C & F FINANCIAL CORP
Form 10-Q
August 03, 2007


# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 30, 2007**

¨ **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** | **54-1680165** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **802 Main Street** | |
| **West Point, VA** | **23181** |

**(Address of principal executive offices)** **(Zip Code)**

**(804) 843-2360**

**(Registrant s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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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. x Yes ¨ No

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

At July 31, 2007, the latest practicable date for determination, 3,052,591 shares of common stock, $1.00 par value, of the registrant were outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

Table of Contents

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS**

(In thousands, except for share and per share amounts)

| | June 30, 2007 (Unaudited) | December 31, 2006 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 13,617 | $ 11,496 |
| Interest-bearing deposits in other banks | 4,551 | 17,010 |
| Total cash and cash equivalents | 18,168 | 28,506 |
| Securities-available for sale at fair value, amortized cost of $71,687 and $66,407, respectively | 71,698 | 67,584 |
| Loans held for sale, net | 44,294 | 53,504 |
| Loans, net | 551,437 | 517,843 |
| Federal Home Loan Bank stock | 2,014 | 2,093 |
| Corporate premises and equipment, net | 33,698 | 33,189 |
| Accrued interest receivable | 4,737 | 4,432 |
| Goodwill | 10,724 | 10,724 |
| Other assets | 17,355 | 16,593 |
| Total assets | $ 754,125 | $ 734,468 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Deposits | | |
| Noninterest-bearing demand deposits | $ 100,018 | $ 90,260 |
| Savings and interest-bearing demand deposits | 177,716 | 188,450 |
| Time deposits | 275,739 | 254,125 |
| Total deposits | 553,473 | 532,835 |
| Short-term borrowings | 28,306 | 12,462 |
| Long-term borrowings | 82,159 | 92,284 |
| Trust preferred capital notes | 10,310 | 10,310 |
| Accrued interest payable | 2,029 | 1,915 |
| Other liabilities | 13,678 | 16,656 |
| Total liabilities | 689,955 | 666,462 |
| 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, 3,051,191 and 3,182,411 shares issued and outstanding, respectively) | 3,028 | 3,159 |
| Additional paid-in capital | 22 | 324 |
| Retained earnings | 61,750 | 64,402 |
| Accumulated other comprehensive (loss) income, net | (630) | 121 |

| | | | | |
|---|---|---|---|---|
| Total shareholders equity | | 64,170 | | 68,006 |
| Total liabilities and shareholders equity | $ | 754,125 | $ | 734,468 |

*The accompanying notes are an integral part of the consolidated financial statements.*

1

**Table of Contents**

**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except for share and per share amounts)

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| Interest income | | | | |
| Interest and fees on loans | $ 15,058 | $ 14,172 | $ 29,226 | $ 26,767 |
| Interest on money market investments | 58 | 144 | 409 | 275 |
| Interest and dividends on securities | | | | |
| U.S. government agencies and corporations | 66 | 60 | 129 | 119 |
| Tax-exempt obligations of states and political subdivisions | 627 | 585 | 1,229 | 1,169 |
| Corporate bonds and other | 161 | 89 | 276 | 213 |
| Total interest income | 15,970 | 15,050 | 31,269 | 28,543 |
| Interest expense | | | | |
| Savings and interest bearing deposits | 627 | 549 | 1,307 | 1,112 |
| Certificates of deposit, $100 or more | 1,235 | 750 | 2,360 | 1,364 |
| Other time deposits | 1,866 | 1,353 | 3,606 | 2,564 |
| Borrowings | 2,001 | 1,891 | 3,845 | 3,436 |
| Total interest expense | 5,729 | 4,543 | 11,118 | 8,476 |
| Net interest income | 10,241 | 10,507 | 20,151 | 20,067 |
| Provision for loan losses | 1,490 | 825 | 2,890 | 2,100 |
| Net interest income after provision for loan losses | 8,751 | 9,682 | 17,261 | 17,967 |
| Noninterest income | | | | |
| Gains on sales of loans | 4,439 | 4,256 | 8,067 | 8,119 |
| Service charges on deposit accounts | 872 | 898 | 1,725 | 1,572 |
| Other service charges and fees | 1,248 | 1,260 | 2,187 | 2,352 |
| Gains on calls of available for sale securities | 6 | 50 | 9 | 81 |
| Other income | 597 | 418 | 972 | 744 |
| Total noninterest income | 7,162 | 6,882 | 12,960 | 12,868 |
| Noninterest expenses | | | | |
| Salaries and employee benefits | 7,903 | 7,153 | 15,205 | 14,102 |
| Occupancy expenses | 1,579 | 1,326 | 3,023 | 2,534 |
| Other expenses | 2,901 | 2,660 | 5,637 | 5,133 |
| Total noninterest expenses | 12,383 | 11,139 | 23,865 | 21,769 |
| Income before income taxes | 3,530 | 5,425 | 6,356 | 9,066 |
| Income tax expense | 1,068 | 1,699 | 1,883 | 2,814 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | $ | 2,462 | $ | 3,726 | $ | 4,473 | $ | 6,252 |
| | | | | | | | | |
| Per share data | | | | | | | | |
| Net income basic | $ | .81 | $ | 1.18 | $ | 1.45 | $ | 1.99 |
| Net income assuming dilution | $ | .77 | $ | 1.14 | $ | 1.39 | $ | 1.91 |
| Cash dividends paid and declared | $ | .31 | $ | .29 | $ | .62 | $ | .56 |
| Weighted average number of shares basic | | 3,053,550 | | 3,150,352 | | 3,079,506 | | 3,149,496 |
| Weighted average number of shares assuming dilution | | 3,185,113 | | 3,275,074 | | 3,213,597 | | 3,274,768 |

*The accompanying notes are an integral part of the consolidated financial statements.*

Table of Contents

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(Unaudited)

(In thousands)

| | Common Stock | Additional Paid-In Capital | Comprehensive Income | Retained Earnings | Accumulated Other Comprehensive (Loss) Income, Net | Total |
|---|---|---|---|---|---|---|
| December 31, 2006 | $ 3,159 | $ 324 | | $ 64,402 | $ 121 | $ 68,006 |
| Comprehensive income | | | | | | |
| Net income | | | $ 4,473 | 4,473 | | 4,473 |
| Other comprehensive loss, net of tax | | | | | | |
| Amortization of prepaid pension transition costs | | | 7 | | 7 | 7 |
| Unrealized holding losses on securities, net of reclassification adjustment | | | (758) | | (758) | (758) |
| Comprehensive income | | | $ 3,722 | | | |
| Purchase of common stock | (149) | (858) | | (5,228) | | (6,235) |
| Share-based compensation | | 152 | | | | 152 |
| Stock options exercised | 18 | 404 | | | | 422 |
| Cash dividends | | | | (1,897) | | (1,897) |
| June 30, 2007 | $ 3,028 | $ 22 | | $ 61,750 | $ (630) | $ 64,170 |

| | |
|---|---|
| **Disclosure of Reclassification Amount:** | |
| Unrealized net holding losses arising during period | $ (752) |
| Less: reclassification adjustment for gains included in net income | (6) |
| Unrealized holding losses on securities, net of reclassification adjustment | $ (758) |

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(Unaudited)

(In thousands)

| | Common Stock | Additional Paid-In Capital | Comprehensive Income | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|
| December 31, 2005 | $ 3,141 | $ 183 | | $ 55,930 | $ 832 | $ 60,086 |
| Comprehensive income | | | | | | |
| Net income | | | $ 6,252 | 6,252 | | 6,252 |
| Other comprehensive loss, net of tax | | | | | | |
| Unrealized holding losses on securities, net of reclassification adjustment | | | (754) | | (754) | (754) |
| Comprehensive income | | | $ 5,498 | | | |
| Purchase of common stock | (12) | (459) | | | | (471) |
| Share-based compensation | | 23 | | | | 23 |
| Stock options exercised | 21 | 330 | | | | 351 |
| Cash dividends | | | | (1,764) | | (1,764) |
| June 30, 2006 | $ 3,150 | $ 77 | | $ 60,418 | $ 78 | $ 63,723 |

**Disclosure of Reclassification Amount:**

| | |
|---|---|
| Unrealized net holding losses arising during period | $ (701) |
| Less: reclassification adjustment for gains included in net income | (53) |
| Unrealized holding losses on securities, net of reclassification adjustment | $ (754) |

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

| | Six Months Ended June 30, 2007 | 2006 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 4,473 | $ 6,252 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,287 | 992 |
| Provision for loan losses | 2,890 | 2,100 |
| Share-based compensation | 152 | 23 |
| Amortization of prepaid pension transition costs | 7 | |
| Accretion of discounts and amortization of premiums on investment securities, net | 23 | 17 |
| Net realized gains on calls of securities | (9) | (81) |
| Proceeds from sale of loans | 461,184 | 459,251 |
| Origination of loans held for sale | (451,974) | (476,608) |
| Change in other assets and liabilities: | | |
| Accrued interest receivable | (305) | (315) |
| Other assets | (354) | (3,534) |
| Accrued interest payable | 114 | 274 |
| Other liabilities | (2,978) | 3,217 |
| Net cash provided by (used in) operating activities | 14,510 | (8,412) |
| Investing activities: | | |
| Proceeds from maturities and calls of securities available for sale | 2,486 | 5,143 |
| Purchases of securities available for sale | (7,780) | (5,455) |
| Net redemptions (purchases) of Federal Home Loan Bank stock | 79 | (802) |
| Net increase in customer loans | (36,484) | (36,508) |
| Purchases of corporate premises and equipment | (1,818) | (4,208) |
| Disposals of corporate premises and equipment | 22 | 71 |
| Net cash used in investing activities | (43,495) | (41,759) |
| Financing activities: | | |
| Net (decrease) increase in demand, interest bearing demand and savings deposits | (976) | 39 |
| Net increase in time deposits | 21,614 | 15,528 |
| Net increase in borrowings | 5,719 | 21,019 |
| Purchase of common stock | (6,235) | (471) |
| Proceeds from exercise of stock options | 422 | 351 |
| Cash dividends | (1,897) | (1,764) |
| Net cash provided by financing activities | 18,647 | 34,702 |
| Net decrease in cash and cash equivalents | (10,338) | (15,469) |
| Cash and cash equivalents at beginning of period | 28,506 | 42,878 |
| Cash and cash equivalents at end of period | $ 18,168 | $ 27,409 |
| Supplemental disclosure | | |
| Interest paid | $ 11,004 | $ 8,202 |

| | | |
|---|---|---|
| Income taxes paid | $ 1,484 | $ 2,347 |

*The accompanying notes are an integral part of the consolidated financial statements.*

Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission. They do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2006.

In the opinion of C&F Financial Corporation s management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of June 30, 2007 and the results of operations for the three and six months ended June 30, 2007 and 2006 and cash flows for the six months ended June 30, 2007 and 2006 have been made. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation ) and its subsidiary, Citizens and Farmers Bank ( C&F Bank or the Bank ), with all significant intercompany transactions and accounts being eliminated in consolidation. In addition, the Corporation owns C&F Financial Statutory Trust I, an unconsolidated subsidiary. The subordinated debt owed to the trust is reported as a liability of the Corporation.

**Share-Based Compensation:** Effective January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards ( 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.

The Corporation has 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. Compensation expense for the three months and six months ended June 30, 2007 included $73,000 ($45,000 after tax) and $152,000 ($94,000 after tax), respectively, for options and restricted stock granted during 2007 and 2006. As of June 30, 2007, there was $902,000 of total unrecognized compensation expense related to nonvested stock options and restricted stock that will be recognized over the remaining requisite service period.

**Table of Contents**

Stock option plan activity for the six months ended June 30, 2007 is summarized below:

| | Shares | Exercise Price* | Remaining Contractual Life (in years)* | Intrinsic Value of Unexercised In-The Money Options (in 000 s) |
|---|---|---|---|---|
| Options outstanding, January 1, 2007 | 530,167 | $ 31.54 | 6.7 | $ 4,511 |
| Granted | 13,500 | 37.17 | | |
| Exercised | (18,100) | 23.35 | | |
| Options outstanding at June 30, 2007 | 525,567 | 31.97 | 6.3 | $ 4,803 |
| Options exercisable at June 30, 2007 | 512,067 | 31.83 | 6.2 | $ 4,752 |

* *Weighted average*

The total intrinsic value of in-the-money options exercised during the first half of 2007 was $352,000. Cash received from option exercises during the first half of 2007 was $422,000. The Corporation issues new shares to satisfy the exercise of stock options.

**Note 2**

Diluted net income per share has been calculated on the basis of the weighted average number of shares of common stock and common stock equivalents outstanding for the applicable periods. Potentially-dilutive common stock had no effect on income available to common shareholders.

**Note 3**

During the first six months of 2007, the Corporation purchased 149,720 shares of its common stock in negotiated and open-market transactions at prices ranging from $37.25 to $45.07. During the first six months of 2006, the Corporation purchased 12,022 shares of its common stock in open-market transactions at prices from $39.43 to $40.00.

Table of Contents

**Note 4**

Securities in an unrealized loss position at June 30, 2007, by duration of the period of unrealized loss, are shown below. No impairment has been recognized on any securities in a loss position based on management s intent and demonstrated ability to hold such securities to scheduled maturity or call dates and management s evaluation that there is no permanent impairment in the value of these securities.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| **(in 000 s)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| U.S. government agencies and corporations | **$ 1,400** | **$ 9** | **$ 4,643** | **$ 103** | **$ 6,043** | **$ 112** |
| Mortgage-backed securities | **386** | **10** | **1,104** | **35** | **1,490** | **45** |
| Obligations of states and political subdivisions | **20,828** | **360** | **5,918** | **118** | **26,746** | **478** |
| Subtotal-debt securities | **22,614** | **379** | **11,665** | **256** | **34,279** | **635** |
| Preferred stock | **1,084** | **38** | **174** | **14** | **1,258** | **52** |
| Total temporarily impaired securities | **$ 23,698** | **$ 417** | **$ 11,839** | **$ 270** | **$ 35,537** | **$ 687** |

The primary cause of the temporary impairments in the Corporation s investment in debt securities was the decline in prices as interest rates have risen. There are 99 debt securities and three equity securities totaling $34.3 million and $1.3 million, respectively, considered temporarily impaired at June 30, 2007. Because the Corporation has the intent and demonstrated ability to hold these investments until a recovery of unrealized losses, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2007.

Securities in an unrealized loss position at December 31, 2006 are shown below by duration of the period of unrealized loss.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| **(in 000 s)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| 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 | $ 4,591 | $ 55 | $ 10,789 | $ 161 | $ 15,380 | $ 216 |

Table of Contents

**Note 5**

The Bank has a noncontributory defined benefit plan for which the components of net periodic benefit cost are as follows:

| (in 000 s) | Three Months Ended June 30, 2007 | 2006 |
|---|---|---|
| Service cost | **$ 194** | $ 188 |
| Interest cost | **96** | 86 |
| Expected return on plan assets | **(112)** | (107) |
| Amortization of net obligation at transition | **(1)** | (1) |
| Amortization of prior service cost | **2** | 2 |
| Amortization of net loss | **4** | 11 |
| Net periodic benefit cost | **$ 183** | $ 179 |

| (in 000 s) | Six Months Ended June 30, 2007 | 2006 |
|---|---|---|
| Service cost | **$ 388** | $ 376 |
| Interest cost | **192** | 172 |
| Expected return on plan assets | **(224)** | (214) |
| Amortization of net obligation at transition | **(2)** | (2) |
| Amortization of prior service cost | **4** | 4 |
| Amortization of net loss | **8** | 22 |
| Net periodic benefit cost | **$ 366** | $ 358 |

In December 2006, the Bank made a $1.18 million contribution to the plan. The estimated minimum contribution for 2007 is approximately $58,000.

**Note 6**

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 subsidiaries 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 subsidiaries are not significant to the Corporation as a whole and have been included in Other.

**Table of Contents**

| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2007 | | | | | |
| Revenues: | | | | | | |
| Interest income | **$ 9,865** | **$ 808** | **$ 6,343** | **$** | **$ (1,046)** | **$ 15,970** |
| Gains on sales of loans | | **4,513** | | | **(74)** | **4,439** |
| Other | **1,400** | **844** | **108** | **371** | | **2,723** |
| Total operating income | **11,265** | **6,165** | **6,451** | **371** | **(1,120)** | **23,132** |
| Expenses: | | | | | | |
| Interest expense | **4,223** | **444** | **2,094** | **43** | **(1,075)** | **5,729** |
| Provision for loan losses | **40** | | **1,450** | | | **1,490** |
| Personnel expenses | **3,613** | **3,110** | **1,066** | **175** | **(61)** | **7,903** |
| Other | **2,217** | **1,628** | **598** | **37** | | **4,480** |
| Total operating expenses | **10,093** | **5,182** | **5,208** | **255** | **(1,136)** | **19,602** |
| Income before income taxes | **1,172** | **983** | **1,243** | **116** | **16** | **3,530** |
| Provision for income taxes | **175** | **373** | **473** | **44** | **3** | **1,068** |
| Net income | **$ 997** | **$ 610** | **$ 770** | **$ 72** | **$ 13** | **$ 2,462** |
| Total assets | **$ 607,938** | **$ 52,934** | **$ 154,808** | **$ 74** | **$ (61,629)** | **$ 754,125** |
| Capital expenditures | **$ 372** | **$ 95** | **$ 127** | **$** | **$** | **$ 594** |

| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2006 | | | | | |
| Revenues: | | | | | | |
| Interest income | $ 10,003 | $ 643 | $ 5,175 | $ | $ (771) | $ 15,050 |
| Gains on sales of loans | | 4,265 | | | (9) | 4,256 |
| Other | 1,332 | 897 | 107 | 290 | | 2,626 |
| Total operating income | 11,335 | 5,805 | 5,282 | 290 | (780) | 21,932 |
| Expenses: | | | | | | |
| Interest expense | 3,354 | 324 | 1,651 | | (786) | 4,543 |
| Provision for loan losses | (250) | | 1,075 | | | 825 |
| Personnel expenses | 3,173 | 2,992 | 761 | 208 | 19 | 7,153 |
| Other | 1,969 | 1,495 | 484 | 38 | | 3,986 |
| Total operating expenses | 8,246 | 4,811 | 3,971 | 246 | (767) | 16,507 |
| Income before income taxes | 3,089 | 994 | 1,311 | 44 | (13) | 5,425 |
| Provision for income taxes | 807 | 381 | 498 | 17 | (4) | 1,699 |
| Net income | $ 2,282 | $ 613 | $ 813 | $ 27 | $ (9) | $ 3,726 |
| Total assets | $ 582,242 | $ 70,660 | $ 128,359 | $ 70 | $ (65,660) | $ 715,671 |
| Capital expenditures | $ 1,330 | $ 67 | $ 37 | $ 3 | $ | $ 1,437 |

**Table of Contents**

| | Six Months Ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
| Revenues: | | | | | | |
| Interest income | **$ 19,397** | **$ 1,329** | **$ 12,280** | **$** | **$ (1,737)** | **$ 31,269** |
| Gains on sales of loans | | **8,145** | | | **(78)** | **8,067** |
| Other | **2,581** | **1,435** | **238** | **639** | | **4,893** |
| Total operating income | **21,978** | **10,909** | **12,518** | **639** | **(1,815)** | **44,229** |
| Expenses: | | | | | | |
| Interest expense | **8,151** | **614** | **4,038** | **86** | **(1,771)** | **11,118** |
| Provision for loan losses | **40** | | **2,850** | | | **2,890** |
| Personnel expenses | **7,178** | **5,676** | **2,055** | **348** | **(52)** | **15,205** |
| Other | **4,354** | **3,076** | **1,157** | **73** | | **8,660** |
| Total operating expenses | **19,723** | **9,366** | **10,100** | **507** | **(1,823)** | **37,873** |
| Income before income taxes | **2,255** | **1,543** | **2,418** | **132** | **8** | **6,356** |
| Provision for income taxes | **325** | **586** | **919** | **50** | **3** | **1,883** |
| Net income | **$ 1,930** | **$ 957** | **$ 1,499** | **$ 82** | **$ 5** | **$ 4,473** |
| Total assets | **$ 607,938** | **$ 52,934** | **$ 154,808** | **$ 74** | **$ (61,629)** | **$ 754,125** |
| Capital expenditures | **$ 1,457** | **$ 149** | **$ 212** | **$** | **$** | **$ 1,818** |

| | Six Months Ended June 30, 2006 | | | | | |
|---|---|---|---|---|---|---|
| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
| Revenues: | | | | | | |
| Interest income | $ 18,633 | $ 1,219 | $ 10,145 | $ | $ (1,454) | $ 28,543 |
| Gains on sales of loans | | 8,143 | | | (24) | 8,119 |
| Other | 2,370 | 1,657 | 215 | 507 | | 4,749 |
| Total operating income | 21,003 | 11,019 | 10,360 | 507 | (1,478) | 41,411 |
| Expenses: | | | | | | |
| Interest expense | 6,263 | 607 | 3,110 | | (1,504) | 8,476 |
| Provision for loan losses | (250) | | 2,350 | | | 2,100 |
| Personnel expenses | 6,333 | 5,891 | 1,485 | 355 | 38 | 14,102 |
| Other | 3,816 | 2,799 | 974 | 78 | | 7,667 |
| Total operating expenses | 16,162 | 9,297 | 7,919 | 433 | (1,466) | 32,345 |
| Income before income taxes | 4,841 | 1,722 | 2,441 | 74 | (12) | 9,066 |
| Provision for income taxes | 1,205 | 658 | 927 | 28 | (4) | 2,814 |
| Net income | $ 3,636 | $ 1,064 | $ 1,514 | $ 46 | $ (8) | $ 6,252 |
| Total assets | $ 582,242 | $ 70,660 | $ 128,359 | $ 70 | $ (65,660) | $ 715,671 |
| Capital expenditures | $ 3,895 | $ 180 | $ 130 | $ 3 | $ | $ 4,208 |

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

11

Table of Contents

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 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 7**

In September 2006, the Financial Accounting Standards Board ( 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 may change current practice for some entities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. 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 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.

**Table of Contents**

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
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:

1) interest rates

2) general economic conditions

3) the legislative/regulatory climate

4) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board

5) the quality or composition of the loan and/or investment portfolios

6) demand for loan products

7) deposit flows

8) competition

9) demand for financial services in the Corporation s market area

10) technology

11) reliance on third parties for key services

12) the real estate market

13) the Corporation s expansion and technology initiatives and

14) 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 adequate to absorb any losses on existing loans that may become uncollectible.

Our judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as trends in 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 price 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 price 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 Company 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 analyses 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 2006 and determined there was no impairment to be recognized in 2006. 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 our 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 Note 1 of the Corporation s Consolidated Financial Statements in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

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 performance measures in order to assess the level of success in achieving these goals: (i) return on average assets (ROA), (ii) return on average equity (ROE) and (iii) growth in earnings. In addition to these financial performance measures, we track the performance of the Corporation s three principal business activities: retail banking, mortgage banking and consumer finance. We also actively manage our capital through growth, stock purchases and dividends.

**Financial Performance Measures.** For the Corporation, net income decreased 33.9 percent to $2.5 million for the second quarter of 2007 compared to the second quarter of 2006. Earnings per share assuming dilution decreased 32.5 percent to 77 cents for the second quarter of 2007. Net income decreased 28.5 percent to $4.5 million for the first half of 2007 compared to the first half of 2006. Earnings per share assuming dilution decreased 27.2 percent to $1.39 for the first half of 2007.

Net income for the second quarter and the first six months of 2006 included $728,000, after tax, 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 for the second quarter of 2006, the Corporation s net income for the second quarter of 2007 decreased 17.9 percent and earnings per share assuming dilution decreased 16.3 percent. Excluding the after-tax effect of this loan pay-off for the first half of 2006, the Corporation s net income for the first half of 2007 decreased 19.0 percent and earnings per share assuming dilution decreased 17.8 percent. Earnings results in 2007 included the effects of net interest margin compression and higher operating expenses associated with expansion initiatives at the Retail Banking segment and the Consumer Finance segment and a decline in earnings at the Mortgage Banking segment resulting from competition for loans in the tighter real estate market.

For the second quarter of 2007, on an annualized basis, the Corporation s return on average equity was 15.40 percent and its return on average assets was 1.34 percent, compared to 23.72 percent and 2.16 percent, respectively, for the second quarter of 2006, and compared to 19.09 percent and 1.73 percent for the second quarter of 2006, excluding the effect of the commercial loan pay-off in 2006. For the first half of 2007, on an annualized basis, the Corporation s return on average equity was 13.69 percent and its return on average assets was 1.23 percent, compared to 20.25 percent and 1.84 percent, respectively, for the first half of 2006, and compared to 17.89 percent and 1.62 percent for the first half of 2006, excluding the effect of the commercial loan pay-off in 2006. The decline in these measures resulted from lower earnings in 2007, coupled with asset and equity growth.

**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 Results of Operations.

*Retail Banking:* Pretax earnings for the Retail Banking segment were $1.2 million for the second quarter of 2007, compared with $3.1 million for the second quarter of 2006, and compared with $2.0 million for the second quarter of 2006, excluding the effect of the commercial loan pay-off. Pretax earnings for the Retail Banking segment were $2.3 million for the first half of 2007, compared with $4.8 million for the first half of 2006, and compared with $3.7 million for the first half of 2006, excluding the effect of the commercial loan pay-off. The decline in earnings for 2007 included (1) the effects of margin compression and competition on net interest income, (2) the effects on operating expenses of the Peninsula and Richmond branch expansions and the operations center relocation, (3) higher operational and administrative personnel costs to support growth and (4) the recognition of compensation expense, in accordance with accounting principles effective 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. The current static interest rate environment contributed to net interest margin compression at the Retail Banking segment during 2007 as deposits continued to reprice at higher rates relative to their maturing rates, while rates on interest-earning assets remained level. C&F Bank opened four new branches within a 15-month period beginning in the first quarter of 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 impact 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 were $983,000 for the second quarter of 2007, compared with $994,000 for the second quarter of 2006. Pretax earnings for the Mortgage Banking segment were $1.5 million for the first half of 2007, compared with $1.7 million for the first half of 2006. The decline in earnings for 2007 included (1) the effects of the slowdown in the housing market on loan origination volume, which declined 3.4 percent and 5.2 percent in the second quarter and the first half, respectively, of 2007, and (2) higher operating expenses in 2007 related to new offices and higher business development costs in order to generate more loan production. For the second quarter of 2007, the amount of loan originations at C&F Mortgage resulting from refinancings was $60.8 million compared to $65.6 million for the second quarter of 2006. Loans originated for new and resale home purchases for these two time periods were $192.5 million and $196.7 million, respectively. For the first half of 2007, the amount of loan originations at C&F Mortgage Corporation resulting from refinancings was $122.4 million compared to $138.4 million for the first half of 2006. Loans originated for new and resale home purchases for these two six-month periods were $329.6 million compared to $338.2 million. Future earnings of the Mortgage Banking segment may continue to be negatively affected if interest rate trends result in fewer new and resale home sales and loan refinancings. However, we plan to continue to expand into new and within existing markets that provide the potential for increased loan production.

*Consumer Finance:* Pretax earnings for the Consumer Finance segment were $1.2 million for the second quarter of 2007, compared with $1.3 million for the second quarter of 2006. Pretax earnings for the Consumer Finance segment were $2.4 million for the first half of 2007 and 2006. Earnings of the Consumer Finance segment have benefited from an increase in net interest income resulting from average loan growth of 19.9 percent for the second quarter of 2007 and 19.7 percent for the first half of 2007. However, C&F Finance has entered into new markets and strengthened its position in existing markets over the past 12 months resulting in an increase in overhead expenses. In addition, the provision for loan losses increased during the second quarter and first half of 2007 as a result of higher charge-offs attributable to a decline in the recovery rate on the sale of repossessed vehicles, coupled with an increase in the number of vehicles repossessed in 2007 and an increasing average balance per loan originated over the last several years. We believe that the investments in technology, new markets and people at the Consumer Finance segment have established a platform with the capacity to support current operations and future growth. Future earnings at the Consumer Finance segment may be impacted by economic conditions including, but not limited to, the employment market, interest rate levels and the resale market for used automobiles.

**Capital Management.** Total shareholders equity decreased $3.8 million to $64.2 million at June 30, 2007, compared to $68.0 million at December 31, 2006. This decline was attributable to dividends to shareholders of $1.9 million (a 42.4 percent dividend

Table of Contents

payout) and the purchase of 149,720 shares of the Corporation s common stock totaling $6.2 million during 2007, the effects of which were offset in part by earnings in 2007. The share purchases were made under a board authorization on November 3, 2006 to purchase up to 150,000 shares over the twelve months ending November 3, 2007. Having purchased a total of 149,855 shares through June 30, 2007 under this authorization, the Corporation s board of directors terminated this authorization on July 17, 2007 and authorized the purchase of 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**

**Selected Average Balance Sheet Data and Net Interest Margin**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2007 | | June 30, 2006 | |
| **(in 000 s)** | **Average Balance** | **Yield/ Cost** | **Average Balance** | **Yield/ Cost** |
| Securities | **$ 71,345** | **6.81%** | $ 67,855 | 6.22% |
| Loans held for sale | **47,629** | **6.54** | 39,913 | 6.44 |
| Loans | **547,563** | **10.44** | 510,203 | 10.11 |
| Interest-bearing deposits in other banks | **4,478** | **5.18** | 11,906 | 4.84 |
| Total earning assets | **$ 671,015** | **9.74%** | $ 629,877 | 9.36% |
| Time and savings deposits | **$ 446,614** | **3.34%** | $ 409,597 | 2.59% |
| Borrowings | **126,852** | **6.31** | 127,374 | 5.94 |
| Total interest bearing liabilities | **$ 573,466** | **4.00%** | $ 536,971 | 3.38% |
| Net interest margin | | **6.32%** | | 6.48% |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2007 | | June 30, 2006 | |
| **(in 000 s)** | **Average Balance** | **Yield/ Cost** | **Average Balance** | **Yield/ Cost** |
| Securities | **$ 69,815** | **6.66%** | $ 67,247 | 6.38% |
| Loans held for sale | **38,997** | **6.65** | 40,322 | 6.05 |
| Loans | **539,078** | **10.37** | 500,518 | 10.05 |
| Interest-bearing deposits in other banks | **15,686** | **5.21** | 11,674 | 4.71 |
| Total earning assets | **$ 663,576** | **9.64%** | $ 619,761 | 9.29% |
| Time and savings deposits | **$ 446,567** | **3.26%** | $ 409,477 | 2.46% |
| Borrowings | **121,241** | **6.34** | 119,732 | 5.74 |
| Total interest bearing liabilities | **$ 567,808** | **3.92%** | $ 529,209 | 3.20% |
| Net interest margin | | **6.29%** | | 6.55% |

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 tables show the direct causes of the changes in the components of net interest income on a taxable-equivalent basis from the second quarter of 2006 to the second quarter of 2007 and from the first half of 2006 to the first half of 2007. 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.

| | Three Months Ended June 30, 2007 | | |
|---|---|---|---|
| | Increase(Decrease) Due to Changes in | | Total Increase |
| (in 000 s) | Rate | Volume | (Decrease) |
| **Interest income:** | | | |
| Securities | $ 88 | $ 73 | $ 161 |
| Loans [(1)] | (255) | 1,127 | 872 |
| Interest-bearing deposits in other banks | 11 | (97) | (86) |
| Total interest income | (156) | 1,103 | 947 |
| **Interest expense:** | | | |
| Time and savings deposits | 637 | 439 | 1,076 |
| Borrowings | 118 | (8) | 110 |
| Total interest expense | 755 | 431 | 1,186 |
| Change in net interest income | $ (911) | $ 672 | $ (239) |

| | Six Months Ended June 30, 2007 | | |
|---|---|---|---|
| | Increase(Decrease) Due to Changes in | | Total Increase |
| (in 000 s) | Rate | Volume | (Decrease) |
| **Interest income:** | | | |
| Securities | $ 74 | $ 107 | $ 181 |
| Loans [(1)] | 337 | 2,106 | 2,443 |
| Interest-bearing deposits in other banks | 39 | 95 | 134 |
| Total interest income | 450 | 2,308 | 2,758 |
| **Interest expense:** | | | |
| Time and savings deposits | 1,414 | 819 | 2,233 |
| Borrowings | 365 | 44 | 409 |
| Total interest expense | 1,779 | 863 | 2,642 |
| Change in net interest income | $ (1,329) | $ 1,445 | $ 116 |

(1) The change in loan interest income due to changes in interest rates includes a decline of $870,00, which was included in loan interest income in the second quarter and the first half of 2006 for nonaccrual and default interest attributable to the repayment of previously nonperforming loans of one commercial relationship.

Net interest income, on a taxable-equivalent basis, for the second quarter of 2007 was $10.6 million compared to $10.9 million for the second quarter of 2006 ($10.1 million excluding the $870,000 of nonaccrual and default interest attributable to the repayment of previously nonperforming loans of one commercial relationship). Net interest income, on a taxable-equivalent basis, for the first half of 2007 was $20.9 million compared to $20.7 million for the first half of 2006 ($19.9 million excluding the $870,000 of nonaccrual and default interest attributable to the commercial loan pay-off). The net interest margin was 6.32 percent for the second quarter of 2007 compared to 6.48 percent for the second quarter of 2006, and 6.29 percent for the first half of 2007 compared to 6.55 percent for the first half of 2006. Excluding the effect of the commercial loan pay-off, net interest margin was 6.34 percent for the second quarter of 2006 and 6.41 percent for the first half of 2006.

The higher net interest income for the second quarter and the first half of 2007 over the same periods in 2006 excluding the loan pay-off resulted primarily from the increases in the average balance of interest-earning assets of 6.5 percent and 7.1 percent for the second quarter and the first half of 2007, respectively, the effects of which were offset in part by decreases in net interest margin for those same periods.

Average loans held for investment increased $37.4 million and $38.6 million in the second quarter and the first half of 2007, respectively, compared to the same periods in 2006. The Retail Banking segment s average loan portfolio increased $14.0 million in the second quarter of 2007 and $16.0 million in the first half of 2007. These increases were mainly attributable to commercial loan growth. The Consumer Finance segment s average loan portfolio increased $23.4 million in the second quarter of 2007 and $22.6 million in the first half of 2007. These increases were attributable to overall growth at existing locations and expansion into new markets. Average loans held for sale at the Mortgage Banking segment increased $7.7 million in the second quarter of 2007 and declined $1.3 million in the first half of 2007, compared to the same periods in 2006. Variations 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 higher yields on loans held for investment and loans held for sale during the second quarter and the first half of 2007 were due to a general increase in interest rates.

Average securities available for sale increased $3.5 million and $2.6 million for the second quarter and the first half of 2007, respectively, compared to the same periods in 2006. In addition, their average yield increased 59 basis points and 28 basis points for the second quarter and the first half of 2007, respectively. The increase in average balances resulted from the utilization of proceeds of deposits in excess of loan growth to make incremental portfolio investments at the Retail Banking segment. The higher yields were predominantly a result of the recapture of dividends for the past seven quarters from one preferred stock holding, which had previously suspended dividend payments.

Average interest-bearing deposits in other banks, primarily the FHLB, decreased $7.4 million and increased $4.0 million for the second quarter and first half of 2007, respectively, compared to the same periods in 2006. Fluctuations in the average balance of these low-yielding deposits occurred in response to loan demand. The average yield on interest-bearing deposits in other banks increased 34 basis points and 50 basis points for the second quarter and first half of 2007, respectively. The higher yields were due to increases in short-term interest rates.

Average interest-bearing deposits increased $37.0 million and $37.1 million for the second quarter and the first half of 2007, respectively, compared to the same periods in 2006. 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 75 basis points for the second quarter of 2007 and 80 basis points for the first half of 2007 due to the increase in short-term interest rates, coupled with the repricing of maturing certificates of deposits at higher interest rates and a decrease in the proportion of lower-cost transaction accounts relative to total interest-bearing deposits.

Average borrowings decreased $522,000 and increased $1.5 million for the second quarter and the first half of 2007, respectively, compared to the same periods in 2006. The decrease in the second quarter resulted from the reduced utilization of a third-party line of credit, using instead funds generated by deposit growth and the decrease in interest-bearing deposits in other banks. The increase in the first half of 2007 as compared to the same period in the prior year resulted from increased use of the third-party line of credit by the Consumer Finance segment to fund loan growth. The majority of these borrowings is indexed to short-term interest rates and reprice as short-term interest rates change.

Table of Contents

Accordingly, the average cost of borrowings increased 37 basis points and 60 basis points for the second quarter and the first half of 2007, respectively, due to rising short-term interest rates through mid 2006.

Interest rates will be a significant factor influencing the performance of all of the Corporation s business segments during 2007. Deposits repricing at higher rates relative to their maturing rates, coupled with continued lending competition and a flat interest rate yield curve, are contributing to net interest margin compression at the Retail Banking segment. The interest rate environment together with the slowdown in the housing market is resulting in lower demand for home mortgage loans at the Mortgage Banking segment.

**Noninterest Income**

| | Three Months Ended June 30, 2007 | | | | |
|---|---|---|---|---|---|
| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Gains on sales of loans | $ | $ 4,513 | $ | $ (74) | $ 4,439 |
| Service charges on deposit accounts | 872 | | | | 872 |
| Other service charges and fees | 347 | 862 | 39 | | 1,248 |
| Gains on calls of available for sale securities | 6 | | | | 6 |
| Other income | 175 | (18) | 69 | 371 | 597 |
| Total noninterest income | $ 1,400 | $ 5,357 | $ 108 | $ 297 | $ 7,162 |

| | Three Months Ended June 30, 2006 | | | | |
|---|---|---|---|---|---|
| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Gains on sales of loans | $ | $ 4,265 | $ | $ (9) | $ 4,256 |
| Service charges on deposit accounts | 898 | | | | 898 |
| Other service charges and fees | 306 | 892 | 62 | | 1,260 |
| Gains on calls of available for sale securities | 50 | | | | 50 |
| Other income | 78 | 5 | 45 | 290 | 418 |
| Total noninterest income | $ 1,332 | $ 5,162 | $ 107 | $ 281 | $ 6,882 |

| | Six Months Ended June 30, 2007 | | | | |
|---|---|---|---|---|---|
| (in 000 s) | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Gains on sales of loans | $ | $ 8,145 | $ | $ (78) | $ 8,067 |
| Service charges on deposit accounts | 1,725 | | | | 1,725 |
| Other service charges and fees | 649 | 1,434 | 104 | | 2,187 |
| Gains on calls of available for sale securities | 9 | | | | 9 |
| Other income | 198 | 1 | 134 | 639 | 972 |
| Total noninterest income | $ 2,581 | $ 9,580 | $ 238 | $ 561 | $ 12,960 |

Table of Contents

| (in 000 s) | Six Months Ended June 30, 2006<br>Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|---|---|---|---|---|---|
| Gains on sales of loans | $ | $ 8,143 | $ | $ (24) | $ 8,119 |
| Service charges on deposit accounts | 1,572 | | | | 1,572 |
| Other service charges and fees | 579 | 1,644 | 129 | | 2,352 |
| Gains on calls of available for sale securities | 81 | | | | 81 |
| Other income | 138 | 13 | 86 | 507 | 744 |
| Total noninterest income | $ 2,370 | $ 9,800 | $ 215 | $ 483 | $ 12,868 |

Total noninterest income increased $280,000, or 4.1 percent, to $7.2 million during the second quarter of 2007 and increased $92,000, or 0.7 percent, to $13.0 million during the first six months of 2007. The increase in noninterest income during the second quarter of 2007 occurred primarily at the Mortgage Banking segment and was attributable to higher gains on loan sales due to the increase in the volume of loans sold to investors. During the first half of 2007, the increase in noninterest income at the Retail Banking segment was attributable to higher service charges and fees on deposit accounts resulting from deposit account growth, coupled with the expansion of our overdraft protection services. This increase was offset in part by a decline in noninterest income at the Mortgage Banking segment during the first half of 2007 resulting from lower ancillary fees as a result of a decline in loan originations.

**Noninterest Expenses**

| (in 000 s) | Three Months Ended June 30, 2007<br>Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|---|---|---|---|---|---|
| Salaries and employee benefits | **$ 3,613** | **$ 3,110** | **$ 1,066** | **$ 114** | **$ 7,903** |
| Occupancy expense | **996** | **480** | **95** | **8** | **1,579** |
| Other expenses | **1,221** | **1,148** | **503** | **29** | **2,901** |
| Total noninterest expense | **$ 5,830** | **$ 4,738** | **$ 1,664** | **$ 151** | **$ 12,383** |

| (in 000 s) | Three Months Ended June 30, 2006<br>Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|---|---|---|---|---|---|
| Salaries and employee benefits | $ 3,173 | $ 2,992 | $ 761 | $ 227 | $ 7,153 |
| Occupancy expense | 844 | 403 | 73 | 6 | 1,326 |
| Other expenses | 1,125 | 1,092 | 411 | 32 | 2,660 |
| Total noninterest expense | $ 5,142 | $ 4,487 | $ 1,245 | $ 265 | $ 11,139 |

Table of Contents

| (in 000 s) | Six Months Ended June 30, 2007<br>Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|---|---|---|---|---|---|
| Salaries and employee benefits | **$ 7,178** | **$ 5,676** | **$ 2,055** | **$ 296** | **$ 15,205** |
| Occupancy expense | **1,915** | **924** | **170** | **14** | **3,023** |
| Other expenses | **2,439** | **2,152** | **987** | **59** | **5,637** |
| Total noninterest expense | **$ 11,532** | **$ 8,752** | **$ 3,212** | **$ 369** | **$ 23,865** |

| (in 000 s) | Six Months Ended June 30, 2006<br>Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|---|---|---|---|---|---|
| Salaries and employee benefits | $ 6,333 | $ 5,891 | $ 1,485 | $ 393 | $ 14,102 |
| Occupancy expense | 1,571 | 817 | 134 | 12 | 2,534 |
| Other expenses | 2,245 | 1,982 | 840 | 66 | 5,133 |
| Total noninterest expense | $ 10,149 | $ 8,690 | $ 2,459 | $ 471 | $ 21,769 |

Total noninterest expense increased $1.2 million, or 11.2 percent, to $12.4 million during the second quarter of 2007 and increased $2.1 million, or 9.6 percent, to $23.9 million during the first six months of 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 increased during the second quarter of 2007 at the Mortgage Banking segment because of higher overhead, including occupancy and other expenses, associated with opening new loan production offices in 2007 and 2006, and higher business development costs to generate more loan production. For the first half of 2007, lower personnel costs resulting from a decrease in loan originations at the Mortgage Banking segment were offset by higher overhead associated with new loan production offices and higher business development costs.

**Income Taxes**

Income tax expense for the second quarter of 2007 totaled $1.1 million, resulting in an effective tax rate of 30.3 percent, compared to $1.7 million, or 31.3 percent, for the second quarter of 2006. Income tax expense for the first half of 2007 totaled $1.9 million, resulting in an effective tax rate of 29.6 percent, compared to $2.8 million, or 31.0 percent, for the first half of 2006. The decline in the effective tax rate during the second quarter and first half of 2007 resulted from higher tax-exempt income on securities and loans as a percentage of pretax income.

Table of Contents

ASSET QUALITY

**Allowance 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, reduces the allowance. The following tables summarize the allowance activity for periods indicated:

| | Three Months Ended June 30, 2007 | | |
|---|---|---|---|
| **(in 000 s)** | **Retail and Mortgage Banking** | **Consumer Finance** | **Total** |
| Allowance, beginning of period | **$ 4,307** | **$ 10,220** | **$ 14,527** |
| Provision for loan losses | **40** | **1,450** | **1,490** |
| | **4,347** | **11,670** | **16,017** |
| Loans charged off | **(74)** | **(1,543)** | **(1,617)** |
| Recoveries of loans previously charged off | **28** | **401** | **429** |
| Net loans charged off | **(46)** | **(1,142)** | **(1,188)** |
| Allowance, end of period | **$ 4,301** | **$ 10,528** | **$ 14,829** |

| | Three Months Ended June 30, 2006 | | |
|---|---|---|---|
| **(in 000 s)** | **Retail and Mortgage Banking** | **Consumer Finance** | **Total** |
| Allowance, beginning of period | $ 4,685 | $ 8,773 | $ 13,458 |
| Provision for loan losses | (250) | 1,075 | 825 |
| | 4,435 | 9,848 | 14,283 |
| Loans charged off | (79) | (1,008) | (1,087) |
| Recoveries of loans previously charged off | 47 | 347 | 394 |
| Net loans charged off | (32) | (661) | (693) |
| Allowance, end of period | $ 4,403 | $ 9,187 | $ 13,590 |

Table of Contents

| (in 000 s) | Six Months Ended June 30, 2007<br>Retail and Mortgage Banking | Consumer Finance | Total |
|---|---|---|---|
| Allowance, beginning of period | $ 4,326 | $ 9,890 | $ 14,216 |
| Provision for loan losses | 40 | 2,850 | 2,890 |
| | 4,366 | 12,740 | 17,106 |
| Loans charged off | (131) | (3,051) | (3,182) |
| Recoveries of loans previously charged off | 66 | 839 | 905 |
| Net loans charged off | (65) | (2,212) | (2,277) |
| Allowance, end of period | $ 4,301 | $ 10,528 | $ 14,829 |

| (in 000 s) | Six Months Ended June 30, 2006<br>Retail and Mortgage Banking | Consumer Finance | Total |
|---|---|---|---|
| Allowance, beginning of period | $ 4,718 | $ 8,346 | $ 13,064 |
| Provision for loan losses | (250) | 2,350 | 2,100 |
| | 4,468 | 10,696 | 15,164 |
| Loans charged off | (226) | (2,124) | (2,350) |
| Recoveries of loans previously charged off | 161 | 615 | 776 |
| Net loans charged off | (65) | (1,509) | (1,574) |
| Allowance, end of period | $ 4,403 | $ 9,187 | $ 13,590 |

There has been a slight decline in the allowance for loan losses at the combined Retail Banking and Mortgage Banking segments since December 31, 2006. A $40,000 provision was recognized during the first six months of 2007, while net charge-offs were $65,000 in 2007. We believe that the current level of the allowance for loan losses is adequate to absorb any losses on existing loans that may become uncollectible.

The Consumer Finance segment accounted for the majority of the activity in the allowance for loan losses during 2007. The increase in the provision for loan losses occurred as a result of loan growth and higher charge-offs. The increase in net charge-offs during 2007 was attributable to a decline in the recovery rate on the sale of repossessed vehicles, coupled with an increase in the number of vehicles repossessed in 2007 and an increasing average balance per loan originated over the last several years. Despite the increase in net charge-offs, our ratio of charge-offs as a percentage of average loans continues to be below industry average. We diligently monitor credit quality and we believe that we are maintaining an adequate allowance for any losses on existing loans that may become uncollectible.

Table of Contents

**Nonperforming Assets**

**Retail and Mortgage Banking**

| (in 000 s) | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Nonperforming assets* | **$ 773** | $ 955 |
| Accruing loans** past due for 90 days or more | **1,568** | 1,629 |
| Total loans** | **418,335** | 399,195 |
| Allowance for loan losses | **4,301** | 4,326 |
| Nonperforming assets* to total loans** | **0.18%** | 0.24% |
| Allowance for loan losses to total loans** | **1.03** | 1.08 |
| Allowance for loan losses to nonperforming assets* | **556.40** | 452.98 |

* Nonperforming assets consist solely of nonaccrual loans for each period presented.

** Loans exclude Consumer Finance segment loans presented below.

**Consumer Finance**

| (in 000 s) | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Nonaccrual loans | **$ 712** | $ 880 |
| Accruing loans past due for 90 days or more | **$ 10** | $ 8 |
| Total loans | **$ 147,931** | $ 132,864 |
| Allowance for loan losses | **$ 10,528** | $ 9,890 |
| Nonaccrual consumer finance loans to total consumer finance loans | **.48%** | 0.66% |
| Allowance for loan losses to total consumer finance loans | **7.12** | 7.44 |

There have been no material changes since December 31, 2006 in nonperforming assets and accruing loans past due 90 days or more at any of the Corporation s business segments. At the Consumer Finance segment, the ratio of the allowance for loan losses to total consumer finance loans declined as a result of loan growth and higher charge-offs during 2007. We believe that the current level of the allowance for loan losses at the Consumer Finance segment is adequate to absorb any losses on existing loans that may become uncollectible.

Table of Contents

FINANCIAL CONDITION

At June 30, 2007, the Corporation had total assets of $754.1 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.

**Loan Portfolio**

The following table sets forth the composition of the Corporation s loans held for investment in dollar amounts and as a percentage of the Corporation s total gross loans held for investment at the dates indicated:

| | **June 30, 2007** | | **December 31, 2006** | |
|---|---|---|---|---|
| **(in 000 s)** | **Amount** | **Percent** | **Amount** | **Percent** |
| Real estate - mortgage | **$ 117,376** | **21%** | $ 115,885 | 22% |
| Real estate - construction | **16,316** | **3** | 13,650 | 2 |
| Commercial, financial and agricultural | **251,388** | **44** | 236,157 | 44 |
| Equity lines | **25,217** | **4** | 24,880 | 5 |
| Consumer | **8,390** | **2** | 8,951 | 2 |
| Consumer- C&F Finance | **147,931** | **26** | 132,864 | 25 |
| Total loans | **566,618** | **100%** | 532,387 | 100% |
| Less unearned loan fees | **(352)** | | (328) | |
| Less allowance for loan losses | | | | |
| Retail and Mortgage Banking | **(4,301)** | | (4,326) | |
| Consumer Finance | **(10,528)** | | (9,890) | |
| Total loans, net | **$ 551,437** | | $ 517,843 | |

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

**Investment Securities**

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:

| | June 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| (in 000 s) | Amount | Percent | Amount | Percent |
| U.S. government agencies and corporations | **$ 6,192** | **9%** | $ 6,222 | 9% |
| Mortgage-backed securities | **1,928** | **3** | 2,208 | 3 |
| Obligations of states and political subdivisions | **59,425** | **82** | 55,027 | 82 |
| Total debt securities | **67,545** | **94** | 63,457 | 94 |
| Preferred stock | **4,153** | **6** | 4,127 | 6 |
| Total available for sale securities | **$ 71,698** | **100%** | $ 67,584 | 100% |

**Deposits**

Deposits totaled $553.5 million at June 30, 2007 compared to $532.8 million at December 31, 2006. The increase in deposits predominantly occurred at the new branches opened in 2006 and 2007. Increases of $9.8 million in noninterest-bearing demand deposits and $21.6 million in time deposits were offset in part by a $10.7 million decline in savings and interest-bearing demand deposits. This shift is a result of the competitive environment for lower-costing transaction deposits.

**Borrowings**

Borrowings totaled $120.8 million at June 30, 2007 compared to $115.1 million at December 31, 2006. This increase was primarily attributable to loan growth at the Consumer Finance segment.

**Off-Balance Sheet Arrangements**

As of June 30, 2007, there have been no material changes to the off-balance sheet arrangements disclosed in Management s Discussion and Analysis in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

**Contractual Obligations**

As of June 30, 2007, there have been no material changes outside the ordinary course of business to the contractual obligations disclosed in Management s Discussion and Analysis in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

**Liquidity**

Liquid assets, which include unrestricted cash and due from banks, interest-bearing deposits in other banks and nonpledged securities available-for-sale, at June 30, 2007 totaled $44.9 million. The Corporation s funding sources consist of an established federal funds line with a regional correspondent bank of $14.0 million that had no outstanding balance as of June 30, 2007, an established line with the FHLB that had $15.8 million outstanding under a total line of $128.7 million as of June 30, 2007, an unsecured revolving line of credit with a third-party lender that had $7.0 million outstanding under a total line of $7.0 million as of

Table of Contents

June 30, 2007 and a revolving line of credit with a third-party bank that had $82.2 million outstanding under a total line of $100.0 million as of June 30, 2007. We have no reason to believe these arrangements will not be renewed at maturity.

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

**Capital Resources**

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

| (in 000 s) | Actual Amount | Actual Ratio | Minimum Capital Requirements Amount | Minimum Capital Requirements Ratio | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Amount | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio |
|---|---|---|---|---|---|---|
| *As of June 30, 2007:* | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation | **$ 71,947** | **11.6%** | **$ 49,806** | **8.0%** | **N/A** | **N/A** |
| Bank | **73,599** | **11.9** | **49,359** | **8.0** | **$ 61,699** | **10.0%** |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation | **64,078** | **10.3** | **24,903** | **4.0** | **N/A** | **N/A** |
| Bank | **65,799** | **10.7** | **24,679** | **4.0** | **37,019** | **6.0** |
| Tier I Capital (to Average Assets) | | | | | | |
| Corporation | **64,078** | **8.8** | **29,146** | **4.0** | **N/A** | **N/A** |
| Bank | **65,799** | **9.1** | **28,941** | **4.0** | **36,176** | **5.0** |
| *As of December 31, 2006:* | | | | | | |
| 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 I 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 I Capital (to Average 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 |

**Effects of Inflation**

The effect of changing prices on financial institutions is typically different from other industries as the Corporation 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. Impacts of inflation on interest rates, loan demand and deposits are reflected in the consolidated financial statements.

**Use of Certain Non-GAAP Financial Measures**

In addition to results presented in accordance with United States generally accepted accounting principles (GAAP) for the three months and six months ended June 30, 2006, we have presented certain non-GAAP financial measures throughout this Form 10-Q, which are reconciled to their equivalent 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.

Table of Contents

Specifically, we believe the exclusion of a significant recovery of income recognized in a single accounting period in 2006 permits a comparison of results for ongoing business operations, and it is on this basis that we internally assess the Corporation s performance and establish goals for future periods. Although we believe the non-GAAP financial measures presented in this Form 10-Q enhance investors understandings of the Corporation s performance, these non-GAAP financial measures should not be considered an alternative to GAAP-basis financial statements.

**Reconciliation of Non-GAAP Financial Measures**

(dollars in thousands, except for per share data)

| | * | For the Quarter Ended 6/30/07 | For the Quarter Ended 6/30/06 | For the Six Months Ended 6/30/07 | For the Six Months Ended 6/30/06 |
|---|---|---|---|---|---|
| **Net Income and Earnings Per Share** | | | | | |
| Net income (GAAP) | A | $ 2,462 | $ 3,726 | $ 4,473 | $ 6,252 |
| Nonaccrual and default interest attributable to loan transaction, net of income taxes (GAAP) | | | (565) | | (565) |
| Reduction in loan loss allowance attributable to loan transaction, net of income taxes (GAAP) | | | (163) | | (163) |
| Net income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | B | $ 2,462 | $ 2,998 | $ 4,473 | $ 5,524 |
| Weighted average shares assuming dilution (GAAP) | C | 3,185 | 3,275 | 3,214 | 3,275 |
| Weighted average shares basic (GAAP) | D | 3,054 | 3,150 | 3,080 | 3,149 |
| Earnings per share assuming dilution | | | | | |
| GAAP | A/C | $ 0.77 | $ 1.14 | $ 1.39 | $ 1.91 |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | B/C | $ 0.77 | $ .92 | $ 1.39 | $ 1.69 |
| Earnings per share basic | | | | | |
| GAAP | A/D | $ 0.81 | $ 1.18 | $ 1.45 | $ 1.99 |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | B/D | $ 0.81 | $ .95 | $ 1.45 | $ 1.75 |

Table of Contents

**Reconciliation of Non-GAAP Financial Measures (Continued)**

(dollars in thousands, except for per share data)

| | * | For the Quarter Ended 6/30/07 | For the Quarter Ended 6/30/06 | For the Six Months Ended 6/30/07 | For the Six Months Ended 6/30/06 |
|---|---|---|---|---|---|
| **Annualized Return on Average Assets** | | | | | |
| Average assets (GAAP) | E | $ 734,802 | $ 691,600 | $ 727,955 | $ 681,210 |
| Annualized return on average assets | | | | | |
| GAAP | (A/E)*4 | 1.34% | 2.16% | | |
| GAAP | (A/E)*2 | | | 1.23% | 1.84% |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | (B/E)*4 | 1.34% | 1.73% | | |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | (B/E)*2 | | | 1.23% | 1.62% |
| **Annualized Return on Average Equity** | | | | | |
| Average equity (GAAP) | F | $ 63,948 | $ 62,824 | $ 65,350 | $ 61,763 |
| Annualized return on average equity | | | | | |
| GAAP | (A/F)*4 | 15.40% | 23.72% | | |
| GAAP | (A/F)*2 | | | 13.69% | 20.25% |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | (B/F)*4 | 15.40% | 19.09% | | |
| Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | (B/F)*2 | | | 13.69% | 17.89% |
| **Retail Banking Segment Pretax Income** | | | | | |
| Pretax income (GAAP) | | $ 1,172 | $ 3,089 | $ 2,255 | $ 4,841 |
| Nonaccrual and default interest attributable to loan transaction (GAAP) | | | (870) | | (870) |
| Reduction in loan loss allowance attributable to loan transaction (GAAP) | | | (250) | | (250) |
| Net income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | | $ 1,172 | $ 1,969 | $ 2,255 | $ 3,721 |

Table of Contents

**Reconciliation of Non-GAAP Financial Measures (Continued)**

(dollars in thousands, except for per share data)

| | * | For the Quarter Ended 6/30/07 | For the Quarter Ended 6/30/06 | For the Six Months Ended 6/30/07 | For the Six Months Ended 6/30/06 |
|---|---|---|---|---|---|
| **Retail Banking Segment Net Income** | | | | | |
| Net income (GAAP) | | $ 997 | $ 2,282 | $ 1,930 | $ 3,636 |
| Nonaccrual and default interest attributable to loan transaction, net of income taxes (GAAP) | | | (565) | | (565) |
| Reduction in loan loss allowance attributable to loan transaction, net of income taxes (GAAP) | | | (163) | | (163) |
| Net income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction | | $ 997 | $ 1,554 | $ 1,930 | $ 2,908 |
| **Net Interest Income and Net Interest Margin** | | | | | |
| Net interest income (GAAP) | | $ 10,241 | $ 10,507 | $ 20,151 | $ 20,067 |
| Taxable-equivalent adjustment | | 369 | 342 | 708 | 660 |
| Taxable-equivalent net interest income | G | 10,610 | 10,849 | 20,859 | 20,727 |
| Nonaccrual and default interest attributable to loan transaction (GAAP) | | | (870) | | (870) |
| Taxable-equivalent net interest income, excluding nonaccrual and default interest attributable to loan transaction | H | $ 10,610 | $ 9,979 | $ 20,859 | $ 19,857 |
| Average interest-earning assets (GAAP) | I | $ 671,015 | $ 629,877 | $ 663,576 | $ 619,761 |
| Net interest margin | | | | | |
| GAAP | (G/I)*4 | 6.32% | | | |
| GAAP | ((H*4)+870)/I | | 6.48% | | |
| GAAP | (G/I)*2 | | | 6.29% | |
| GAAP | ((H*2)+870)/I | | | | 6.55% |
| Net interest margin, excluding nonaccrual and default interest attributable to loan transaction | (H/I)*4 | 6.32% | 6.34% | | |
| Net interest margin, excluding nonaccrual and default interest attributable to loan transaction | (H/I)*2 | | | 6.29% | 6.41% |

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

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes from the quantitative and qualitative disclosures made in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

## ITEM 4. 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 were effective as of June 30, 2007 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 of the Corporation is also responsible for establishing and maintaining adequate internal control over financial reporting and control of the Corporation s assets to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There were no changes in the Corporation s internal control over financial reporting during the Corporation s second quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Table of Contents

**PART II - OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

| | Issuer Purchases of Equity Securities | | | Maximum Number |
|---|---|---|---|---|
| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program[1] | of Shares that May Yet Be Purchased Under the Program[1] |
| April 1-30, 2007 | | $ | | 43,965 |
| May 1-31, 2007 | 40,320 | 41.99 | 40,320 | 3,645 |
| June 1-30, 2007 | 3,500 | 43.48 | 3,500 | 145 |
| Total | 43,820 | $ 42.11 | 43,820 | |

[1] On November 3, 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, 2006, 149,855 shares had been 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 will be purchased in the open market or through privately negotiated transactions, as management and the board of directors deem prudent.

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

The Corporation held its Annual Meeting of Shareholders on April 17, 2007. A quorum of shareholders was present, consisting of a total of 2,622,355 shares. At the Annual Meeting, the shareholders elected Audrey D. Holmes, Joshua H. Lawson and Paul C. Robinson as Class II directors to serve on the Board of Directors until the 2010 Annual Meeting of Shareholders and C. Elis Olsson as a Class I director to serve on the Board of Directors until the 2009 Annual Meeting of Shareholders. The following Class III and Class I directors whose terms expire in 2008 and 2009 continued in office: J.P. Causey Jr., Barry R. Chernack, William E. O Connell Jr., Larry G. Dillon and James H. Hudson III.

The vote on director nominations was as follows:

| | FOR | WITHHELD |
|---|---|---|
| Audrey D. Holmes | 2,571,411 | 50,944 |
| Joshua H. Lawson | 2,491,310 | 131,045 |
| Paul C. Robinson | 2,588,697 | 33,658 |
| C. Elis Olsson | 2,588,977 | 33,378 |

**ITEM 6. 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 Bylaws of C&F Financial Corporation (incorporated by reference to Exhibit 3.2 to Form 10-KSB filed March 29, 1996)

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

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

**Table of Contents**

## SIGNATURES

Pursuant to the requirements 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<br>(Registrant) |
| Date July 27, 2007 | /s/ Larry G. Dillon<br>Larry G. Dillon<br>Chairman, President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date July 27, 2007 | /s/ Thomas F. Cherry<br>Thomas F. Cherry<br>Executive Vice President,<br>Chief Financial Officer and Secretary<br>(Principal Financial and Accounting Officer) |