

C & F FINANCIAL CORP  
Form 10-Q  
November 06, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 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

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**C&F Financial Corporation**

(Exact name of registrant as specified in its charter)

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Virginia  
(State or other jurisdiction of  
incorporation or organization)

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

802 Main Street

West Point, VA

23181

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(Address of principal executive offices)

(804) 843-2360

(Zip Code)

(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.  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  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  No

At November 1, 2007, the latest practicable date for determination, 3,011,991 shares of common stock, \$1.00 par value, of the registrant were outstanding.

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**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

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

	September 30, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Cash and due from banks	\$ 10,169	\$ 11,496
Interest-bearing deposits in other banks	1,572	17,010
Federal funds sold	546	
<b>Total cash and cash equivalents</b>	<b>12,287</b>	<b>28,506</b>
Securities-available for sale at fair value, amortized cost of \$75,487 and \$66,407, respectively	76,193	67,584
Loans held for sale, net	31,826	53,504
Loans, net	583,349	517,843
Federal Home Loan Bank stock	4,522	2,093
Corporate premises and equipment, net	33,289	33,189
Accrued interest receivable	4,931	4,432
Goodwill	10,724	10,724
Other assets	17,036	16,593
<b>Total assets</b>	<b>\$ 774,157</b>	<b>\$ 734,468</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing demand deposits	\$ 86,417	\$ 90,260
Savings and interest-bearing demand deposits	175,350	188,450
Time deposits	272,388	254,125
<b>Total deposits</b>	<b>534,155</b>	<b>532,835</b>
Short-term borrowings	66,048	12,462
Long-term borrowings	84,660	92,284
Trust preferred capital notes	10,310	10,310
Accrued interest payable	2,067	1,915
Other liabilities	12,579	16,656
<b>Total liabilities</b>	<b>709,819</b>	<b>666,462</b>
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, 3,011,991 and 3,182,411 shares issued and outstanding, respectively)	2,989	3,159
Additional paid-in capital		324
Retained earnings	61,525	64,402

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Accumulated other comprehensive (loss) income, net	(176)	121
Total shareholders' equity	64,338	68,006
Total liabilities and shareholders' equity	\$ 774,157	\$ 734,468

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

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Interest income</b>				
Interest and fees on loans	\$ 15,932	\$ 13,939	\$ 45,158	\$ 40,706
Interest on money market investments	16	85	425	360
Interest and dividends on securities				
U.S. government agencies and corporations	70	67	199	186
Tax-exempt obligations of states and political subdivisions	672	574	1,901	1,743
Corporate bonds and other	131	98	407	311
<b>Total interest income</b>	<b>16,821</b>	<b>14,763</b>	<b>48,090</b>	<b>43,306</b>
<b>Interest expense</b>				
Savings and interest-bearing deposits	704	578	2,011	1,690
Certificates of deposit, \$100 or more	1,213	843	3,573	2,207
Other time deposits	1,975	1,506	5,581	4,070
Borrowings	2,193	1,918	6,038	5,354
<b>Total interest expense</b>	<b>6,085</b>	<b>4,845</b>	<b>17,203</b>	<b>13,321</b>
<b>Net interest income</b>	<b>10,736</b>	<b>9,918</b>	<b>30,887</b>	<b>29,985</b>
Provision for loan losses	1,800	1,125	4,690	3,225
<b>Net interest income after provision for loan losses</b>	<b>8,936</b>	<b>8,793</b>	<b>26,197</b>	<b>26,760</b>
<b>Noninterest income</b>				
Gains on sales of loans	4,055	4,594	12,122	12,713
Service charges on deposit accounts	911	951	2,636	2,523
Other service charges and fees	981	1,243	3,168	3,595
Gains on calls of available for sale securities	1	22	10	103
Other income	498	379	1,470	1,123
<b>Total noninterest income</b>	<b>6,446</b>	<b>7,189</b>	<b>19,406</b>	<b>20,057</b>
<b>Noninterest expenses</b>				
Salaries and employee benefits	7,793	7,486	22,998	21,588
Occupancy expenses	1,475	1,240	4,498	3,774
Other expenses	2,929	2,708	8,566	7,841
<b>Total noninterest expenses</b>	<b>12,197</b>	<b>11,434</b>	<b>36,062</b>	<b>33,203</b>
<b>Income before income taxes</b>	<b>3,185</b>	<b>4,548</b>	<b>9,541</b>	<b>13,614</b>
<b>Income tax expense</b>	<b>901</b>	<b>1,436</b>	<b>2,784</b>	<b>4,250</b>
<b>Net income</b>	<b>\$ 2,284</b>	<b>\$ 3,112</b>	<b>\$ 6,757</b>	<b>\$ 9,364</b>

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Per share data								
Net income basic	\$	.76	\$	.99	\$	2.21	\$	2.97
Net income assuming dilution	\$	.73	\$	.95	\$	2.12	\$	2.86
Cash dividends paid and declared	\$	.31	\$	.29	\$	.93	\$	.85
Weighted average number of shares basic		3,010,858		3,149,938		3,056,623		3,149,643
Weighted average number of shares assuming dilution		3,134,598		3,263,632		3,187,264		3,271,056

*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			\$ 6,757	6,757		6,757
Other comprehensive loss, net of tax						
Amortization of prepaid pension transition costs			9		9	9
Unrealized holding losses on securities, net of reclassification adjustment			(306)		(306)	(306)
Comprehensive income			\$ 6,460			
Purchase of common stock	(192)	(1,003)		(6,796)		(7,991)
Share-based compensation		224				224
Stock options exercised	22	455				477
Cash dividends				(2,838)		(2,838)
September 30, 2007	\$ 2,989	\$		\$ 61,525	\$ (176)	\$ 64,338

**Disclosure of Reclassification Amount:**

Unrealized net holding losses arising during period	\$ (299)
Reclassification adjustment for gains included in net income	(7)
Unrealized holding losses on securities, net of reclassification adjustment	\$ (306)

*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, Net	Total
December 31, 2005	\$ 3,141	\$ 183		\$ 55,930	\$ 832	\$ 60,086
Comprehensive income						
Net income			\$ 9,364	9,364		9,364
Other comprehensive loss, net of tax						
Unrealized holding losses on securities, net of reclassification adjustment			(144)		(144)	(144)
Comprehensive income			\$ 9,220			
Purchase of common stock	(13)	(500)				(513)
Share-based compensation		57				57
Stock options exercised	22	349				371
Cash dividends				(2,678)		(2,678)
September 30, 2006	\$ 3,150	\$ 89		\$ 62,616	\$ 688	\$ 66,543

**Disclosure of Reclassification Amount:**

Unrealized net holding losses arising during period	\$ (77)
Reclassification adjustment for gains included in net income	(67)
Unrealized holding losses on securities, net of reclassification adjustment	\$ (144)

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

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>		
Net income	\$ 6,757	\$ 9,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,920	1,479
Provision for loan losses	4,690	3,225
Share-based compensation	224	57
Amortization of prepaid pension transition costs	9	
Accretion of discounts and amortization of premiums on investment securities, net	36	25
Net realized gains on calls of securities	(10)	(103)
Proceeds from sale of loans	680,267	700,118
Origination of loans held for sale	(658,589)	(715,150)
Change in other assets and liabilities:		
Accrued interest receivable	(499)	(433)
Other assets	(279)	(709)
Accrued interest payable	152	446
Other liabilities	(4,077)	3,693
<b>Net cash provided by operating activities</b>	<b>30,601</b>	<b>2,012</b>
<b>Investing activities:</b>		
Proceeds from maturities and calls of securities available for sale	3,925	6,749
Purchases of securities available for sale	(13,030)	(6,558)
Net purchases of Federal Home Loan Bank stock	(2,429)	(802)
Net increase in customer loans	(70,196)	(46,340)
Purchases of corporate premises and equipment	(2,042)	(4,614)
Disposals of corporate premises and equipment	22	71
<b>Net cash used in investing activities</b>	<b>(83,750)</b>	<b>(51,494)</b>
<b>Financing activities:</b>		
Net decrease in demand, interest-bearing demand and savings deposits	(16,943)	(12,426)
Net increase in time deposits	18,263	16,119
Net increase in borrowings	45,962	24,529
Purchase of common stock	(7,991)	(513)
Proceeds from exercise of stock options	477	371
Cash dividends	(2,838)	(2,678)
<b>Net cash provided by financing activities</b>	<b>36,930</b>	<b>25,402</b>
Net decrease in cash and cash equivalents	(16,219)	(24,080)
Cash and cash equivalents at beginning of period	28,506	42,878
Cash and cash equivalents at end of period	\$ 12,287	\$ 18,798
<b>Supplemental disclosure</b>		
Interest paid	\$ 17,051	\$ 12,875

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Income taxes paid	\$	2,863	\$	4,410
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*The accompanying notes are an integral part of the consolidated financial statements.*

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**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 September 30, 2007 and the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 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 nine months ended September 30, 2007 included \$72,000 (\$45,000 after tax) and \$224,000 (\$139,000 after tax), respectively, for options and restricted stock granted during 2007 and 2006. As of September 30, 2007, there was \$819,000 of total unrecognized compensation expense related to nonvested stock options and restricted stock that will be recognized over the remaining requisite service period.

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Stock option plan activity for the nine months ended September 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	(21,500)	22.20		
Options outstanding at September 30, 2007	522,167	32.07	6.1	\$ 5,072
Options exercisable at September 30, 2007	508,667	31.94	6.0	\$ 5,010

\* *Weighted average*

The total intrinsic value of in-the-money options exercised during the nine months ended September 30, 2007 was \$439,000. Cash received from option exercises during the same period was \$477,000. 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 nine months of 2007, the Corporation purchased 192,020 shares of its common stock in negotiated and open-market transactions at prices ranging from \$37.25 to \$45.07. During the first nine months of 2006, the Corporation purchased 13,122 shares of its common stock in open-market transactions at prices from \$37.27 to \$40.00.

**Table of Contents****Note 4**

Securities in an unrealized loss position at September 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	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(in 000 s)	Value	Loss	Value	Loss	Value	Loss
U.S. government agencies and corporations	\$ 484	\$ 1	\$ 4,711	\$ 36	\$ 5,195	\$ 37
Mortgage-backed securities	377	3	1,061	24	1,438	27
Obligations of states and political subdivisions	11,012	76	5,438	60	16,450	136
Subtotal-debt securities	11,873	80	11,210	120	23,083	200
Preferred stock	1,498	104	183	5	1,681	109
Total temporarily impaired securities	\$ 13,371	\$ 184	\$ 11,393	\$ 125	\$ 24,764	\$ 309

The primary cause of the temporary impairments in the Corporation's investment in debt securities was the decline in prices as market interest rates have risen. There are 61 debt securities and four equity securities totaling \$23.1 million and \$1.7 million, respectively, considered temporarily impaired at September 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 September 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	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(in 000 s)	Value	Loss	Value	Loss	Value	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 non-contributory defined benefit plan for which the components of net periodic benefit cost are as follows:

(in 000 s)	Three Months Ended September 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
<b>Net periodic benefit cost</b>	<b>\$ 183</b>	<b>\$ 179</b>

(in 000 s)	Nine Months Ended September 30,	
	2007	2006
Service cost	\$ 582	\$ 564
Interest cost	288	258
Expected return on plan assets	(336)	(321)
Amortization of net obligation at transition	(3)	(3)
Amortization of prior service cost	6	6
Amortization of net loss	12	33
<b>Net periodic benefit cost</b>	<b>\$ 549</b>	<b>\$ 537</b>

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.





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(in 000 s)	Three Months Ended September 30, 2007						Consolidated
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations		
<b>Revenues:</b>							
Interest income	\$ 10,430	\$ 628	\$ 6,783	\$	\$ (1,020)	\$	\$ 16,821
Gains on sales of loans		3,990			65		4,055
Other	1,307	630	106	348			2,391
<b>Total operating income</b>	<b>11,737</b>	<b>5,248</b>	<b>6,889</b>	<b>348</b>	<b>(955)</b>		<b>23,267</b>
<b>Expenses:</b>							
Interest expense	4,505	224	2,350	49	(1,043)		6,085
Provision for loan losses	120		1,680				1,800
Personnel expenses	3,685	2,674	1,159	201	74		7,793
Other	2,133	1,571	664	36			4,404
<b>Total operating expenses</b>	<b>10,443</b>	<b>4,469</b>	<b>5,853</b>	<b>286</b>	<b>(969)</b>		<b>20,082</b>
Income before income taxes	1,294	779	1,036	62	14		3,185
Provision for income taxes	188	295	394	24			901
<b>Net income</b>	<b>\$ 1,106</b>	<b>\$ 484</b>	<b>\$ 642</b>	<b>\$ 38</b>	<b>\$ 14</b>		<b>\$ 2,284</b>
<b>Total assets</b>	<b>\$ 641,253</b>	<b>\$ 42,354</b>	<b>\$ 165,707</b>	<b>\$ 79</b>	<b>\$ (75,236)</b>		<b>\$ 774,157</b>
<b>Capital expenditures</b>	<b>\$ 155</b>	<b>\$ 41</b>	<b>\$ 28</b>	<b>\$</b>	<b>\$</b>		<b>\$ 224</b>
<b>Three Months Ended September 30, 2006</b>							
(in 000 s)	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations		Consolidated
<b>Revenues:</b>							
Interest income	\$ 9,492	\$ 755	\$ 5,443	\$	\$ (927)	\$	\$ 14,763
Gains on sales of loans		4,607			(13)		4,594
Other	1,356	878	109	252			2,595
<b>Total operating income</b>	<b>10,848</b>	<b>6,240</b>	<b>5,552</b>	<b>252</b>	<b>(940)</b>		<b>21,952</b>
<b>Expenses:</b>							
Interest expense	3,508	422	1,829		(914)		4,845
Provision for loan losses			1,125				1,125
Personnel expenses	3,249	3,251	815	159	12		7,486
Other	1,971	1,447	500	30			3,948
<b>Total operating expenses</b>	<b>8,728</b>	<b>5,120</b>	<b>4,269</b>	<b>189</b>	<b>(902)</b>		<b>17,404</b>
Income before income taxes	2,120	1,120	1,283	63	(38)		4,548
Provision for income taxes	515	422	488	24	(13)		1,436
<b>Net income</b>	<b>\$ 1,605</b>	<b>\$ 698</b>	<b>\$ 795</b>	<b>\$ 39</b>	<b>\$ (25)</b>		<b>\$ 3,112</b>
<b>Total assets</b>	<b>\$ 572,794</b>	<b>\$ 64,597</b>	<b>\$ 132,187</b>	<b>\$ 62</b>	<b>\$ (58,865)</b>		<b>\$ 710,775</b>
<b>Capital expenditures</b>	<b>\$ 327</b>	<b>\$ 52</b>	<b>\$ 27</b>	<b>\$</b>	<b>\$</b>		<b>\$ 406</b>



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(in 000 s)	Nine Months Ended September 30, 2007					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
<b>Revenues:</b>						
Interest income	\$ 29,827	\$ 1,957	\$ 19,063	\$	\$ (2,757)	\$ 48,090
Gains on sales of loans		12,135			(13)	12,122
Other	3,888	2,065	344	987		7,284
<b>Total operating income</b>	<b>33,715</b>	<b>16,157</b>	<b>19,407</b>	<b>987</b>	<b>(2,770)</b>	<b>67,496</b>
<b>Expenses:</b>						
Interest expense	12,656	837	6,389	135	(2,814)	17,203
Provision for loan losses	160		4,530			4,690
Personnel expenses	10,863	8,350	3,214	549	22	22,998
Other	6,488	4,647	1,820	109		13,064
<b>Total operating expenses</b>	<b>30,167</b>	<b>13,834</b>	<b>15,953</b>	<b>793</b>	<b>(2,792)</b>	<b>57,955</b>
Income before income taxes	3,548	2,323	3,454	194	22	9,541
Provision for income taxes	512	882	1,313	74	3	2,784
<b>Net income</b>	<b>\$ 3,036</b>	<b>\$ 1,441</b>	<b>\$ 2,141</b>	<b>\$ 120</b>	<b>\$ 19</b>	<b>\$ 6,757</b>
<b>Total assets</b>	<b>\$ 641,253</b>	<b>\$ 42,354</b>	<b>\$ 165,707</b>	<b>\$ 79</b>	<b>\$ (75,236)</b>	<b>\$ 774,157</b>
<b>Capital expenditures</b>	<b>\$ 1,612</b>	<b>\$ 190</b>	<b>\$ 240</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,042</b>

(in 000 s)	Nine Months Ended September 30, 2006					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
<b>Revenues:</b>						
Interest income	\$ 28,125	\$ 1,974	\$ 15,588	\$	\$ (2,381)	\$ 43,306
Gains on sales of loans		12,750			(37)	12,713
Other	3,726	2,535	324	759		7,344
<b>Total operating income</b>	<b>31,851</b>	<b>17,259</b>	<b>15,912</b>	<b>759</b>	<b>(2,418)</b>	<b>63,363</b>
<b>Expenses:</b>						
Interest expense	9,771	1,029	4,939		(2,418)	13,321
Provision for loan losses	(250)		3,475			3,225
Personnel expenses	9,582	9,142	2,300	514	50	21,588
Other	5,787	4,246	1,474	108		11,615
<b>Total operating expenses</b>	<b>24,890</b>	<b>14,417</b>	<b>12,188</b>	<b>622</b>	<b>(2,368)</b>	<b>49,749</b>
Income before income taxes	6,961	2,842	3,724	137	(50)	13,614
Provision for income taxes	1,720	1,080	1,415	52	(17)	4,250
<b>Net income</b>	<b>\$ 5,241</b>	<b>\$ 1,762</b>	<b>\$ 2,309</b>	<b>\$ 85</b>	<b>\$ (33)</b>	<b>\$ 9,364</b>
<b>Total assets</b>	<b>\$ 572,794</b>	<b>\$ 64,597</b>	<b>\$ 132,187</b>	<b>\$ 62</b>	<b>\$ (58,865)</b>	<b>\$ 710,775</b>
<b>Capital expenditures</b>	<b>\$ 4,222</b>	<b>\$ 232</b>	<b>\$ 157</b>	<b>\$ 3</b>	<b>\$</b>	<b>\$ 4,614</b>

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 Federal Home Loan Bank ( FHLB )

advance rate plus 50 basis points. The Retail Banking segment also provides the Consumer Finance segment

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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.

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**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.

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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

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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.



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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 26.6 percent to \$2.3 million for the third quarter of 2007 compared to the third quarter of 2006. Earnings per share assuming dilution decreased 23.2 percent to 73 cents for the third quarter of 2007 compared to the same period in 2006. Net income decreased 27.8 percent to \$6.8 million for the first nine months of 2007 compared to the first nine months of 2006. Earnings per share assuming dilution decreased 25.9 percent to \$2.12 for the first nine months of 2007 compared to the same period in 2006.

Net income for the first nine 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, the Corporation's net income for the first nine months of 2007 decreased 21.8 percent and earnings per share assuming dilution decreased 19.7 percent. Earnings results in 2007 were negatively affected at the Retail Banking segment and the Consumer Finance segment by net interest margin compression, higher provisions for loan losses attributable in part to loan growth, and higher operating expenses associated with expansion initiatives. A decline in earnings at the Mortgage Banking segment resulted from a reduction in refinancings and a downturn in the new and resale housing markets.

For the third quarter of 2007, on an annualized basis, the Corporation's ROE was 14.21 percent and its ROA was 1.21 percent, compared to 19.15 percent and 1.78 percent, respectively, for the third quarter of 2006. For the first nine months of 2007, on an annualized basis, the Corporation's ROE was 13.82 percent and its ROA was 1.22 percent, compared to 19.86 percent and 1.82 percent, respectively, for the first nine months of 2006 (and 18.32 percent and 1.67 percent for the first nine months of 2006, adjusted to exclude the effect of the commercial loan pay-off in 2006). The decline in these measures resulted from lower earnings in 2007 and asset growth, offset in part by stock repurchases.

**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 \$1.3 million for the third quarter of 2007, compared with \$2.1 million for the third quarter of 2006. Pretax earnings for the Retail Banking segment were \$3.5 million for the first nine months of 2007, compared with \$7.0 million for the first nine months of 2006 (and \$5.8 million for the first nine months of 2006, 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

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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 continued at the Retail Banking segment as the cost of deposits continued to rise, 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 \$779,000 for the third quarter of 2007, compared with \$1.1 million for the third quarter of 2006. Pretax earnings for the Mortgage Banking segment were \$2.3 million for the first nine months of 2007, compared with \$2.8 million for the first nine months of 2006. The decline in earnings for 2007 included (1) the effects of the downturn in the housing market on loan origination volume, which declined 13.4 percent and 7.9 percent in the third quarter and the first nine months, 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 third quarter of 2007, the amount of loan originations at C&F Mortgage resulting from refinancings was \$55.7 million compared to \$54.6 million for the third quarter of 2006. Loans originated for new and resale home purchases for these two time periods were \$150.9 million and \$183.9 million, respectively. For the first nine months of 2007, the amount of loan originations at C&F Mortgage Corporation resulting from refinancings was \$178.1 million compared to \$193.1 million for the first nine months of 2006. Loans originated for new and resale home purchases for these two nine-month periods were \$480.5 million compared to \$522.1 million. Future earnings of the Mortgage Banking segment may continue to be negatively affected if interest rate trends and the overall condition of the housing market 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 \$1.0 million for the third quarter of 2007, compared with \$1.3 million for the third quarter of 2006. Pretax earnings for the Consumer Finance segment were \$3.5 million for the first nine months of 2007, compared with \$3.7 million for the first nine months of 2006. Earnings of the Consumer Finance segment have benefited from an increase in net interest income resulting from average loan growth of 25.3 percent for the third quarter of 2007 and 21.7 percent for the first nine months of 2007. However, the Consumer Finance segment's net interest margins for both the third quarter and the first nine months of 2007 declined as a result of an increase in the cost of variable-rate borrowings, which are indexed to short-term interest rates, without a corresponding increase in its fixed-rate loan portfolio. In addition, 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. The provision for loan losses increased during the third quarter and first nine months of 2007 as a result of higher charge-offs attributable to 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 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.

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**Capital Management.** Total shareholders' equity decreased \$3.7 million to \$64.3 million at September 30, 2007, compared to \$68.0 million at December 31, 2006. This decline was attributable to dividends to shareholders of \$2.8 million and the purchase of 192,020 shares of the Corporation's common stock totaling \$8.0 million during 2007, the effects of which were offset in part by earnings in 2007. The board of directors has maintained the quarterly dividend level at 31 cents per share during 2007 despite the decline in earnings, resulting in a dividend payout ratio of 42.0 percent for the first nine months of 2007 compared to 28.6 percent for the same period in 2006. 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, 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

## Selected Average Balance Sheet Data and Net Interest Margin

(in 000 \$)	Three Months Ended			
	September 30, 2007 Average Balance	Yield/ Cost	September 30, 2006 Average Balance	Yield/ Cost
Securities	\$ 76,713	6.48%	\$ 66,291	6.30%
Loans held for sale	33,054	6.73	47,867	6.31
Loans	581,878	10.49	516,041	10.24
Interest-bearing deposits in other banks and federal funds sold	1,212	5.28	6,631	5.13
<b>Total earning assets</b>	<b>\$ 692,857</b>	<b>9.85%</b>	<b>\$ 636,830</b>	<b>9.48%</b>
Time and savings deposits	\$ 451,219	3.45%	\$ 414,812	2.82%
Borrowings	136,498	6.43	120,298	6.38
<b>Total interest-bearing liabilities</b>	<b>\$ 587,717</b>	<b>4.14%</b>	<b>\$ 535,110</b>	<b>3.62%</b>
<b>Net interest margin</b>		<b>6.34%</b>		<b>6.44%</b>

(in 000 \$)	Nine Months Ended			
	September 30, 2007 Average Balance	Yield/ Cost	September 30, 2006 Average Balance	Yield/ Cost
Securities	\$ 72,139	6.59%	\$ 66,924	6.35%
Loans held for sale	36,881	6.71	42,865	6.14
Loans	553,523	10.43	505,749	10.17
Interest-bearing deposits in other banks and federal funds sold	10,793	5.25	9,975	4.81
<b>Total earning assets</b>	<b>\$ 673,336</b>	<b>9.73%</b>	<b>\$ 625,513</b>	<b>9.40%</b>
Time and savings deposits	\$ 448,134	3.32%	\$ 411,276	2.58%
Borrowings	126,382	6.37	119,922	5.95
<b>Total interest-bearing liabilities</b>	<b>\$ 574,516</b>	<b>3.99%</b>	<b>\$ 531,198</b>	<b>3.34%</b>
<b>Net interest margin</b>		<b>6.32%</b>		<b>6.56%</b>



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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 third quarter of 2006 to the third quarter of 2007 and from the first nine months of 2006 to the first nine months 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.

(in 000 s)	Three Months Ended September 30, 2007		
	Increase(Decrease) Due to Changes in Rate	Volume	Total Increase (Decrease)
<b>Interest income:</b>			
Securities	\$ 23	\$ 175	\$ 198
Loans <sup>(1)</sup>	512	1,465	1,977
Interest-bearing deposits in other banks	4	(73)	(69)
<b>Total interest income</b>	<b>539</b>	<b>1,567</b>	<b>2,106</b>
<b>Interest expense:</b>			
Time and savings deposits	484	481	965
Borrowings	15	260	275
<b>Total interest expense</b>	<b>499</b>	<b>741</b>	<b>1,240</b>
Change in net interest income	\$ 40	\$ 826	\$ 866

(in 000 s)	Nine Months Ended September 30, 2007		
	Increase(Decrease) Due to Changes in Rate	Volume	Total Increase (Decrease)
<b>Interest income:</b>			
Securities	\$ 97	\$ 283	\$ 380
Loans <sup>(1)</sup>	1,994	2,428	4,422
Interest-bearing deposits in other banks	34	31	65
<b>Total interest income</b>	<b>2,125</b>	<b>2,742</b>	<b>4,867</b>
<b>Interest expense:</b>			
Time and savings deposits	1,910	1,288	3,198
Borrowings	387	297	684
<b>Total interest expense</b>	<b>2,297</b>	<b>1,585</b>	<b>3,882</b>
Change in net interest income	\$ (172)	\$ 1,157	\$ 985

(1) The change in loan interest income due to changes in interest rates includes an increase of \$172,000, which was included in loan interest income in the third quarter and the first nine months of 2007 for nonaccrual interest attributable to the repayment of previously

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nonperforming loans, and a decline of \$870,000, which was included in loan interest income in the first nine months 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 third quarter of 2007 was \$11.1 million compared to \$10.3 million for the third quarter of 2006. Net interest income, on a taxable-equivalent basis, for the first nine months of 2007 was \$32.0 million compared to \$31.0 million for the first nine months of 2006 (\$30.1 million adjusted to exclude the \$870,000 of nonaccrual and default interest attributable to the commercial loan pay-off). The net interest margin was 6.34 percent for the third quarter of 2007 compared

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to 6.44 percent for the third quarter of 2006, and 6.32 percent for the first nine months of 2007 compared to 6.56 percent for the first nine months of 2006 (and 6.42 percent for the first nine months of 2006, adjusted to exclude the effect of the commercial loan pay-off in 2006).

The higher net interest income for the third quarter and for the first nine months 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 8.8 percent and 7.6 percent for the third quarter and the first nine months 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 \$65.8 million and \$47.8 million in the third quarter and the first nine months of 2007, respectively, compared to the same periods in 2006. The Retail Banking segment's average loan portfolio increased \$31.5 million in the third quarter of 2007 and \$20.8 million in the first nine months of 2007. These increases were mainly attributable to commercial loan growth. The Consumer Finance segment's average loan portfolio increased \$31.2 million in the third quarter of 2007 and \$25.5 million in the first nine months of 2007. These increases were attributable to overall growth at existing locations and expansion into new markets. The Mortgage Banking segment's average loan portfolio increased \$3.1 million in the third quarter of 2007 and \$1.5 million in the first nine months of 2007. These increases were attributable to short-term bridge loans, a new product initiated in 2007. Average loans held for sale at the Mortgage Banking segment decreased \$14.8 million in the third quarter of 2007 and \$6.0 million in the first nine months 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 third quarter and the first nine months of 2007 were due to a general increase in interest rates.

Average securities available for sale increased \$10.4 million and \$5.2 million for the third quarter and the first nine months of 2007, respectively, compared to the same periods in 2006. In addition, their average yield increased 18 basis points and 24 basis points for the third quarter and the first nine months of 2007, respectively. 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 the first nine months of 2007 included the receipt of dividends from one preferred stock holding, which had previously suspended dividend payments.

Average interest-bearing deposits in other banks, primarily the FHLB, decreased \$5.4 million and increased \$818,000 for the third quarter and first nine months of 2007, respectively, compared to the same periods in 2006. Fluctuations in the average balance of these lower-yielding deposits occurred in response to loan demand. The average yield on interest-bearing deposits in other banks increased 15 basis points and 44 basis points for the third quarter and first nine months of 2007, respectively. The higher yields were due to increases in short-term interest rates through mid-2006.

Average interest-bearing deposits increased \$36.4 million and \$36.9 million for the third quarter and the first nine months 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 63 basis points for the third quarter of 2007 and 74 basis points for the first nine months of 2007 due to the increase in short-term interest rates, coupled with the repricing of maturing certificates of deposit at higher interest rates and a decrease in the proportion of transaction accounts relative to total interest-bearing deposits due to the competitive environment for these lower-costing deposits.

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Average borrowings increased \$16.2 million and \$6.5 million for the third quarter and the first nine months of 2007, respectively, compared to the same periods in 2006. The increases in 2007 as compared to the same periods in the prior year resulted 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 borrowings from the FHLB by the Retail Banking segment. These borrowings are indexed to short-term interest rates and reprice as short-term interest rates change. Accordingly, the average cost of borrowings increased 42 basis points for the first nine months of 2007 due to rising short-term interest rates through mid-2006. The nominal five basis points increase in the average cost of borrowings for the third quarter of 2007 reflected the stabilization of short-term interest rates after mid-2006. In addition, unpredictable fluctuations in LIBOR, which are believed to have been triggered in part by the funding crisis in the housing markets, temporarily increased the Consumer Finance segment's variable-rate borrowings during the third quarter of 2007.

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 sustained downturn in the housing market is resulting in lower demand for home mortgage loans at the Mortgage Banking segment.

**Noninterest Income**

(in 000 s)	Three Months Ended September 30, 2007				Total
	Retail Banking	Mortgage Banking	Consumer Finance	and Other Eliminations	
Gains on sales of loans	\$	\$ 3,990	\$	\$ 65	\$ 4,055
Service charges on deposit accounts	911				911
Other service charges and fees	361	632	(12)		981
Gains on calls of available for sale securities	1				1
Other income	34	(2)	118	348	498
Total noninterest income	\$ 1,307	\$ 4,620	\$ 106	\$ 413	\$ 6,446

(in 000 s)	Three Months Ended September 30, 2006				Total
	Retail Banking	Mortgage Banking	Consumer Finance	and Other Eliminations	
Gains on sales of loans	\$	\$ 4,607	\$	\$ (13)	\$ 4,594
Service charges on deposit accounts	951				951
Other service charges and fees	317	871	55		1,243
Gain on calls of available for sale securities	22				22
Other income	66	7	54	252	379
Total noninterest income	\$ 1,356	\$ 5,485	\$ 109	\$ 239	\$ 7,189



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(in 000 s)	Nine Months Ended September 30, 2007				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Total
Gains on sales of loans	\$	\$ 12,135	\$	\$ (13)	\$ 12,122
Service charges on deposit accounts	2,636				2,636
Other service charges and fees	1,009	2,067	92		3,168
Gains on calls of available for sale securities	10				10
Other income	233	(2)	252	987	1,470
Total noninterest income	\$ 3,888	\$ 14,200	\$ 344	\$ 974	\$ 19,406

(in 000 s)	Nine Months Ended September 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Total
Gains on sales of loans	\$	\$ 12,750	\$	\$ (37)	\$ 12,713
Service charges on deposit accounts	2,523				2,523
Other service charges and fees	896	2,515	184		3,595
Gain on calls of available for sale securities	103				103
Other income	204	20	140	759	1,123
Total noninterest income	\$ 3,726	\$ 15,285	\$ 324	\$ 722	\$ 20,057

Total noninterest income decreased \$743,000, or 10.3 percent, to \$6.4 million during the third quarter of 2007 and decreased \$651,000, or 3.3 percent, to \$19.4 million during the first nine months of 2007. The decrease in noninterest income during the third quarter of 2007 occurred primarily at the Mortgage Banking segment and 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. During the first nine months of 2007, the decline in noninterest income at the Mortgage Banking segment resulting from the 7.9 percent decrease in loan origination volume was offset in part by an increase in noninterest income at 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. Increased revenue from brokerage services further offset the decline in the Mortgage Banking segment.

**Noninterest Expenses**

(in 000 s)	Three Months Ended September 30, 2007				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Total
Salaries and employee benefits	\$ 3,685	\$ 2,674	\$ 1,159	\$ 275	\$ 7,793
Occupancy expense	935	431	103	6	1,475
Other expenses	1,198	1,140	561	30	2,929
Total noninterest expense	\$ 5,818	\$ 4,245	\$ 1,823	\$ 311	\$ 12,197

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(in 000 s)	Three Months Ended September 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Other Total
Salaries and employee benefits	\$ 3,249	\$ 3,251	\$ 815	\$ 171	\$ 7,486
Occupancy expense	736	423	75	6	1,240
Other expenses	1,235	1,024	425	24	2,708
Total noninterest expense	\$ 5,220	\$ 4,698	\$ 1,315	\$ 201	\$ 11,434

(in 000 s)	Nine Months Ended September 30, 2007				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Other Total
Salaries and employee benefits	\$ 10,863	\$ 8,350	\$ 3,214	\$ 571	\$ 22,998
Occupancy expense	2,849	1,356	273	20	4,498
Other expenses	3,639	3,291	1,547	89	8,566
Total noninterest expense	\$ 17,351	\$ 12,997	\$ 5,034	\$ 680	\$ 36,062

(in 000 s)	Nine Months Ended September 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	and Eliminations	Other Total
Salaries and employee benefits	\$ 9,582	\$ 9,142	\$ 2,300	\$ 564	\$ 21,588
Occupancy expense	2,307	1,240	209	18	3,774
Other expenses	3,480	3,006	1,265	90	7,841
Total noninterest expense	\$ 15,369	\$ 13,388	\$ 3,774	\$ 672	\$ 33,203

Total noninterest expense increased \$763,000, or 6.7 percent, to \$12.2 million during the third quarter of 2007 and increased \$2.9 million, or 8.6 percent, to \$36.1 million during the first nine 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 decreased during the third quarter and the first nine months of 2007 at the Mortgage Banking segment because of lower production-based personnel expenses as a result of the decline in loan production. These declines were offset in part by higher 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.

**Table of Contents****Income Taxes**

Income tax expense for the third quarter of 2007 totaled \$901,000, resulting in an effective tax rate of 28.3 percent, compared to \$1.4 million, or 31.6 percent, for the third quarter of 2006. Income tax expense for the first nine months of 2007 totaled \$2.8 million, resulting in an effective tax rate of 29.2 percent, compared to \$4.3 million, or 31.2 percent, for the first nine months of 2006. The decline in the effective tax rate during the third quarter and first nine months of 2007 resulted from higher tax-exempt income on securities and loans as a percentage of pretax income.

**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:

(in 000 s)	Three Months Ended September 30, 2007		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	\$ 4,301	\$ 10,528	\$ 14,829
Provision for loan losses	120	1,680	1,800
	4,421	12,208	16,629
Loans charged off	(41)	(1,708)	(1,749)
Recoveries of loans previously charged off	137	422	559
Net loans charged off	96	(1,286)	(1,190)
Allowance, end of period	\$ 4,517	\$ 10,922	\$ 15,439

(in 000 s)	Three Months Ended September 30, 2006		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	\$ 4,403	\$ 9,187	\$ 13,590
Provision for loan losses		1,125	1,125
	4,403	10,312	14,715
Loans charged off	(112)	(1,152)	(1,264)
Recoveries of loans previously charged off	47	355	402
Net loans charged off	(65)	(797)	(862)
Allowance, end of period	\$ 4,338	\$ 9,515	\$ 13,853

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(in 000 s)	Nine Months Ended September 30, 2007		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	\$ 4,326	\$ 9,890	\$ 14,216
Provision for loan losses	160	4,530	4,690
	<b>4,486</b>	<b>14,420</b>	<b>18,906</b>
Loans charged off	(172)	(4,759)	(4,931)
Recoveries of loans previously charged off	203	1,261	1,464
Net loans charged off	31	(3,498)	(3,467)
Allowance, end of period	\$ 4,517	\$ 10,922	\$ 15,439

(in 000 s)	Nine Months Ended September 30, 2006		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	\$ 4,718	\$ 8,346	\$ 13,064
Provision for loan losses	(250)	3,475	3,225
	4,468	11,821	16,289
Loans charged off	(338)	(3,276)	(3,614)
Recoveries of loans previously charged off	208	970	1,178
Net loans charged off	(130)	(2,306)	(2,436)
Allowance, end of period	\$ 4,338	\$ 9,515	\$ 13,853

There has been an increase in the allowance for loan losses at the combined Retail Banking and Mortgage Banking segments since December 31, 2006. This increase resulted from net recoveries in 2007, coupled with a \$160,000 provision for loan losses attributable to loan growth. We believe that the current level of the allowance for loan losses is appropriate to cover 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 an increase in the number of vehicles repossessed in 2007, coupled with a higher 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 the industry average. We diligently monitor credit quality and we believe that the allowance for loan losses is appropriate to cover any losses on existing loans that may become uncollectible.

**Table of Contents****Nonperforming Assets****Retail and Mortgage Banking**

	September 30,	December 31,
(in 000 s)	2007	2006
Nonperforming assets*	\$ 614	\$ 955
Accruing loans** past due for 90 days or more***	1,557	1,629
Total loans**	440,011	399,195
Allowance for loan losses	4,517	4,326
Nonperforming assets* to total loans**	0.14%	0.24%
Allowance for loan losses to total loans**	1.03	1.08
Allowance for loan losses to nonperforming assets*	735.67	452.98

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

\*\* Loans exclude Consumer Finance segment loans presented below.

\*\*\* Balance includes a \$1.2 million loan that was administratively past due at September 30, 2007. Subsequent to September 30, 2007, the loan renewal process was completed.

**Consumer Finance**

	September 30,	December 31,
(in 000 s)	2007	2006
Nonaccrual loans	\$ 908	\$ 880
Accruing loans past due for 90 days or more	9	8
Total loans	158,777	\$ 132,864
Allowance for loan losses	10,922	\$ 9,890
Nonaccrual consumer finance loans to total consumer finance loans	0.57%	0.66%
Allowance for loan losses to total consumer finance loans	6.88	7.44

At the combined Retail and Mortgage Banking segments, the ratio of the allowance for loan losses to total loans declined five basis points since December 31, 2006 as a result of loan growth. Nonetheless, the ratio of the allowance for loan losses to nonperforming assets increased because nonperforming assets have declined since December 31, 2006 primarily as a result of loan repayments.

At the Consumer Finance segment, the ratio of the allowance for loan losses to total consumer finance loans declined 56 basis points as a result of loan growth and higher charge-offs during 2007. Based on our evaluation of the Consumer Finance segment's rates of delinquencies, defaults, repossessions and losses, we believe that the current level of the allowance for loan losses at the Consumer Finance segment is appropriate to cover any losses on existing loans that may become uncollectible.

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## FINANCIAL CONDITION

At September 30, 2007, the Corporation had total assets of \$774.2 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:

(in 000 s)	September 30, 2007		December 31, 2006	
	Amount	Percent	Amount	Percent
Real estate - mortgage	\$ 124,815	21%	\$ 115,885	22%
Real estate - construction	14,338	2	13,650	2
Commercial, financial and agricultural	267,755	45	236,157	44
Equity lines	24,886	4	24,880	5
Consumer	8,583	1	8,951	2
Consumer - C&F Finance	158,777	27	132,864	25
<b>Total loans</b>	<b>599,154</b>	<b>100%</b>	<b>532,387</b>	<b>100%</b>
Less unearned loan fees	(366)		(328)	
Less allowance for loan losses				
Retail and Mortgage Banking	(4,517)		(4,326)	
Consumer Finance	(10,922)		(9,890)	
<b>Total loans, net</b>	<b>\$ 583,349</b>		<b>\$ 517,843</b>	

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 negatively impacted in a rising interest rate environment.

**Table of Contents****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:

(in 000's)	September 30, 2007		December 31, 2006	
	Amount	Percent	Amount	Percent
U.S. government agencies and corporations	\$ 7,265	10%	\$ 6,222	9%
Mortgage-backed securities	1,843	2	2,208	3
Obligations of states and political subdivisions	62,997	83	55,027	82
Total debt securities	72,105	95	63,457	94
Preferred stock	4,088	5	4,127	6
Total available for sale securities	\$ 76,193	100%	\$ 67,584	100%

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

**Deposits**

Deposits totaled \$534.2 million at September 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. An increase of \$18.3 million in time deposits was offset in part by a \$3.8 million decline in noninterest-bearing demand deposits and a \$13.1 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 \$161.0 million at September 30, 2007 compared to \$115.1 million at December 31, 2006. This increase was attributable to funding loan growth at the Retail Banking and Consumer Finance segments with wholesale funds, primarily advances from the FHLB.

**Off-Balance Sheet Arrangements**

As of September 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 September 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.

**Table of Contents****Liquidity**

Liquid assets, which include unrestricted cash and due from banks, interest-bearing deposits in other banks, federal funds sold and nonpledged securities available-for-sale, at September 30, 2007 totaled \$52.7 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 September 30, 2007, an established line with the FHLB that had \$71.5 million outstanding under a total line of \$125.6 million as of September 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 September 30, 2007 and a revolving line of credit with a third-party bank that had \$69.7 million outstanding under a total line of \$100.0 million as of September 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.

<i>(in 000 \$)</i>	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>As of September 30, 2007:</i>						
Total Capital (to Risk-Weighted Assets)						
Corporation	\$ 71,871	11.3%	\$ 51,122	8.0%	N/A	N/A
Bank	73,449	11.6	50,673	8.0	\$ 63,342	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Corporation	63,791	9.9	25,561	4.0	N/A	N/A
Bank	65,438	10.3	25,337	4.0	38,005	6.0
Tier I Capital (to Average Assets)						
Corporation	63,791	8.6	29,776	4.0	N/A	N/A
Bank	65,438	8.9	29,575	4.0	36,968	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 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.



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

In addition to results presented in accordance with United States generally accepted accounting principles (GAAP) for the nine months ended September 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. Specifically, we believe the exclusion from net income 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**

(in thousands, except for per share data)

	(1)	For the Nine Months Ended	
		9/30/07	9/30/06
<b>Net Income and Earnings Per Share</b>			
Net income (GAAP)	A	\$ 6,757	\$ 9,364
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	\$ 6,757	\$ 8,636
Weighted average shares assuming dilution (GAAP)	C	3,187	3,271
Weighted average shares basic (GAAP)	D	3,057	3,150
Earnings per share assuming dilution			
GAAP	A/C	\$ 2.12	\$ 2.86
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/C	\$ 2.12	\$ 2.64
Earnings per share basic			
GAAP	A/D	\$ 2.21	\$ 2.97
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/D	\$ 2.21	\$ 2.74

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

(in thousands, except for per share data)

	(1)	For the Nine Months Ended	
		9/30/07	9/30/06
<b>Annualized Return on Average Assets</b>			
Average assets (GAAP)	E	\$ 737,204	\$ 687,748
Annualized return on average assets			
GAAP	(A/E)/.75	1.22%	1.82%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/E)/.75	1.22%	1.67%
<b>Annualized Return on Average Equity</b>			
Average equity (GAAP)	F	\$ 65,185	\$ 62,852
Annualized return on average equity			
GAAP	(A/F)/.75	13.82%	19.86%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/F)/.75	13.82%	18.32%
<b>Retail Banking Segment Pretax Income</b>			
Pretax income (GAAP)		\$ 3,548	\$ 6,961
Nonaccrual and default interest attributable to loan transaction			(870)
Reduction in loan loss allowance attributable to loan transaction			(250)
Pretax income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction		\$ 3,548	\$ 5,841
<b>Retail Banking Segment Net Income</b>			
Net income (GAAP)		\$ 3,036	\$ 5,241
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		\$ 3,036	\$ 4,513

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

(in thousands, except for per share data)

	(1)	For the Nine Months Ended	
		9/30/07	9/30/06
<b>Net Interest Income and Net Interest Margin</b>			
Net interest income (GAAP)		\$ 30,887	\$ 29,985
Taxable-equivalent adjustment		1,087	1,006
Nonaccrual and default interest attributable to loan transaction (GAAP)			(870)
Taxable-equivalent net interest income, excluding nonaccrual and default interest attributable to loan transaction	G	\$ 31,974	\$ 30,121
Average interest-earning assets (GAAP)	H	\$ 673,336	\$ 625,513
Net interest margin (GAAP)	(G/H)/.75	6.32%	
Net interest margin (GAAP)	((G/.75)+870)/H		6.56%
Net interest margin, excluding nonaccrual and default interest attributable to loan transaction	(G/H)/.75	6.32%	6.42%

- (1) 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.

**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 September 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 third quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

The following is added to the risk factors set forth under Part I, Item 1A. Risk Factors in the Corporation's 2006 Annual Report on Form 10-K:

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 its Mortgage Banking segment. 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, loans with no or limited verification of a borrower's income or net worth stated on the loan application, and loans to borrowers with lower credit ratings, referred to as FICO scores. The general market for these alternative loan products across the country has declined as a result of increasing market rates of interest, 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 requests 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 requests for repurchases, which would adversely affect the Corporation's net income.

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

## Issuer Purchases of Equity Securities

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program<sup>1</sup></b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Program<sup>1</sup></b>
July 1-31, 2007		\$		150,000
August 1-31, 2007	30,500	40.99	30,500	119,500
September 1-30, 2007	11,800	42.67	11,800	107,700
Total	42,300	\$ 41.45	42,300	

<sup>1</sup> 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 may be purchased in the open market or through privately negotiated transactions, as management and the board of directors deem prudent.

**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 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)
- 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

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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  
(Registrant)

Date November 2, 2007

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

Date November 2, 2007

/s/ Thomas F. Cherry  
Thomas F. Cherry  
Executive Vice President,  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)