iii) no ISO may be granted on or following the tenth anniversary of the earlier of the Effective Date of the Plan or the date of shareholder approval of the Plan, and (iv) no ISO may be granted to a Non-Employee Director.

6.2 Option Agreement. Each Option grant shall be evidenced by an Agreement that shall specify the type of Option granted, the Option Price (as defined in Section 6.3 herein), the duration of the Option, the number of Shares to which the Option pertains, any conditions imposed upon the exercisability of Options in the event of retirement, death, disability or other termination of employment,

and such other provisions as the Committee shall determine. The Agreement shall specify whether the Option is intended to be an Incentive Stock Option within the meaning of Section 422 of the Code, or Non-qualified Stock Option not intended to be within the provisions of Section 422 of the Code, provided, however, that if an Option is intended to be an Incentive Stock Option but fails to be such for any reason, it shall continue in full force and effect as a Non-Qualified Stock Option.

6.3 Option Price. The exercise price per Share of Stock covered by an Option ("Option Price") shall be determined by the Committee subject to the following limitations. The Option Price shall not be less than 100% of the Fair Market Value of such Stock on the Grant Date. In addition, an ISO granted to an employee who, at the time of grant, owns (within the meaning of Section 424(d) of the Code) Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company, shall have an Option Price which is at least equal to 110% of the Fair Market Value of the Stock.

6.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, no ISO shall be exercisable after the expiration of ten years from its Award Date. In addition, an ISO granted to a Key Employee who, at the time of grant, owns (within the meaning of Section 424(d) of the Code) Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company, shall not be exercisable after the expiration of five years from its Award Date.

6.5 Exercisability. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine, which need not be the same for all Participants.

6.6 Method of Exercise. Options shall be exercised by the delivery of a written notice to the Company in the form prescribed by the Committee setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price shall be payable to the Company in full either in cash, by delivery of Shares of Stock valued at Fair Market Value at the time of exercise, by delivery of a promissory note (in the Committee's discretion and subject to restrictions and prohibitions of applicable law) or by a combination of the foregoing. As soon as practicable after receipt of written notice and payment, the Company shall deliver to the Participant, stock certificates in an appropriate amount based upon the number of Options exercised, issued in the Participant's name. No Participant who is awarded Options shall have rights as a shareholder until the date of exercise of the Options.

6.7 Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under the applicable Federal securities law, under the requirements of the National Association of Securities Dealers, Inc. or any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares. In addition to applicable restrictions under Article VI herein, the Committee may impose such restrictions on any Shares delivered to a Participant in settlement of an Option as it may deem advisable in its sole and absolute discretion, including, without limitation, restricting transferability and/or designating such Shares as Restricted Stock or Stock subject to further service, performance, consulting or noncompetition period after settlement. Each certificate representing such Shares shall bear a legend referencing the restrictions on such Stock, which legend may be similar to legend placed on certificates pursuant to Section 8.5 herein.

6.8 Nontransferability of Options. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all Options granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

6.9 Disqualifying Disposition of Stock Issued on Exercise of an ISO. If a Participant makes a “disposition” (within the meaning of Section 424 (c) of the Code) of Shares issued upon exercise of an ISO within two years from the date of grant or within one year from the date the Shares of Stock are transferred to the Participant, the Participant shall, within ten days of disposition, to notify the Committee in order that any income realized as a result of such disposition can be properly reported by the Company on IRS forms W-2 or 1099.

ARTICLE VII Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, Stock Appreciation Rights may be granted to Key Employees and/or Non-Employee Directors, at the discretion of the Committee in connection with the grant, and exercisable in lieu of Options (“Tandem SARs”). No Participant may be granted more than 25,000 Tandem SARs in any calendar year.

7.2 Exercise of Tandem SARs. Tandem SARs may be exercised with respect to all or part of the Shares subject to the Related Option. The exercise of Tandem SARs shall cause a reduction in the number of Shares subject to the Related Option equal to the number of Shares with respect to which the Tandem SAR is exercised. Conversely, the exercise, in whole or in part, of a Related Option, shall cause a reduction in the number of Shares subject to the Related Option equal to the number of Shares with respect to which the Related Option is exercised. Shares with respect to which the Tandem SAR shall have been exercised may not be subject again to an Award under the Plan.

Notwithstanding any other provision of the Plan to the contrary, a Tandem SAR shall expire no later than the expiration of the Related Option, shall be transferable only when and under the same conditions as the Related Option and shall be exercisable only when the Related Option is eligible to be exercised. In addition, if the Related Option is an ISO, a Tandem SAR shall be exercised for no more than 100% of the difference between the Option Price of the Related Option and the Fair Market Value of Shares subject to the Related Option at the time the Tandem SAR is exercised.

7.3 Other Conditions Applicable to Tandem SARs. No Tandem SAR shall be exercisable after the expiration of ten years from its Award Date; and the term of any Tandem SAR granted under the Plan shall not exceed ten years from the Grant Date. A Tandem SAR may be exercised only when the Fair Market Value of a Share exceeds the Option Price of the Related Option. A Tandem SAR shall be exercised by delivery to the Committee of a notice of exercise in the form prescribed by the Committee.

7.4 Payment Upon Exercise of Tandem SARs. Subject to the provisions of the Agreement, upon the exercise of a Tandem SAR, the Participant is entitled to receive, without any payment to the Company (other than required tax withholding amounts), an amount equal to the product of multiplying (i) the number of Shares with respect to which the Tandem SAR is exercised by (ii) an amount equal to the excess of (A) the Fair Market Value per Share on the date of exercise of the Tandem SAR over (B) the Option Price of the Related Option.

Payment to the Participant shall be made in Shares, valued at the Fair Market Value of the date of exercise, in cash if the Participant has so elected in his written notice of exercise and the Committee has consented thereto, or a combination thereof. To the

extent required to satisfy the conditions of Rule 16b-3(e) under the Exchange Act, or any successor or similar rule, or as otherwise provided in the Agreement, the Committee shall have the sole discretion to consent to or disapprove the election of any Participant to receive cash in full or partial settlement of a Tandem SAR. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or within such period for taking action as is specified in the election, and failure to give consent shall be disapproval. Consent may be given in whole or as to a portion of the Tandem SAR surrendered by the Participant. If the election to receive cash is disapproved in whole or in part, the Tandem SAR shall be deemed to have been exercised for Shares, or, if so specified in the notice of exercise and election, not to have been exercised to the extent the election to receive cash is disapproved.

7.5 Nontransferability of Tandem SARs. No Tandem SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all Tandem SARs granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

7.6 Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an SAR under the Plan as it may deem advisable, including, without limitation, restrictions under the applicable Federal securities law, under the requirements of the National Association of Securities Dealers, Inc. or any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares. In addition to applicable restrictions under Article VII herein, the Committee may impose such restrictions on any Shares delivered to a Participant in settlement of an SAR as it may deem advisable in its sole and absolute discretion, including, without limitation, restricting transferability and/or designating such Shares as Restricted Stock or Stock subject to further service, performance, consulting or noncompetition period after settlement. Each certificate representing such Shares shall bear a legend referencing the restrictions on such Stock, which legend may be similar to legend placed on certificates pursuant to Section 8.5 herein.

ARTICLE VIII

Restricted Stock

8.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock under the Plan to such Key Employees and/or Non-Employee Directors and in such amounts as it shall determine, provided, however, that no Participant may be granted Restricted Stock Awards and Restricted Stock Unit Awards in any calendar year for more than 15,000 shares of Stock. Participants receiving Restricted Stock Awards are not required to pay the Company therefor (except for applicable tax withholding) other than by the rendering of services.

8.2 Restricted Stock Agreement. Each Restricted Stock grant shall be evidenced by an Agreement that shall specify the number of Restricted Stock Shares granted, the applicable Period of Restriction, Performance Criteria or other restrictions and provisions as the Committee shall determine.

8.3 Transferability. Except as provided in this Article and subject to the limitation in the next sentence, the Shares of Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction and/or the satisfaction of any Performance Criteria or other restrictions specified by the Committee in its sole discretion and set forth in the Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

8.4 Other Restrictions. The Committee may impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. Unless otherwise determined by the Committee, custody of Shares of Restricted Stock shall be retained by the Company until the termination of the restrictions pertaining thereto.

8.5 Certificate Legend. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing Shares of Restricted Stock granted pursuant to the Plan shall bear the following legend:

The sale or other transfer of the Shares of Stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer set forth in the C&F Financial Corporation Amended and Restated 2004 Incentive Stock Plan, in the rules and administrative procedures adopted pursuant to such Plan, and in an Agreement dated _____. A copy of the Plan, such rules and procedures, and such Restricted Stock Agreement may be obtained from the Secretary of C&F Financial Corporation.

8.6 Removal of Restrictions. Except as otherwise provided in this Article, Shares of Restricted Stock covered by each Restricted Stock Award made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction or on the day immediately following the date on which the Performance Criteria have been timely satisfied, as applicable. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.5 herein removed from his Stock certificate.

8.7 Voting Rights. Participants entitled to or holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares while subject to restrictions hereunder.

8.8 Dividends and Other Distributions. Unless otherwise provided in the Agreement, while subject to restrictions hereunder, Participants entitled to or holding Shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those Shares while they are so held. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and the same rules for custody as the Shares of Restricted Stock with respect to which they were distributed.

8.9 Termination of Employment Due to Retirement. Unless otherwise provided in the Agreement, in the event that a Participant who receives an Award as a Key Employee terminates his employment with the Company or one of its Subsidiaries because of normal retirement (as defined in the rules of the Company in effect at the time), any restrictions applicable to the Restricted Stock Shares pursuant to Section 8.3 herein shall automatically terminate and, except as otherwise provided in Section 8.4 herein the Shares of Restricted Stock shall thereby be free of restrictions and freely transferable. Unless otherwise provided in the Agreement, in the event that a Participant who receives an Award as a Key Employee terminates his employment with the Company because of early retirement (as defined in the rules of the Company in effect at the time), the Committee, in its sole discretion, may waive the restrictions remaining on any or all Shares of Restricted Stock pursuant to Section 8.3 herein and add such new restrictions to those Shares of Restricted Stock as it deems appropriate.

8.10 Termination of Employment Due to Death or Disability. Unless otherwise provided in the Agreement, in the event the employment of a Participant who receives an Award as a Key Employee is terminated because of death or disability while subject to restrictions hereunder, any remaining restrictions applicable to the Restricted Stock pursuant to Section 8.3 herein shall automatically terminate and, except as otherwise provided in Section 8.4 herein the Shares of Restricted Stock shall thereby be free of restrictions and fully transferable.

8.11 Termination of Employment for Other Reasons. Unless otherwise provided in the Agreement, in the event that a Participant who receives an Award as a Key Employee terminates his employment with the Company for any reason other than for death, disability, or retirement, as set forth in Sections 8.9 and 8.10 herein, while subject to restrictions hereunder, then any Shares of Restricted Stock still subject to restrictions as of the date of such termination shall automatically be forfeited and returned to the Company

8.12 Termination of Service of a Non-Employee Director. The Committee may provide in the applicable Agreement similar or other provisions to those provided for in Sections 8.9, 8.10 and 8.11 in connection with Restricted Stock granted to Non-Employee Directors.

8.13 Failure to Satisfy Performance Criteria. In the event that the specified Performance Criteria are established with respect to an Award and not satisfied within the time period established by the Committee, the Shares of Restricted Stock which were awarded subject to the satisfaction of such performance goals shall be automatically forfeited and returned to the Company.

ARTICLE IX

Restricted Stock Units

9.1 Grant of Restricted Stock Units. Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock Units under the Plan (with one Restricted Stock Unit representing one Share) to such Employees and/or Non-Employee Directors and in such amounts as it shall determine, provided, however, that no Participant may be granted Restricted Stock Awards and Restricted Stock Unit Awards in any calendar year for more than 15,000 shares of Stock. Participants receiving Restricted Stock Unit Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services.

9.2 Restricted Stock Unit Agreement. Each Restricted Stock Unit Award shall be evidenced by an Agreement that shall specify the Period of Restriction, the number of Restricted Stock Units granted, and the applicable restrictions (whether service-based restrictions, with or without performance acceleration, and/or performance-based restrictions) and such other provisions as the Committee shall determine. If a Restricted Stock Unit Award is intended to be a performance-based compensation Award, the terms and conditions of such Award, including the Performance Criteria and Period of Restriction and, if different, performance period, shall be set forth in an Agreement, and the requirements to satisfy or achieve the performance goal(s) as so provided therein shall be considered to be restrictions under the Plan.

9.3 Transferability. Except as provided in this Article and subject to the limitation in the next sentence, the Restricted Stock Units granted hereunder and the rights thereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction and/or the satisfaction of any Performance Criteria or other restrictions specified by the Committee in its sole discretion and set forth in the Agreement. All rights with respect to the Restricted Stock Units granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

9.4 Dividends and Other Distributions. Unless otherwise provided in the Agreement (which may or may not provide for the current payment, or for the accumulation subject to the same restrictions, vesting, forfeiture, and payment as the Restricted Stock Units to which they are attributable, of dividends and other distributions made in cash or property other than Shares), during the Period of Restriction, Participants holding Restricted Stock Units shall have no rights to dividends and other distributions made in cash or property other than Shares which would have been paid with respect to the Shares represented by those Restricted Stock Units if such Shares were outstanding. Participants holding Restricted Stock Units shall have no right to vote the Shares represented by such Restricted Stock Units until such Shares are actually issued. Unless otherwise provided in the Agreement, if any deemed dividends or other distributions would be paid in Shares, such Shares shall be considered to increase the Participant's Restricted Stock Units with respect to which they were declared based on one Share equaling one Restricted Stock Unit. In addition, unless otherwise provided in the Agreement, during the Period of Restriction, any such deemed dividends and other distributions for which rights are provided but which are not paid currently shall be deemed converted to additional Restricted Stock Units based on the Fair Market Value of a Share on the date of payment or distribution of the deemed dividend or distribution.

9.5 Settlement after Lapse of Restrictions. Subject to the provisions of the Agreement, upon the lapse of restrictions with respect to a Restricted Stock Unit, the Participant is entitled to receive, without any payment to the Company (other than required tax withholding amounts), an amount or number of Shares having a Fair Market value equal to the product of multiplying (i) the number of Units with respect to which the restrictions lapse by (ii) the Fair Market Value per Share on the date the restrictions lapse (such amount, the "RSU Value").

The Agreement may provide for payment of the RSU Value at the time of vesting or, on an elective or non-elective basis, for payment of the RSU Value at a later date, adjusted (if so provided in the Agreement) from the date of vesting based on an interest, dividend equivalent, earnings, or other basis (including deemed investment of the RSU Value in Shares) set out in the Agreement (the "adjusted RSU Value"). The Committee is expressly authorized to grant Restricted Stock Units which are deferred compensation covered by Section 409A of the Code, as well as Restricted Stock Units which are not deferred compensation covered by Section 409A of the Code.

Payment of the RSU Value or adjusted RSU Value to the Participant shall be made in cash or Shares as provided in the Agreement, valued at the Fair Market Value on the date or dates the restrictions on the Award lapse in the case of an immediate payment after vesting, or at the Fair Market Value on the date of settlement in the event of an elective or non-elective delayed payment. Any payment in Shares shall be effected in book entry or electronic form, provided that issuance and delivery in certificated form shall occur if the Participant so requests in writing or the Committee so directs.

9.6 Incorporation of Sections 8.9, 8.10, 8.11, 8.12 and 8.13 by Reference. Unless otherwise provided in the Agreement, the provisions of Sections 8.9, 8.10, 8.11, 8.12 and 8.13 shall apply to Restricted Stock Units awarded under the Plan.

9.7 Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to an Award of Restricted Stock Units under the Plan as it may deem advisable, including, without limitation, restrictions under the applicable Federal securities law, under the requirements of the National Association of Securities Dealers, Inc. or any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares. In addition

to applicable restrictions under Article XI herein, the Committee may impose such restrictions on any Shares delivered to a Participant in settlement of a Restricted Stock Unit as it may deem advisable in its sole and absolute discretion, including, without limitation, restricting transferability and/or designating such Shares as Restricted Stock or Stock subject to further service, performance, consulting or noncompetition period after settlement. Each certificate representing such Shares shall bear a legend referencing the restrictions on such Stock, which legend may be similar to legend placed on certificates pursuant to Section 8.5 herein.

ARTICLE X
Change in Control

In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, in its sole discretion (except that it may not take any action which would cause any Award not to comply with Section 409A of the Code) may, as to any outstanding Award, either at the time the Award is made or any time thereafter, take any one or more of the following actions: (i) provide for the acceleration of any time periods relating to the exercise or realization of any such Award so that such Award may be exercised or realized in full on or before a date initially fixed by the Committee; (ii) provide for the purchase or settlement of any such Award by the Company, upon a Participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such Participant's rights had such Award been currently exercisable or payable; (iii) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change in Control; or (iv) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change in Control.

ARTICLE XI
Modification, Extension and Renewals of Awards

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Awards, or, if authorized by the Board, accept the surrender of outstanding Awards (to the extent not yet exercised) granted under the Plan and authorize the granting of new Awards pursuant to the Plan in substitution therefor, and the substituted Awards may specify a lower exercise price than the surrendered Awards provided the replacement Awards are not granted until at least six months and a day after the Awards are surrendered, may provide for a longer term than the surrendered Awards, may provide for more rapid vesting and exercisability than the surrendered Awards, or may contain any other provisions that are authorized by the Plan. The Committee may also modify the terms of any outstanding Agreement. Notwithstanding the foregoing, however, no modification of an Award, shall, without the consent of the Participant, adversely affect the rights or obligations of the Participant.

ARTICLE XII
Amendment, Modification and Termination of the Plan

12.1 Amendment, Modification and Termination. At any time and from time to time, the Board may terminate, amend, or modify the Plan. Such amendment or modification may be without shareholder approval except to the extent that such approval is required by the Code, pursuant to the rules under Section 16 of the Exchange Act, by any national securities exchange or system on which the Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto or under any other applicable laws, rules or regulations.

12.2 Awards Previously Granted. No termination, amendment or modification of the Plan other than pursuant to Section 4.3 herein shall in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant.

ARTICLE XIII
Withholding

13.1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, State and local taxes (including the Participant's FICA obligation, if any) required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of this Plan.

13.2 Stock Withholding. With respect to withholding required upon the exercise of Non-qualified Stock Options, or upon the lapse of restrictions on Restricted Stock, or upon the occurrence of any other similar taxable event, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares of Stock having a Fair Market Value equal to the amount required to be withheld. The value of the Shares to be withheld shall be based on Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined. All elections shall be irrevocable and be made in writing, signed by the Participant on forms approved by the Committee in advance of the day that the transaction becomes taxable.

ARTICLE XIV
Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE XV
General

15.1 Requirements of Law. The granting of Awards and the issuance of Shares of Stock under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or self regulatory organizations (i.e., exchanges) as may be required.

15.2 Effect of Plan. The establishment of the Plan shall not confer upon any Employee or Non-Employee Director any legal or equitable right against the Company, a Subsidiary, or the Committee, except as expressly provided in the Plan. The Plan does not constitute an inducement or consideration for the employment or service of any Employee or Non-Employee Director, nor is it a contract between the Company or any of its Subsidiaries and any Employee or Non-Employee Director. Participation in the Plan shall not give any Employee or Non-Employee Director any right to be retained in the employment or service of the Company or any Subsidiary. Except as may be otherwise expressly provided in the Plan or in an Agreement, no Employee or Non-Employee Director who receives an Award shall have rights as a shareholder of the Company prior to the date Shares are issued to the Participant pursuant to the Plan.

15.3 Creditors. The interests of any Participant under the Plan or any Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered.

15.4 Governing Law. The Plan, and all Agreements hereunder, shall be governed, construed and administered in accordance with the laws of the Commonwealth of Virginia and the intention of the Company is that ISOs granted under the Plan qualify as such under Section 422 of the Code.

15.5 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.6 Termination of Employment or Service. Unless otherwise provided in the Agreement pertaining to an Award made on or after December 18, 2007, in the event that a Participant terminates his or her employment or service with the Company and its Subsidiaries for any reason, then the unvested portion of such Award shall automatically be forfeited to the Company. Unless otherwise provided in the Agreement pertaining to an Award made on or after December 18, 2007 or as may be required by applicable law, as well as to Awards made prior to December 18, 2007 if so provided by the Committee, in determining cessation of employment or service, transfers between the Company and/or any Subsidiary shall be disregarded, and changes in status between that of an Employee and a Non-Employee Director shall be disregarded. The Committee may provide in an Agreement made under the Plan for vesting of Awards in connection with the termination of a Participant's employment or service on such basis as it deems appropriate, including, without limitation, any provisions for vesting at death, disability, retirement, or in connection with a Change in Control, with or without the further consent of the Committee. The Agreements evidencing Awards may contain such provisions as the Committee may approve with reference to the effect of approved leaves of absence.

15.7 Non-qualified Deferred Compensation Plan Omnibus Provision. Unless otherwise provided in the applicable Agreement, it is intended that any compensation, benefits, or other remuneration, which is provided pursuant to or in connection with the Plan, which is considered to be non-qualified deferred compensation subject to Section 409A of the Code, shall be provided and paid in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. The Committee is authorized to amend any Agreement and to amend or declare void any election by a Participant as may be determined by it to be necessary or appropriate to evidence or further evidence required compliance with Section 409A of the Code. The Committee, however, shall have no responsibility or liability if any Award is subject to adverse taxation under Section 409A of the Code.

- 15 -

[\(Back To Top\)](#)

Section 11: EX-10.16 (BASE SALARIES FOR NAMED EXECUTIVE OFFICERS OF C&F FINANCIAL CORPORATION)

EXHIBIT 10.16

BASE SALARIES FOR NAMED EXECUTIVE OFFICERS OF C&F FINANCIAL CORPORATION

The following are the base salaries (on an annual basis) in effect as of January 1, 2008 of the named executive officers* of C&F Financial Corporation:

Larry G. Dillon Chairman and Chief Executive Officer	\$243,000
Thomas F. Cherry Executive Vice President and Chief Financial Officer	\$180,000
Bryan E. McKernon President and Chief Executive Officer of C&F Mortgage Corporation	\$195,000

Robert L. Bryant, Executive Vice President and Chief Operating Officer resigned, effective February 29, 2008.

[\(Back To Top\)](#)

Section 12: EX-10.23 (FOURTH AMENDMENT TO THE LOAN AND SECURITY AGREEMENT)

EXHIBIT 10.23

FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Fourth Amendment to Loan and Security Agreement ("Amendment") is dated as of October 31, 2007 by C&F Finance Company ("Borrower") and Wells Fargo Financial Preferred Capital, Inc. ("Lender").

BACKGROUND

A. Borrower and Lender are parties to a certain Loan and Security Agreement dated as of August 1, 2005 (as may hereafter be amended or modified from time to time, the "Loan Agreement") and related agreements, instruments and documents (collectively, with the Loan Agreement, the "Existing Loan Documents"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings respectively ascribed to them in the Loan Agreement.

B. Borrower has requested that Lender amend the Loan Agreement in certain respects, all on the terms and conditions set forth herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby promise and agree as follows:

1. Amendment. The Loan Agreement is hereby amended in the following manner:

a. Definition. Effective as of August 31, 2007, the following definition contained in Section 1.1 of the Loan Agreement is amended and restated in its entirety as follows:

"Capital Base" means the sum of (a) Borrowers' Tangible Net Worth, plus (b) Subordinated Debt, plus (c) an amount equal to the excess, if any, of the aggregate value of Borrowers' actual Allowance for Loan Losses, as calculated in accordance with GAAP, over an amount equal to net outstanding Receivables of Borrowers multiplied by the rolling twelve month ratio of net charge-offs to average net Receivables outstanding of Borrowers during the twelve month period ending on the date of determination.

b. Indebtedness. Section 7.3 of the Loan Agreement is amended and restated in its entirety as follows:

Section 7.3 Indebtedness. Borrow any monies or create any Debt except: (a) borrowings from WFFPC hereunder; (b) Subordinated Debt; (c) trade indebtedness in the normal and ordinary course of business for value received; (d) indebtedness and obligations incurred to purchase or lease fixed or capital assets and (e) unsecured indebtedness and obligations owing to Citizens and Farmers Bank.

2. Legal and Filing Fees. Borrower agrees to pay immediately upon demand therefor all legal fees and out-of-pocket expenses of Lender related to this Amendment, including the preparation, negotiation, documentation, execution, filing and delivery thereof.

3. Effectiveness Conditions. This Amendment shall be effective upon the completion of the following conditions precedent (all agreements, documents and instruments to be in form and substance satisfactory to Lender and Lender's counsel):

a. Execution and delivery by Borrower to Lender of this Amendment; and

b. Execution and/or delivery of all other agreements, instruments and documents requested by Lender to effectuate and implement the terms hereof and the Existing Loan Documents.

4. Representations and Warranties. Borrower represents and warrants to Lender that:

a. All warranties and representations made to Lender under the Loan Agreement and the Existing Loan Documents are true and correct as to the date hereof.

b. The execution and delivery by Borrower of this Amendment and the performance by Borrower of the transactions herein contemplated: (i) are and will be within such party's powers, (ii) have been authorized by all necessary organizational action, and (iii) are not and will not be in contravention of any order of any court or other agency of government, of law or any other indenture, agreement or undertaking to which Borrower or by which the property of Borrower is bound, or be in conflict with, result in a breach of, or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or undertaking or result in the imposition of any lien, charge or encumbrance of any nature on any of the properties of Borrower.

c. This Amendment and any assignment, instrument, document, or agreement executed and delivered in connection herewith, will be valid, binding and enforceable in accordance with its respective terms.

d. No Event of Default or Default has occurred under the Loan Agreement or any of the other Existing Loan Documents.

5. Business Operations. Borrower hereby agrees to continue to operate its business and operations in a manner consistent with its past business practice, continue to meet the standards generally observed by prudent finance companies and conform to its policies as have been previously disclosed to Lender in writing.

6. Representations and Release of Claims. Borrower hereby agrees to defend Lender and its directors, officers, agents, employees and attorneys from, and hold each of them harmless against, any and all losses, liabilities (including without limitation settlement costs and amounts, transfer taxes, documentary taxes, or assessments or charges made by any governmental authority), claims, damages, interests, judgments, costs, or expenses, including without limitation fees and disbursements of attorneys, incurred by any of them arising out of or in connection with or by reason of this Amendment, the Loan Agreement, the making of the Loan or any Collateral, or any other Credit Document, including without limitation, any and all losses, liabilities, claims, damages, interests, judgments, costs or expenses relating to or arising under any Consumer Finance Laws or Environmental Control Statute or the application of any such statute to Borrower's properties or assets. Borrower hereby releases Lender and its respective directors, officers, agents, employees and attorneys from any and all claims for loss, damages, costs or expenses caused or alleged to be caused by any act or omission on the part of any of them, other than such loss, damage cost or expense which has been determined by a court of competent jurisdiction to have been caused by the gross negligence or willful misconduct of Lender. All obligations provided for in this Section 6 shall survive any termination of this Amendment, the Loan Agreement or the Commitment and the repayment of the Loan.

7. Collateral. As security for the payment of the Borrower's Obligations under the Loan Agreement, and satisfaction by Borrower of all covenants and undertakings contained in the Loan Agreement and the Existing Loan Documents, Borrower acknowledges Lender's prior security interest and lien in and to all of the Collateral.

8. Ratification of Existing Loan Documents. Except as expressly set forth herein, all of the terms and conditions of the Loan Agreement and Existing Loan Documents are hereby ratified and confirmed and continue unchanged and in full force and effect. All references to the Loan Agreement shall mean the Loan Agreement as modified by this Amendment.

9. Acknowledgment of Indebtedness and Obligations. Borrower hereby acknowledges and confirms that as of the date of this Amendment, Borrower is indebted to Lender, without defense, setoff or counterclaim, under the Loan Agreement in the aggregate principal amount of \$60,179,071.27 as of October 31, 2007 plus continually accruing interest and all fees, costs, and expenses, including reasonable attorneys' fees, incurred through the date hereof.

10. Governing Law. This Amendment, the Loan Agreement and the Existing Loan Documents shall be governed by, construed and enforced in accordance with the laws of the State of Iowa, excluding its conflict of laws rules.

11. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute one and the same respective agreement. Signature by facsimile shall also bind the parties hereto.

12. Miscellaneous.

a. This Amendment shall be incorporated into and deemed a part of the Loan Agreement.

b. Except as expressly modified herein, all terms, covenants, and conditions of the Loan Agreement are and shall remain in full force and effect.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

Dated the date and year first written above.

BORROWER: C&F FINANCE COMPANY

By: /s/ Thomas F. Cherry
Name: Thomas F. Cherry
Title: EVP & CFO

LENDER: WELLS FARGO FINANCIAL PREFERRED CAPITAL, INC.

By: /s/ William M. Laird
William M. Laird, Senior Vice President

[SIGNATURE PAGE TO FOURTH AMENDMENT]

S-1

[\(Back To Top\)](#)

Section 13: EX-14 (C&F FINANCIAL CORPORATION CODE OF BUSINESS CONDUCT AND ETHICS)

EXHIBIT 14

C&F Financial Corporation
Code of Business Conduct and Ethics

I. Purpose

This Code of Business Conduct and Ethics (this “Code”) provides a general statement of C&F Financial Corporation’s expectations regarding the ethical standards that each director, officer and employee should adhere to while acting on behalf of C&F Financial Corporation and its subsidiary (the “Company”). Each director, officer and employee is expected to read and become familiar with the ethical standards described in this Code and will be required, annually, to affirm his or her agreement to adhere to such standards by signing the Compliance Certificate that appears at the end of this Code.

II. Administration

The C&F Financial Corporation Board of Directors is responsible for setting the standards of business conduct contained in this Code and updating these standards as it deems appropriate to reflect changes in the legal and regulatory framework applicable to the Company, the business practices within the Company’s industry, the Company’s own business practices, and the prevailing ethical standards of the communities in which the Company operates. While C&F Financial Corporation’s Chief Executive Officer and Chief Financial Officer will oversee the procedures designed to implement this Code to ensure that they are operating effectively, it is the individual responsibility of each director, officer and employee of the Company to comply with this Code.

III. Compliance with Laws, Rules and Regulations

The Company will comply with all governmental laws, rules and regulations that are applicable to the Company’s activities, and expects that all directors, officers and employees acting on behalf of the Company will obey the law. Specifically, the Company is committed to:

- maintaining a safe and healthy work environment;
- promoting a workplace that is free from discrimination or harassment based on race, color, religion, sex or other factors that are unrelated to the Company’s business interests;
- supporting fair competition and laws prohibiting restraints of trade and other unfair trade practices;
- conducting its activities in full compliance with all applicable environmental laws;

-
- keeping the political activities of the Company's directors, officers and employees separate from the Company's business;
 - prohibiting any illegal payments to any government officials or political party representative; and
 - complying with all applicable governmental laws, rules and regulations, including applicable state and federal securities and banking laws.

Directors, officers and employees are prohibited from illegally trading in the securities of C&F Financial Corporation while in possession of material, nonpublic ("inside") information about the Company.

IV. Conflicts of Interest; Corporate Opportunities

Officers and Employees

Officers and employees should not be involved in any activity which creates or gives the appearance of a conflict of interest between their personal interests and the Company's interests. Conflicts of interest may include when an officer or employee:

- is a consultant to, or a director, officer or employee of, or otherwise operates an outside business:
 - that markets products or services in competition with the Company's current or potential products and services;
 - that supplies products or services to the Company; or
 - that purchases products or services from the Company;
- has any financial interest, including stock ownership, in any such outside business that might create or give the appearance of a conflict of interest;
- seeks or accepts any personal loan or services from any such outside business, except from financial institutions or service providers offering similar loans or services to third parties under similar terms in the ordinary course of their respective businesses;
- is a consultant to, or a director, officer or employee of, or otherwise operates an outside business if the demands of the outside business would interfere with the officer's or employee's responsibilities with the Company;
- accepts any personal loan or guarantee of obligations from the Company, except to the extent such arrangements are legally permissible;

-
- conducts business on behalf of the Company with immediate family members, which include spouses, children, parents, siblings and persons sharing the same home whether or not legal relatives; or
 - uses the Company's property, information or position for personal gain.

The appearance of a conflict of interest may exist if an immediate family member of an officer or employee of the Company is a consultant to, or a director, officer or employee of, or has a significant financial interest in, a competitor, supplier or customer of the Company, or otherwise does business with the Company.

Employees shall notify C&F Financial Corporation's Chief Executive Officer or Chief Financial Officer of the existence of any actual or potential conflict of interest. Conflicts of interest may not always be clear-cut. Therefore, questions should be directed to C&F Financial Corporation's Chief Executive Officer or Chief Financial Officer.

Directors

In order for a director to avoid conflicts of interest or appearances thereof, each non-employee director of C&F Financial Corporation shall maintain independence as defined by the NASDAQ Marketplace rules. Under these rules, an "independent director" means a person other than an officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

- a director who is, or at any time during the past three years was, employed by the Company;
- a director who accepted or has a family member who accepted any compensation from the Company in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
 - compensation for board or board committee service;
 - compensation paid to a family member who is a non-executive employee of the Company; or
 - benefits under a tax-qualified retirement plan, or non-discretionary compensation.
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;

-
- a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years (other than payments arising solely from investments in C&F Financial Corporation securities or payments under non-discretionary charitable contribution matching programs) that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more;
 - a director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the Company's executive officers served on the compensation committee of such other entity; or
 - a director who is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

"Family member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

In cases where a director performs services for the Company that do not impair independence, that director should abstain from actions taken by the Board of Directors relating to such services. Directors shall notify the Company's general counsel or such independent counsel as the Company may designate of the existence of any actual or potential conflict of interest.

V. Confidentiality; Protection and Proper Use of the Company's Assets

Directors, officers and employees shall maintain the confidentiality of all information entrusted to them by the Company or its suppliers, customers or business partners, except when disclosure is authorized by the Company or legally required.

Confidential information includes (1) information marked "Confidential," "Private," "For Internal Use Only," or similar legends, (2) technical or scientific information relating to current and future products, services or research, (3) business or marketing plans or projections, (4) earnings and other internal financial data, (5) personnel information, (6) supply and customer lists and (7) other non-public information that, if disclosed, might be of use to the Company's competitors, or harmful to the Company or its suppliers, customers or other business partners.

To avoid inadvertent disclosure of confidential information, directors, officers and employees shall not discuss confidential information with or in the presence of any unauthorized persons, including family members and friends.

Directors, officers and employees are personally responsible for protecting those Company assets that are entrusted to them and for helping to protect the Company's assets in general.

Directors, officers and employees shall use the Company's assets for the Company's legitimate business purposes only.

VI. Fair Dealing

The Company is committed to promoting the values of honesty, integrity and fairness in the conduct of its business and sustaining a work environment that fosters mutual respect, openness and individual integrity. Directors, officers and employees are expected to deal honestly and fairly with the Company's customers, suppliers, competitors and other third parties. To this end, directors, officers and employees shall not:

- make false or misleading statements to customers, suppliers or other third parties;
- make false or misleading statements about competitors;
- solicit or accept from any person that does business with the Company, or offer or extend to any such person,
 - cash of any amount; or
 - gifts, gratuities, meals or entertainment that could influence or reasonably give the appearance of influencing the Company's business relationship with that person or go beyond common courtesies usually associated with accepted business practice;
- solicit or accept any fee, commission or other compensation for referring customers to third-party vendors; or
- otherwise take unfair advantage of the Company's customers or suppliers, or other third parties, through manipulation, concealment, abuse of privileged information or any other unfair-dealing practice.

VII. Accurate and Timely Periodic Reports

The Company is committed to providing investors with full, fair, accurate, timely and understandable disclosure in the periodic reports that it is required to file. To this end, the Company shall:

- comply with accounting principles generally accepted in the United States of America at all times;
- maintain a system of internal accounting controls that will provide reasonable assurances to management that all transactions are properly recorded;
- maintain books and records that accurately and fairly reflect the Company's transactions;
- prohibit the establishment of any undisclosed or unrecorded funds or assets;
- maintain a system of disclosure controls that will provide reasonable assurances to management that material information about the Company is made known to management, particularly during the periods in which the Company's periodic reports are being prepared; and
- present information in a clear and orderly manner and avoid the use of legal and financial jargon in the Company's periodic reports.

VIII. Reporting and Effect of Violations

Directors, officers or employees shall report any known or suspected violations of governmental laws, rules and regulations or this Code to the Company's general counsel by phone or through e-mail:

Jim Hudson
804-843-3262
jhudson@hudsonandbondurant.com
P.O. Box 231
West Point, VA 23181

The Company will not allow any retaliation against a director, officer or employee who acts in good faith in reporting any such violation.

The Company's general counsel will investigate any reported violations and will oversee an appropriate response, including corrective action and preventative measures. Directors, officers and employees that violate any governmental laws, rules and regulations or this Code will face appropriate, case specific disciplinary action, which may include demotion or discharge.

IX. Waivers

The provisions of this Code may be waived for directors or executive officers only by a resolution of the Company's Board of Directors. The provisions of this Code may be waived for employees who are not directors or executive officers by C&F Financial Corporation's Chief Executive Officer. Any waiver of this Code granted to a director or executive officer will be publicly disclosed as required by the Securities and Exchange Commission or association on which the Company's securities are listed for trading. Any change in or waiver of the Code for C&F Financial Corporation's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, or persons performing similar functions will be publicly disclosed as required by the Securities and Exchange Commission.

Approved this 18th day of December 2007

BOARD OF DIRECTORS

C&F FINANCIAL CORPORATION

Compliance Certificate

I have read and understand the Company's Code of Business Conduct and Ethics (the "Code"). I understand the applicability of the Code to me and my family and agree to abide by the Code. I further confirm my understanding that any violation of the Code will subject me to appropriate disciplinary action, which may include demotion or termination.

I certify to the Company that I am not in violation of the Code, unless I have noted such violation in a signed Statement of Exceptions attached to this Compliance Certificate

Date

Signature

Name (Printed)

Title/Position (Printed)

Check one of the following:

- A Statement of Exceptions is attached.
- No Statement of Exceptions is attached.

8

[\(Back To Top\)](#)

Section 14: EX-21 (SUBSIDIARIES OF THE REGISTRANT)

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Citizens and Farmers Bank, incorporated in Virginia

C&F Mortgage Corporation, incorporated in Virginia

Hometown Settlement Services LLC, organized in Virginia

Certified Appraisals LLC, organized in Virginia

Foundation Home Mortgage LLC, organized in Virginia

C&F Reinsurance LTD, organized in Turks & Caicos Islands

C&F Title Agency, Inc., incorporated in Virginia

C&F Finance Company, incorporated in Virginia

C&F Investment Services, Inc., incorporated in Virginia

C&F Insurance Services, Inc., incorporated in Virginia

C&F Financial Statutory Trust I, organized in Delaware

C&F Financial Statutory Trust II, organized in Delaware

[\(Back To Top\)](#)

Section 15: EX-23 (CONSENT OF YOUNT, HYDE & BARBOUR, P.C)

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-63699, No. 333-67535, No. 333-89551, No. 333-89505, No. 333-35996 and No. 333-125881) and Form S-3 (No. 333-100701, No. 333-60877 and No. 333-30497) of C&F Financial Corporation and Subsidiary of our report, dated February 26, 2008, relating to the audits of the consolidated financial statements and internal control over financial reporting, included in and incorporated by reference in the Annual Report on Form 10-K of C&F Financial Corporation and Subsidiary for the year ended December 31, 2007.

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

Winchester, Virginia

Section 16: EX-31.1 (SECTION 302 CEO CERTIFICATION)

EXHIBIT 31.1

CERTIFICATIONS

I, Larry G. Dillon, certify that:

1. I have reviewed this annual report on Form 10-K of C&F Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2008

/s/ Larry G. Dillon

Larry G. Dillon, President and Chief Executive Officer

([Back To Top](#))

Section 17: EX-31.2 (SECTION 302 CFO CERTIFICATION)

EXHIBIT 31.2

CERTIFICATIONS

I, Thomas F. Cherry, certify that:

1. I have reviewed this annual report on Form 10-K of C&F Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2008

/s/ Thomas F. Cherry

Thomas F. Cherry, Executive Vice President and Chief Financial Officer

[\(Back To Top\)](#)

Section 18: EX-32 (SECTION 906 CEO AND CFO CERTIFICATION)

EXHIBIT 32

CERTIFICATION

The undersigned, as the chief executive officer and the chief financial officer of C&F Financial Corporation, certify that to the best of their knowledge and belief the Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of C&F Financial Corporation at the dates and for the periods indicated. The foregoing certification is made pursuant to §906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), and shall not be relied upon for any other purpose. The undersigned expressly disclaim any obligation to update the foregoing certification except as required by law.

Date: March 5, 2008

/s/ Larry G. Dillon

Larry G. Dillon
President and Chief Executive Officer

Date: March 5, 2008

/s/ Thomas F. Cherry

Thomas F. Cherry
Executive Vice President and Chief Financial Officer

[\(Back To Top\)](#)