

C & F FINANCIAL CORP
Form DEF 14A
March 15, 2013

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

C&F FINANCIAL CORPORATION

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

C&F Financial Corporation
802 Main Street
P.O. Box 391
West Point, Virginia 23181

Dear Fellow Shareholders:

You are cordially invited to attend the 2013 Annual Meeting of Shareholders of C&F Financial Corporation, the holding company for Citizens and Farmers Bank. The meeting will be held on Tuesday, April 16, 2013, at 3:30 p.m. at The Williamsburg Hotel & Conference Center, 50 Kingsmill Road, Williamsburg, Virginia. The accompanying Notice and Proxy Statement describe the matters to be presented at the meeting. Enclosed is our Annual Report to Shareholders that will be reviewed at the Annual Meeting.

Please complete, sign, date, and return the enclosed proxy card as soon as possible. Whether or not you will be able to attend the Annual Meeting, it is important that your shares be represented and your vote recorded. If you decide to attend the Annual Meeting in person, you can revoke your proxy at any time before it is voted at the Annual Meeting (provided that, if you hold your shares through a bank, broker or other holder of record and you wish to vote in person, you must obtain a legal proxy or broker's proxy card and bring it to the Annual Meeting as proof of your authority to vote the shares).

We appreciate your continuing loyalty and support of C&F Financial Corporation.

Sincerely,

/s/ Larry G. Dillon

Larry G. Dillon
Chairman, President &
Chief Executive Officer

West Point, Virginia
March 15, 2013

C&F FINANCIAL CORPORATION
802 Main Street
P.O. Box 391
West Point, Virginia 23181

NOTICE OF 2013 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 16, 2013

The 2013 Annual Meeting of Shareholders of C&F Financial Corporation (the "Corporation") will be held at The Williamsburg Hotel & Conference Center, 50 Kingsmill Road, Williamsburg, Virginia, on Tuesday, April 16, 2013, at 3:30 p.m. for the following purposes:

1. To elect three Class II directors to the Board of Directors of the Corporation to serve until the 2016 Annual Meeting of Shareholders, as described in the Proxy Statement accompanying this Notice.
2. To approve, in an advisory, non-binding vote, the compensation of the Corporation's named executive officers disclosed in the Proxy Statement.
3. To recommend, in an advisory, non-binding vote, the frequency of advisory votes on executive compensation.
4. To ratify the appointment of Yount, Hyde & Barbour, P.C. as the Corporation's independent registered public accountant for the fiscal year ending December 31, 2013.
5. To approve the C&F Financial Corporation 2013 Stock and Incentive Compensation Plan, as described in the Proxy Statement accompanying this Notice.
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on March 1, 2013, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ Thomas F. Cherry

Thomas F. Cherry
Secretary

March 15, 2013

IMPORTANT NOTICE

Please complete, sign, date, and return the enclosed proxy card in the accompanying postage paid envelope so that your shares will be represented at the meeting. If you decide to attend the Annual Meeting in person, you can revoke

your proxy at any time before it is voted at the Annual Meeting (provided that, if you hold your shares through a bank, broker or other holder of record and you wish to vote in person, you must obtain a legal proxy or broker's proxy card and bring it to the Annual Meeting as proof of your authority to vote the shares).

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C&F FINANCIAL CORPORATION
802 Main Street
P.O. Box 391
West Point, Virginia 23181

PROXY STATEMENT
2013 ANNUAL MEETING OF SHAREHOLDERS
April 16, 2013

The following information is furnished in connection with the solicitation by and on behalf of the Board of Directors (the "Board") of the enclosed proxy to be used at the 2013 Annual Meeting of Shareholders (the "Annual Meeting") of C&F Financial Corporation (the "Corporation") to be held Tuesday, April 16, 2013, at 3:30 p.m. at The Williamsburg Hotel & Conference Center, 50 Kingsmill Road, Williamsburg, Virginia. The approximate mailing date of this Proxy Statement and accompanying proxy is March 15, 2013.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 16, 2013

The Notice of 2013 Annual Meeting of Shareholders, this Proxy Statement, form of proxy and the 2012 Annual Report to Shareholders are available on the internet at the following website: www.cffc.com/2013proxy.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his proxy at any time before it is exercised by filing a written notice with the Corporation or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any properly adjourned session of the Annual Meeting. If a shareholder specifies how the proxy is to be voted with respect to any proposals for which a choice is provided, the proxy will be voted in accordance with such specifications. If a shareholder returns a signed proxy card but fails to specify how to vote his or her shares with respect to Proposals One, Two, Three, Four or Five set forth in the accompanying Notice and further described herein, the proxy will be voted FOR the director nominees named in Proposal One, FOR Proposal Two to provide advisory, non-binding approval of the compensation of the Corporation's named executive officers, for an EVERY YEAR frequency for the advisory, non-binding votes on the compensation of the Corporation's named executive officers in Proposal Three, FOR Proposal Four to ratify the appointment of Yount, Hyde & Barbour, P.C. ("YHB") as the Corporation's independent registered public accountant for the fiscal year ending December 31, 2013, and FOR Proposal Five to approve the C&F Financial Corporation 2013 Stock and Incentive Compensation Plan (the "2013 Plan").

If you hold your shares through a bank, broker or other holder of record, and you plan to vote in person at the Annual Meeting, you should contact your bank, broker or agent to obtain a legal proxy or broker's proxy card and bring it to the meeting as proof of your authority to vote the shares. If you hold your shares through a bank, broker or other holder of record, you should contact your bank, broker or agent to revoke your proxy or change your vote.

Directions to Annual Meeting

To obtain directions to attend the Annual Meeting and vote in person, please contact the Secretary of the Corporation at (757) 741-2200.

Voting Rights of Shareholders

Only those common shareholders of record at the close of business on March 1, 2013, are entitled to notice of and to vote at the Annual Meeting, or any adjournments thereof. The number of shares of Corporation common stock outstanding and entitled to vote at the Annual Meeting is 3,267,737. The Corporation has no other class of voting stock outstanding. A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business.

Each share of Corporation common stock entitles the record holder thereof to one vote for each matter to be voted upon at the Annual Meeting. Shares for which the holder has elected to abstain or to withhold the proxies' authority to vote (including broker non-votes) on a matter will count toward a quorum, but will not be included in determining the number of votes cast with respect to such matter.

With regard to the election of directors, votes may be cast in favor or withheld. If a quorum is present, the three nominees receiving the greatest number of affirmative votes cast at the Annual Meeting, even though less than a majority, will be elected directors; therefore, votes withheld and broker non-votes will have no effect.

With regard to the non-binding advisory vote on the frequency of the non-binding advisory votes on executive compensation, shareholders may vote for a frequency of every year, every two years or every three years, or shareholders may abstain from voting. If a quorum is present, the frequency that receives the highest number of votes in favor, even though less than a majority, will be the frequency that is recommended by the shareholders. Therefore, abstentions and broker non-votes will have no effect.

For all other proposals, votes may be cast in favor or against, or shareholders may abstain from voting. Approval of these other proposals (including the non-binding advisory vote to approve executive compensation, the ratification of the Corporation's independent registered public accountant, and the approval of the 2013 Plan,) requires an affirmative vote of a majority of the shares cast on the matter. Thus, although abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum, they are generally not counted for purposes of determining whether such a matter has been approved, and therefore will have no effect.

Routine and Non-Routine Proposals

Applicable rules determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name generally may vote on the proposal without receiving voting instructions from the owner. If a proposal is non-routine, the broker or other entity generally may vote on the proposal only if the owner has provided voting instructions. A "broker non-vote" occurs when a broker or other entity returns a signed proxy card but does not vote shares on a particular proposal because the proposal is not a routine matter and the broker or other entity has not received voting instructions from the beneficial owner of the shares. The ratification of YHB as the Corporation's independent registered public accountant for the fiscal year ending December 31, 2013 is considered a routine matter, while the election of directors, the non-binding advisory vote to approve executive compensation, the non-binding advisory vote on the frequency of the non-binding advisory votes on executive compensation, and the approval of the 2013 Plan are considered to be non-routine matters.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Corporation. Solicitations will be made only by the use of the mail, except that officers and regular employees of the Corporation and Citizens and Farmers Bank (the "Bank") may make solicitations of proxies in person, by telephone or by mail, acting without compensation other than their regular

compensation. We anticipate that brokerage houses and other nominees, custodians and fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of the stock held of record by such persons, and the Corporation will reimburse them for their charges and expenses in this connection. In addition, we may engage a proxy solicitor to assist in the solicitation of proxies to which we would pay customary fees and expenses.

Security Ownership of Certain Beneficial Owners and Management

The following table shows as of March 1, 2013, the beneficial ownership of the Corporation's common stock of each director and named executive officer and of all directors and executive officers of the Corporation as a group.

Name	Amount and Nature of Beneficial Ownership(1)	Percent of Class
J. P. Causey Jr.	47,588 (2)	1.5 %
Barry R. Chernack	16,641 (2)	*
Larry G. Dillon	71,768 (3)	2.2 %
Audrey D. Holmes	13,925 (2)	*
James H. Hudson III	15,956 (2)	*
Joshua H. Lawson	40,274 (2)	1.2 %
C. Elis Olsson	15,120 (2)	*
Paul C. Robinson	16,371 (2)	*
Thomas F. Cherry	40,587 (4)	1.2 %
Bryan E. McKernon	26,245 (5)	*
All Directors and Executive Officers as a group (10 persons)	304,475	9.0 %

* Represents less than 1% of the total outstanding shares of the Corporation's common stock.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 ("Exchange Act") under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he or she has the right to acquire beneficial ownership of the security within 60 days ("presently exercisable"). Except as otherwise indicated, each director or executive officer has sole voting and investment power with respect to the shares shown.

(2) Includes 7,500 shares each for Messrs. Causey, Chernack, Hudson, Lawson, Olsson and Robinson and Ms. Holmes as to which they hold presently exercisable options. Also includes 2,075 shares each of stock restricted as to sale or other transfer for Messrs. Causey, Chernack, Hudson, Lawson, Olsson and Robinson and Ms. Holmes. A description of the plans under which these options and restricted shares of stock were issued is set forth below in "Director Compensation." Also includes 1,860 shares held by Mr. Olsson's child, with respect to which shares Mr. Olsson has power of attorney to make investment decisions, and 500 shares held in a family trust, of which Mr. Olsson is co-trustee, and with respect to which Mr. Olsson shares voting and investment power. Also includes 1,200 shares held by the Mary Hedrick Causey Family Trust, over which Mr. Causey has voting and investment power in his capacity as trustee for the trust. Excludes 333 and 1,340 shares held solely by Mr. Hudson's and Mr. Olsson's spouses, respectively, as to which Mr. Hudson and Mr. Olsson disclaim beneficial ownership; excludes 3,488 shares held solely by Ms. Holmes' mother as to which Ms. Holmes disclaims beneficial ownership; and excludes 1,000 shares held solely by Mr. Robinson's majority-age children as to which Mr. Robinson disclaims beneficial ownership.

(3) Includes 21,000 shares for Mr. Dillon as to which he holds presently exercisable options and 14,700 shares of stock restricted as to sale or other transfer. A description of the plans under which these options and restricted stock were issued is set forth below in greater detail in "Compensation Discussion and Analysis."

- (4) Includes 15,500 shares for Mr. Cherry as to which he holds presently exercisable options and 14,450 shares of stock restricted as to sale or other transfer. A description of the plans under which these options and restricted stock were issued is set forth below in greater detail in “Compensation Discussion and Analysis.”
- (5) Includes 15,500 shares for Mr. McKernon as to which he holds presently exercisable options and 3,800 shares of stock restricted as to sale or other transfer. A description of the plans under which these options and restricted stock were issued is set forth below in greater detail in “Compensation Discussion and Analysis.”

As of March 1, 2013, there are no shareholders known to the Corporation to be the beneficial owners of more than 5% of the Corporation's common stock, par value \$1.00 per share, which is the Corporation's only voting security outstanding.

**PROPOSAL ONE
ELECTION OF DIRECTORS**

The Corporation's Board is divided into three classes (I, II and III) of directors. The term of office for Class II directors will expire at the Annual Meeting. The three persons named below, each of whom currently serves as a director of the Corporation, will be nominated to serve as Class II directors. If elected, the Class II nominees will serve until the 2016 Annual Meeting of Shareholders. The two persons named in the proxy card will vote for the election of the nominees named below unless authority is withheld. The Corporation's Board believes that the nominees will be available and able to serve as directors, but if any of these persons should not be available or able to serve, the proxies may exercise discretionary authority to vote for a substitute proposed by the Nominating Committee.

Certain information concerning the nominees for election at the Annual Meeting as Class II directors is set forth below, as well as certain information about the Class III and I directors, who will continue in office until the 2014 and 2015 Annual Meetings of Shareholders, respectively, including the qualifications, skills and experience that the Board believes make the director or director nominee a good fit for service on the Board.

Class II Directors (Nominees) (To Serve Until the 2016 Annual Meeting)	Principal Occupation During Past Five Years and Qualifications, Skills and Experience
<p>Audrey D. Holmes Director since 2007 Age 55</p>	<p>Ms. Holmes owns and operates her own legal practice, Audrey D. Holmes, Attorney-at-Law. Ms. Holmes conducts business in most of the communities served by the Bank. Ms. Holmes' business experience as a sole practitioner is enhanced by her membership in a number of professional, civic and religious organizations. As a small business owner, Ms. Holmes understands many of the challenges faced by the Bank's customers. Ms. Holmes is a member of the Nominating Committee.</p>
<p>Joshua H. Lawson Director since 2000 Age 71</p>	<p>Mr. Lawson is the president of Thrift Insurance Corporation, an independent insurance agency, and Thrift Realty, LLC, a real estate brokerage firm. Mr. Lawson has extensive knowledge of the real estate and insurance business gained over more than 40 years in the business. Managing a small business in the Bank's area of operations, Mr. Lawson is able to identify the needs of the Bank's customers and potential customers. Mr. Lawson is a member of the Nominating Committee.</p>
<p>Paul C. Robinson Director since 2000 Age 55</p>	<p>Mr. Robinson is the president of Francisco, Robinson & Associates, Inc., a real estate brokerage firm. Mr. Robinson has gained practical business experience through over 34 years in the real estate business, including over 19 as a firm owner/principal broker. In addition, Mr. Robinson has served as an elected member of the Board of Supervisors for New Kent County, and has represented New Kent County on multi-jurisdictional boards in the greater Richmond region. Through his experiences, Mr. Robinson has developed relevant financial, accounting and compliance knowledge. In addition, Mr. Robinson's past experience as an elected public official provides insight into the workings of local government, issues facing constituents, many of which reside in the Bank's banking footprint, and how to effectively manage input from numerous stakeholders to make the</p>

most appropriate decisions. Mr. Robinson is a member of the Nominating Committee.

Class III Directors
(Serving Until the 2014
Annual Meeting)

Principal Occupation During Past Five Years and Qualifications, Skills and Experience

J. P. Causey Jr.
Director since 1984(1) (2)
Age 69

In addition to being a self-employed attorney-at-law, Mr. Causey is Plan Administrator for Canal Corporation, formerly Chesapeake Corporation. Mr. Causey previously served as executive vice president, secretary and general counsel for Canal Corporation, a Securities and Exchange Commission (“SEC”) registrant, from 2001 to 2011. Mr. Causey had 27 years of experience with Canal Corporation. During his time with Canal Corporation, Mr. Causey actively participated in the development of corporate strategy and in evaluating risk. Mr. Causey also had direct supervisory responsibility for corporate legal, communications, human resources, business ethics, environmental compliance and internal audit functions. Mr. Causey played an active part in the drafting and/or review of periodic SEC filings and other corporate communications. Mr. Causey’s background allows him to provide significant contributions with respect to the Corporation’s overall management, as well as with respect to its compliance obligations. Mr. Causey is the Chairman of the Compensation Committee and is a member of the Audit and Nominating Committees.

Barry R. Chernack
Director since 2002
Age 65

Prior to his retirement in December 1999, Mr. Chernack was the managing partner of PricewaterhouseCoopers LLP’s southern Virginia practice. Mr. Chernack specialized in audits of both public and non-public companies, including those operating in the financial services industry, such as banks, credit unions and broker dealers. Mr. Chernack has significant experience with the preparation of SEC filings, including periodic and annual reports and registration statements covering debt and equity offerings. Mr. Chernack’s background enables him to provide significant contributions to Board deliberations regarding the financial health of the Corporation and its compliance requirements as an SEC registrant. Mr. Chernack qualifies as an “audit committee financial expert” under SEC guidelines. Mr. Chernack is the Audit Committee Chairman and is a member of the Compensation and Nominating Committees.

Class I Directors (Serving Until the 2015 Annual Meeting)	Principal Occupation During Past Five Years and Qualifications, Skills and Experience
Larry G. Dillon Director since 1989(1) Age 60	Mr. Dillon is the Chairman, President and Chief Executive Officer of the Corporation and the Bank. Mr. Dillon has worked for the Corporation and the Bank for over 35 years. He has been President and Chief Executive Officer since 1989 and Chairman since 1998. Prior to becoming President and Chief Executive Officer, Mr. Dillon served in several capacities including Chief Operating Officer and Commercial Lending Officer. Mr. Dillon is well versed in all business and operational aspects of the Corporation and the Bank and has the strong leadership qualities that are necessary to lead the Board and Corporation as a whole. In addition to his duties at the Corporation and the Bank, Mr. Dillon has served as president of the Virginia Bankers Association and has served on several committees within that organization. Mr. Dillon has served as a leader in several community organizations in communities served by the Bank. Prior to joining the Bank, Mr. Dillon worked for the State Corporation Commission Bureau of Financial Institutions. All of these experiences provide Mr. Dillon with valuable insights for leading a community bank.
James H. Hudson III Director since 1997 Age 64	Mr. Hudson is an attorney-at-law for Hudson & Bondurant, P.C. Mr. Hudson has practiced law for over 30 years in the primary footprint of the Bank and is the current mayor of one of the communities served by the Bank. Mr. Hudson's work centers on real estate, both residential and commercial, and includes, among other things, loan workouts, collateralizations and foreclosures. Mr. Hudson's experience and insights in these areas allow the Board to have more robust discussions and establish appropriate direction for the Corporation. Mr. Hudson is a member of the Compensation and Nominating Committees.
C. Elis Olsson Director since 2007 Age 48	Mr. Olsson is vice president and director of operations for Martinair, Inc. ("Martinair"), an aircraft charter and management company. Mr. Olsson has been with Martinair since May 2000. Mr. Olsson, as a vice president of Martinair, in addition to his operational duties, has responsibility for the review of financial information of Martinair. Prior to Martinair, Mr. Olsson worked for a Fortune 500 company where he held numerous roles including regional sales manager and vice president of operations. He also served on the Board of Directors for the Fortune 500 company. Mr. Olsson is actively involved in various community organizations in the markets the Bank serves. Mr. Olsson's background brings valuable operational and financial expertise to the Board. Mr. Olsson is a member of the Audit and Nominating Committees.

(1) If prior to 1993, refers to the year the director joined the Board of Directors of the Bank, prior to the Corporation's becoming the holding company for the Bank.

(2) Mr. Causey was an executive officer of Canal Corporation (formerly Chesapeake Corporation). On December 29, 2008, Chesapeake Corporation agreed to sell all of its operating businesses as going concerns and, to facilitate this sale, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia, Richmond Division.

The Board of Directors of the Bank consists of the eight current members of the Corporation's Board listed above and Bryan E. McKernon.

The Board of Directors is not aware of any family relationship among any director or executive officer; nor is the Board of Directors aware of any involvement of any director or executive officer, currently or in the past ten years, in any legal proceedings that would be material to an evaluation of the ability or integrity of any director or executive officer. None of the directors serves, nor in the past five years has any director served, as a director of any other public company with a class of securities registered pursuant to Section 12 of the Exchange Act. Unless authority for the above nominees is withheld, the shares represented by the enclosed proxy card, if executed and returned, will be voted FOR the election of the nominees proposed by the Board of Directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE DIRECTORS NOMINATED TO SERVE AS CLASS II DIRECTORS.

Board Leadership Structure and Risk Oversight

The Corporation has been operating for over 80 years using the traditional U.S. board leadership structure, under which our President and Chief Executive Officer (“CEO”) also serves as Chairman of the Board of Directors. Over this period, there have been three persons who have served as CEO. Each CEO has also held the position of Chairman of the Board throughout his tenure as CEO. We believe that the Corporation, like many U.S. companies, has been well-served by this leadership structure. Having one person serve as both CEO and Chairman of the Board demonstrates for our employees, suppliers, customers and other shareholders that the Corporation is under strong leadership, with a single person setting the tone and having primary responsibility for managing our operations. Having a single leader for both the Corporation and the Board of Directors eliminates the potential for confusion or duplication of efforts, and provides clear leadership for our Corporation. We believe our current leadership structure, under which our President and CEO serves as Chairman of the Board and our Board committees are chaired and comprised by independent directors, remains the optimal Board leadership structure for our Corporation and our shareholders at this time.

While the Board has not formally designated a lead independent director, Mr. Hudson presides over executive sessions of the Board, which are attended solely by independent directors. Mr. Hudson also refers to the appropriate Board committee any issue brought to his attention by shareholders, directors and others. Mr. Hudson is the primary communicator between the directors and the CEO, who is directly responsible to the Board in its entirety, although individual Board members may communicate directly with the CEO and vice versa and may freely discuss their views with other Board members at any time.

The Corporation believes that its leadership structure allows the directors to provide effective oversight of its risk management function. The Audit Committee oversees the accounting and financial reporting processes of the Corporation, as well as legal and compliance matters and risk management. The Audit Committee Charter provides that the Audit Committee is responsible for overseeing the internal controls of the Corporation along with its adherence to compliance and regulatory requirements. On at least a quarterly basis, the Corporation’s Director of Internal Audit provides a comprehensive report to the Audit Committee regarding the Corporation’s key risks, including operational, financial, credit quality and other risks. While the Audit Committee has primary responsibility for overseeing risk management, our entire Board of Directors is actively involved in overseeing this function for the Corporation. For example, on a routine basis, the Board receives a report from the Audit Committee Chairman and discusses risks that the Corporation is facing. The full Board also engages in periodic discussions with the CEO, Chief Financial Officer (“CFO”), and other corporate officers as the Board may deem appropriate. In addition to the roles performed by the Audit Committee, the Compensation Committee considers the risks that may arise through our compensation programs. The Compensation Committee Chairman also reports to the Board on a routine basis. The Corporation believes that its leadership structure promotes effective Board oversight of risk management because, while there is a single leader ultimately accountable for the management of the Corporation’s enterprise risks, a Board committee comprised solely of independent directors actively monitors the Corporation’s risk management, and the

committee chairmen, each of whom is an independent director, are provided with the information necessary to evaluate the specific risks relevant to each committee's areas of accountability.

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On an annual basis, the Nominating Committee will evaluate our Board leadership structure to ensure that it remains the optimal structure for our Corporation and our shareholders.

Director Independence

The Board has determined that all non-employee directors, who comprise a majority of the Corporation's Board, satisfy the independence requirements of the NASDAQ Stock Market ("NASDAQ") listing standards. The Board has affirmatively determined that directors Causey, Chernack, Holmes, Hudson, Lawson, Olsson and Robinson are independent within the meaning of the NASDAQ listing standards. In conjunction with this determination, the Board considered the Corporation's relationships with Mr. Hudson and Mr. Lawson. The firm of Hudson & Bondurant, P.C., of which Mr. Hudson is a partner, was retained to perform legal services for the Corporation during fiscal years 2010, 2011 and 2012 and in 2013. Thrift Insurance Corporation, of which Mr. Lawson is president, was the Corporation's insurance agent during fiscal years 2010, 2011 and 2012 and in 2013. In each case, however, the Board determined that the relationship did not interfere with the director's ability to exercise independent judgment as a director of the Corporation. During 2012, the Board of Directors held four regularly-scheduled executive session meetings attended solely by its independent directors and over which Mr. Hudson presided.

Board Committees and Attendance

During 2012, there were 10 meetings of the Board of Directors of the Corporation. Each director attended at least 75% of all meetings of the Board and Board committees on which he or she served.

The Corporation has not adopted a formal policy on Board members' attendance at its annual meeting of shareholders, although all Board members are encouraged to attend and historically most have done so. All Board members, with the exception of Mr. Chernack, attended the Corporation's 2012 Annual Meeting of Shareholders.

The Board has three standing committees which are the Audit, Compensation and Nominating Committees. Each of these committees is comprised solely of independent directors, with each of the three committees having a separate chair, although the Nominating Committee does not currently have a Chairman. The duties of the committees are set forth in their respective committee charters. The chair of each of these committees is responsible for directing the work of the committee in fulfilling its responsibilities. In addition to these standing committees, all of the directors participate in the Corporation's annual strategic planning process.

Audit Committee

Current members of the Corporation's Audit Committee are Messrs. Causey, Chernack and Olsson, each of whom is "independent" for this purpose according to NASDAQ listing standards and the regulations of the SEC. The Audit Committee engages the Corporation's independent registered public accountant, approves the scope of the independent registered public accountant's audit, reviews the reports of examination by the regulatory agencies, the independent registered public accountant and the internal auditor, and periodically provides updates to the Board of Directors as to the Audit Committee's activities. The Board has adopted a charter for the Audit Committee which is posted on the Corporation's website at www.cffc.com under "Investor Relations/Corporate Governance." The Audit Committee met 12 times during 2012. See "Report of the Audit Committee" on pages 33 and 34.

Compensation Committee

Current members of the Corporation's Compensation Committee are Messrs. Causey, Chernack and Hudson. Each member is "independent" for this purpose according to current NASDAQ listing standards; however, it is expected that Mr. Hudson will not be "independent" for this purpose according to new NASDAQ listing standards regarding compensation committee member independence that will become effective next year. The Board intends to adjust the Compensation Committee's membership to comply with the new independence standards no later than the date that the Corporation holds its 2014 Annual Meeting. The Compensation Committee recommends the level of compensation to be paid to the executive officers of the Corporation and certain key officers of the Bank and its subsidiaries, administers all incentive and equity compensation plans for the benefit of such officers, directors and employees eligible to participate in such plans, and periodically provides updates to the Board of Directors as to the Compensation Committee's activities. The Board has adopted a charter for the Compensation Committee which is posted on the Corporation's website at www.cffc.com under "Investor Relations/Corporate Governance." The Compensation Committee met nine times during 2012. See "Compensation Committee Report" on page 27.

Nominating Committee

Current members of the Corporation's Nominating Committee are Ms. Holmes and Messrs. Causey, Chernack, Hudson, Lawson, Olsson and Robinson, each of whom is "independent" for this purpose according to NASDAQ listing standards. The Nominating Committee's primary responsibility is to identify individuals who have the experience, qualifications, attributes and/or skills to serve on the Board of Directors and to recommend to the Board of Directors for selection, candidates for all directorships to be filled by the Board of Directors or by the Corporation's shareholders. The Board has adopted a charter for the Nominating Committee which is posted on the Corporation's website at www.cffc.com under "Investor Relations/Corporate Governance." The Nominating Committee met three times during 2012. Currently there is no Chairman of the Nominating Committee. Mr. Hudson presided over all Nominating Committee meetings during 2012 and directed the work of the committee in fulfilling its responsibilities in 2012.

While there are no formal procedures for shareholders to submit director recommendations, the Nominating Committee will consider candidates recommended by shareholders in writing. Such written submissions should include the name, address and telephone number of the recommended candidate, along with a brief statement of the candidate's qualifications to serve as a director. All such shareholder recommendations should be submitted to the attention of the Corporation's Secretary, P.O. Box 391, West Point, Virginia 23181, and must be received no later than January 1, 2014 in order to be considered by the Nominating Committee for the annual election of directors in 2014. Any candidates recommended by a shareholder will be reviewed and considered in the same manner as all other director candidates considered by the Nominating Committee.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing Board composition. However, minimum qualifications include high level leadership experience in business activities, breadth of knowledge about issues affecting the Corporation and time available for meetings and consultation on Corporation matters. The Nominating Committee seeks a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, to the Corporation and its shareholders. All candidates must possess the aptitude or experience to understand fully the legal responsibilities of a director and the governance processes of a public company, as well as the personal qualities to be able to make a substantial active contribution to Board deliberations, including intelligence and wisdom, self-assuredness, interpersonal and communication skills, courage and inquisitiveness. Consideration will also be given to financial management, reporting and control expertise or other experiences that would qualify the candidate as a "financial expert" under established standards. The Nominating Committee also considers diversity in its evaluation of candidates for Board membership. Pursuant to its charter, in identifying candidates for Board

membership, the Nominating Committee seeks to ensure that the Board, as a whole, is diverse and consists of individuals with various and relevant career experience and backgrounds. Consideration will be given to assuring that the Board, as a whole, adequately reflects the diversity of our constituencies and the communities in which we conduct our business. The Nominating Committee may consider these and other appropriate factors that contribute to an overall diversity of perspective that enhances the Board's ability to oversee the Corporation's business and perform its responsibilities.

The Nominating Committee evaluates potential nominees, whether proposed by shareholders or otherwise, by reviewing their qualifications, reviewing results of personal and reference interviews and reviewing other relevant information. Candidates whose evaluations are favorable are then chosen by majority vote of the Nominating Committee to be recommended for nomination by the full Board. The full Board then selects and nominates candidates for election as directors by the shareholders at the Annual Meeting. The Nominating Committee follows the same process to identify new candidates for recommendation to the full Board in the event of a vacancy on the Board. No director first elected after February 1, 1995 who has reached the age of 72 prior to the date of the annual meeting will be eligible for election or re-election to the Board.

The Board has concluded that each director and director nominee possesses the personal traits described above. In considering the director and the director nominees' individual experience, qualifications, attributes and skills, the Board has concluded that the appropriate experience, qualifications, attributes and skills are represented for the Board as a whole and for each of the Board's committees. In addition, each director and director nominee possesses characteristics that led the Board to conclude that such person should serve as a director. The specific experience, qualifications, attributes and skills that the Board believes each director and director nominee possesses are discussed under Proposal One "Election of Directors."

In accordance with the Corporation's bylaws, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as director(s) at an Annual Meeting, if the shareholder gives written notice of his or her intent to make such nomination. A shareholder nomination must include the nominee's written consent to serve as a director of the Corporation if elected, sufficient background information with respect to the nominee including, but not limited to, the nominee's name and address, the amount and nature of the nominee's beneficial ownership of the Corporation's securities, his or her principal occupation for the past five years, his or her age, and a discussion of the specific experience, qualifications, attributes or skills that led to the conclusion that the nominee should serve as director, sufficient identification of the nominating shareholder, including the shareholder's name and address, a description of any arrangements or understandings between the shareholder and the nominee pursuant to which the nomination is to be made by the shareholder, and a representation by the shareholder that he or she is the owner of stock of the Corporation entitled to vote at the Annual Meeting and that he or she intends to appear at the Annual Meeting (in person or by proxy) to nominate the individual specified in the notice. Nominations must be received by the Corporation's Secretary at the Corporation's principal office in West Point, Virginia, no later than February 13, 2014 for the annual election of directors in 2014. These requirements are more fully described in Article III, Section 16 of the Corporation's bylaws, a copy of which will be provided, without charge, to any shareholder upon written request to the Corporation's Secretary.

Shareholder Communications with the Corporation's Board of Directors

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

Director Compensation

The following table provides compensation information for the year ended December 31, 2012 for each non-employee director of the Corporation's Board of Directors.

Director Compensation Table for 2012

Name ¹	Fees Earned or Paid in Cash ² (\$)	Stock Awards ³ (\$)	Option Awards ⁴ (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation ⁵ (\$)	Total (\$)
J. P. Causey Jr.	\$ 30,250	\$ 18,647	-	-	-	\$ 2,664	\$ 51,561
Barry R. Chernack	\$ 32,250	\$ 18,647	-	-	-	\$ 2,664	\$ 53,561
Audrey D. Holmes	\$ 19,250	\$ 18,647	-	-	-	\$ 2,664	\$ 40,561
James H. Hudson III	\$ 21,500	\$ 18,647	-	-	-	\$ 2,664	\$ 42,811
Joshua H. Lawson	\$ 19,250	\$ 18,647	-	-	-	\$ 2,664	\$ 40,561
C. Elis Olsson	\$ 22,000	\$ 18,647	-	-	-	\$ 2,664	\$ 43,311
Paul C. Robinson	\$ 20,500	\$ 18,647	-	-	-	\$ 2,664	\$ 41,811

¹Larry G. Dillon, the Corporation's Chairman of the Board, President and Chief Executive Officer is not included in this table as he is an employee of the Corporation and thus receives no compensation for his services as a director. The compensation received by Mr. Dillon as an employee of the Corporation is shown in the Summary Compensation Table on page 27.

²Includes any fees deferred pursuant to the Corporation's Directors Non-Qualified Deferred Compensation Plan. Under the plan, each director may elect to defer any or all of his or her fees. Deferral elections are made in December of each year for amounts to be earned in the following year.

³Reflects the grant date fair value of the restricted stock award granted to each non-employee director on May 15, 2012 under the Amended and Restated C&F Financial Corporation 2004 Incentive Stock Plan (the "2004 Incentive Stock Plan"), calculated in accordance with FASB Accounting Standards Codification Topic 718 ("ASC Topic 718"), based on the closing price of the Corporation's stock on the date of grant. As of December 31, 2012, each non-employee director had 2,075 shares of restricted stock outstanding.

⁴As of December 31, 2012, Messrs. Causey, Chernack, Hudson, Lawson, Olsson and Robinson and Ms. Holmes each had 7,500 stock options outstanding. No options were granted to the directors in 2012.

⁵The amounts represent nonforfeitable dividends paid on unvested restricted stock awards pursuant to the 2004 Incentive Stock Plan.

The Compensation Committee, appointed by the Board of Directors, annually reviews and evaluates the compensation of the Board, including the appropriate mix of cash and equity compensation. The Compensation Committee recommends changes in compensation to the Board of Directors for approval. In December 2011, the Compensation Committee engaged Pearl Meyer & Partners, an independent compensation consultant, to update the review of director compensation that was performed in August 2010 to assess the competitiveness of the Board's total compensation program. The peer group used for this review was the same peer group used for the August 2010 review of the CEO and CFO compensation, which is described on pages 16 and 17 under "Establishing Executive Compensation," adjusted for changes in asset size due to mergers, acquisitions or growth. The review found that total director compensation, which includes cash and equity, was above the 75th percentile of the peer group. This was a result of the equity component of director compensation which was increased during 2011. The cash component of director compensation was at the 44th percentile of the peer group. In addition, the review found that the retainers for the Chairman of the Audit and Compensation Committees were below the median of the peer group. Based on the results of the updated review, the Compensation Committee recommended an increase in the cash component and to a lesser degree the equity component of the director compensation program for 2012, which increases were implemented effective January 1, 2012.

For 2012, non-employee members of the Board of Directors of the Corporation each received an annual retainer of \$9,000. In addition, Mr. Causey, as Chairman of the Corporation's Compensation Committee, received an additional annual retainer of \$4,000 and Mr. Chernack, as Chairman of the Corporation's Audit Committee, received an additional annual retainer of \$5,000. The retainers are payable in quarterly installments. The Chairman of the Nominating Committee (when such position is filled) does not receive an additional annual retainer. In addition, all non-employee members of the Board of Directors of the Corporation receive a base meeting fee of \$500 per day for Corporation Board, Bank Board, Bank subsidiary Board or committee meeting attendance and a fee of \$250 for secondary meeting attendance for each additional Corporation Board, Bank Board, Bank subsidiary Board or committee meeting of either Board held on the same day as a meeting for which the base meeting fee is paid.

In addition to cash compensation, non-employee members of the Board of Directors of the Corporation became eligible to participate in the 2004 Incentive Stock Plan when it was amended in 2008. Under the 2004 Incentive Stock Plan, directors are eligible to receive awards of restricted stock units, stock options, stock appreciation rights and restricted stock. On May 15, 2012, each non-employee director was granted 575 shares of restricted stock and the fair value of the restricted stock on the grant date was \$32.43 per share. Prior to the 2008 amendment of the 2004 Incentive Stock Plan, non-employee members of the Board of Directors of the Corporation participated in the Amended and Restated C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan (the "Director Plan"), which expired in 2008. Under the Director Plan, directors were granted annually a minimum of 1,000 and a maximum of 2,000 options to purchase the Corporation's common stock at a price equal to the fair market value of the Corporation's common stock at the date of grant. All options issued under the Director Plan expire ten years from the date of grant. If the 2013 Plan proposed in Proposal Five is approved by shareholders, no additional awards will be granted under the 2004 Incentive Stock Plan, but non-employee directors would be eligible to receive awards, in the Board's discretion, under the 2013 Plan.

Interest of Management in Certain Transactions

As of December 31, 2012, the total maximum extensions of credit (including used and unused lines of credit) to policy-making officers, directors and their associates amounted to \$996,604, or 0.98% of total year-end capital. The maximum aggregate amount of such indebtedness outstanding during 2012 was \$834,247, or 0.82% of total year-end capital. These loans were made in the ordinary course of the Bank's business, on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated parties, and in the opinion of management and the Corporation's Board, do not involve more than the normal risks of collectability or present other unfavorable features. The Bank expects to have in the future similar banking transactions with the Corporation's officers, directors and their associates.

The Corporation's Board of Directors has adopted a written policy with respect to related party transactions that governs the review, approval or ratification of covered related party transactions. The Audit Committee manages this policy. The policy generally provides that we may enter into a related party transaction only if the Audit Committee approves or ratifies such transaction in accordance with the guidelines set forth in the policy and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party or the transaction involves compensation approved by the Compensation Committee.

In the event management determines to recommend a related party transaction, the transaction must be presented to the Audit Committee for approval. After review, the Audit Committee will approve or disapprove such transaction and quarterly, management will update the Audit Committee as to any material change to the proposed related party transaction. The Audit Committee approves only those related party transactions that are in, or are not inconsistent with, the best interests of the Corporation and its shareholders, as the Audit Committee determines in good faith.

For purposes of this policy, a “related party transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Corporation or a subsidiary is, was or will be a participant and the amount involved exceeds \$120,000 and in which any related party had, has or will have a direct or indirect material interest. For purposes of determining whether a transaction is a related party transaction, the Audit Committee refers to Item 404 of Regulation S-K, promulgated under the Exchange Act.

A “related party” is (i) any person who is, or at any time since the beginning of our last fiscal year was, a director or executive officer of the Corporation or a nominee to become a director, (ii) any person who is known to be the beneficial owner of more than 5% of any class of our voting securities, (iii) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner, and (iv) any firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

Compensation Committee Interlocks and Insider Participation

During 2012 and up to the present time, there were transactions between the Corporation’s banking subsidiary and certain members of the Compensation Committee or their associates, all consisting of extensions of credit by the Bank in the ordinary course of business. Each transaction was made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated parties. In the opinion of management and the Corporation’s Board, none of the transactions involved more than the normal risk of collectability or presented other unfavorable features.

None of the members of the Compensation Committee has served as an officer or employee of the Corporation or any of its affiliates. James H. Hudson III, a Class I director, currently serves as a member of the Compensation Committee. The firm of Hudson & Bondurant, P.C., of which Mr. Hudson is a partner, was retained to perform legal services for the Corporation during fiscal year 2012. It is anticipated that the firm will continue to provide legal services to the Corporation during fiscal year 2013.

Compensation Policies and Practices as They Relate to Risk Management

The Corporation, under the guidance of the Compensation Committee, has reviewed the compensation policies and practices of the Corporation as they relate to risk management. This review included both executive officer and non-executive officer compensation policies and practices and factors in place to mitigate any excess risk. In conducting the review, management focused on the risks associated with the Corporation's compensation policies and practices and evaluated those risks in light of the Corporation's operations and the internal compensation approval and compliance systems developed by the Corporation. The Corporation has determined that its policies and practices, including mitigating factors, are not reasonably likely to have a material adverse effect on the Corporation.

Although the Corporation is no longer a participant in the Capital Purchase Program, the Compensation Committee has decided to retain the position of senior risk officer and to meet with the Corporation’s senior risk officer to discuss, evaluate and review senior executive officer (“SEO”) compensation plans and other employee compensation plans and the risks these plans pose to the Corporation. In connection with this risk review, the Compensation Committee will identify and limit features in SEO compensation plans that could encourage SEOs to take unnecessary and excessive risks that threaten the Corporation’s value (including behavior focused on short-term results rather than long-term value creation) and identify and limit features in employee compensation plans that pose risks to the Corporation (including behavior focused on short-term results rather than long-term value creation). In addition, the Committee

will discuss, evaluate and review employee compensation plans and eliminate features that could encourage the manipulation of reported earnings to enhance an employee's compensation. These reviews will be completed at least once a year.

For the review conducted during May of 2012, the Committee evaluated the plans discussed in detail in the “Compensation Discussion and Analysis” presented below, as well as several additional employee compensation arrangements that provide for variable cash compensation, bonus, commission or incentive payments to employees other than the CEOs. As a result of the risk and manipulation review, the Compensation Committee concluded that these plans do not encourage unnecessary and excessive risks that threaten the value of the Corporation or the manipulation of reported earnings to enhance the compensation of any employee and determined that the potential risks arising from these plans are not reasonably likely to have a material adverse effect on the Corporation.

EXECUTIVE COMPENSATION

By definition, “named executive officers” refers to a corporation’s CEO and CFO and up to three additional most highly compensated executive officers whose total compensation exceeded \$100,000 for the most recent year. Throughout this Proxy Statement, the Corporation’s named executive officers are its CEO, its CFO and the President and CEO of C&F Mortgage Corporation (the “Mortgage Corporation”).

Compensation Discussion and Analysis

Overview of Compensation Program. The Compensation Committee (for purposes of this discussion, the “Committee”) of the Board has responsibility for establishing, implementing and continually monitoring adherence to the Corporation’s compensation philosophy. The Committee is responsible for ensuring that the total compensation paid to executives is fair, reasonable and competitive. The Committee may, consistent with applicable law, regulations, NASDAQ requirements or plan provisions, delegate certain of its authority to the CEO, a designee, or other appropriate members of management, including matters relating to the compensation or election as officers of the Corporation’s employees other than the Corporation’s executive officers.

Overall Philosophy. The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Corporation, and which aligns executives’ interests with those of the shareholders by rewarding performance that exceeds established goals, with the ultimate objective of improving long-term shareholder value.

The overall compensation strategy is based on the following four principles: (1) achieve and sustain superior long-term performance, (2) directly support positive business strategies and goals, (3) attract and retain key executives who are crucial to the long-term growth and profitability of the Corporation, and (4) pay for performance by maintaining competitive compensation programs for top tier performance.

2012 Say-on-Pay Vote. Although the advisory shareholder vote to approve executive compensation is non-binding, the Committee has considered, and will continue to consider, the outcome of this vote when making compensation decisions for our CEO and other named executive officers. At our 2012 Annual Meeting of Shareholders, approximately 96% of the shareholders who voted on the “say-on-pay” proposal approved the compensation of our named executive officers, while approximately 4% voted against the proposal. The Committee believes that this shareholder vote strongly endorses the compensation philosophy of the Corporation. The Committee has not significantly changed the executive compensation program as a result of the shareholder vote.

Impact of Participating in the Capital Purchase Program. On January 9, 2009, the Corporation issued \$20,000,000 of preferred stock to the United States Department of the Treasury (the “Treasury”) pursuant to the Treasury’s Capital Purchase Program established under the Emergency Economic Stabilization Act of 2008 (the “EESA”). The EESA, as amended by the American Recovery and Reinvestment Act of 2009, and as implemented by interim final rules published by the Treasury in 2009 and by additional guidance from the Treasury (collectively, the “TARP Standards”) imposed certain obligations and restrictions on the Corporation from January 9, 2009 until the Corporation completed the redemption of the preferred stock on April 11, 2012 (the “TARP Period”). During the TARP Period, the compensation of the Corporation’s named executive officers was subject to certain limitations, including a “clawback” provision requiring the return of certain payments, a prohibition on accruing or paying severance and change in control benefits, and a limitation on the tax deductibility of that portion, if any, of the executive’s annual compensation in excess of \$500,000. The Corporation’s most highly compensated employee was also generally prohibited from receiving any bonus, incentive compensation or retention awards during the TARP Period, subject to certain exceptions, and the compensation of certain other highly compensated employees was also limited. During the TARP Period, the Corporation was also subject to certain corporate governance obligations, including a requirement to review the Corporation’s compensation plans at least once every six months, to provide related disclosures and certifications in the “Compensation Committee Report,” and to maintain a policy regarding excessive or luxury expenditures, including which types or categories of expenditures are prohibited and which require prior approval.

The obligations and restrictions of the TARP Standards generally ceased to apply to the Corporation and its employees when the TARP Period ended on April 11, 2012, even though the Treasury still holds a warrant to purchase common stock of the Corporation, which warrant was issued when the Corporation first participated in the Capital Purchase Program. As described further throughout the “Compensation Discussion and Analysis,” however, certain of the obligations and restrictions of the TARP Standards continue to impact the Corporation even though the TARP Period has ended, and the anti-abuse provisions of the TARP Standards generally provide that, to the extent certain amounts or benefits could not be accrued or paid during the TARP Period, the Corporation is prohibited from accruing or paying such amounts or benefits after the TARP Period has ended. No such amounts or benefits have been accrued or paid by the Corporation after the end of the TARP Period.

Further, even though the Corporation is no longer subject to the TARP Standards, the Corporation has determined to continue applying certain of the TARP Standards beyond the TARP Period because they contribute to the overall safety and soundness of the Corporation. The Compensation Committee will discuss, evaluate and review the Corporation’s compensation plans at least annually, as opposed to once every six months under the TARP Standards. In addition, the Corporation will continue to maintain the policy regarding excessive or luxury expenditures.

Compensation Process. The Committee determines and recommends to the Board of Directors the compensation of the CEO. The Committee also approves all compensation of the Corporation’s executive officers and certain other senior officers of the Corporation and its subsidiaries, which include the CFO, Senior Vice President of Retail, Chief Credit Officer, Regional Presidents, the Senior Vice President of Human Resources and the Treasurer of the Bank; the President and CEO and the Executive Vice President and Chief Operating Officer of the Mortgage Corporation; the President, Executive Vice President and Senior Vice President of C&F Finance Company (“C&F Finance”); and the President of C&F Investment Services, Inc.

The Committee evaluates both performance and compensation to ensure that the Corporation maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of the Corporation’s peer companies.

The Committee, on its own initiative, reviews the performance and compensation of each of these senior officers and following discussions with the CEO and, as it deems appropriate, a compensation consultant or other appropriate advisors, establishes the senior officers’ compensation levels. For the remaining officers, the CEO makes

recommendations to the Committee that generally, with minor adjustments, are approved. The Committee did not engage a compensation consultant in connection with executive compensation decisions for 2012.

In consultation with senior management, the Committee approves the Corporation's compensation philosophy to ensure that it is consistent with the Board's intent, as well as the long-term interests of the Corporation's shareholders. This includes, but is not limited to, annual review and approval of goals and objectives relevant to the compensation of the CEO, and evaluation of the performance of the CEO in light of these goals and objectives. The Committee reviews and approves, as appropriate, any new incentive compensation plans, including equity-based plans, and, as may be deemed necessary, any amendments to existing plans relating to executive officers and other senior officers.

The Committee also acts as the Incentive Stock Committee (or similarly named committee) for the Corporation's stock incentive plans and recommends awards to the Board of Directors for approval, including stock options, restricted stock awards, performance stock awards, restricted stock units or other similar awards as provided in the 2004 Incentive Stock Plan, or any successor plan.

Establishing Executive Compensation. To achieve the aims of the overall compensation strategy, including the requirement to comply with the TARP Standards until the TARP Period ended April 11, 2012, the Committee compensates executives and other selected senior managers through a combination of base salary, bonus, deferred and equity compensation designed to be competitive with comparable companies and to create alignment between executives' and shareholders' interests.

In August 2010, the Committee engaged Pearl Meyer & Partners ("PM&P"), an independent compensation consulting firm, to review executive compensation for key executives (the "Review"), including the CEO and the CFO of the Corporation. The results of the Review were used by the Committee to assess the reasonableness of the CEO's and the CFO's total direct compensation, which for purposes of the Review consists of base salary, performance-based incentive compensation and equity-based awards. For comparison purposes, the Review used a peer group ("2010 peer group") analysis and a market analysis.

The 2010 peer group analysis consisted of 28 publicly-traded commercial financial institutions headquartered in Virginia, Maryland, North Carolina, South Carolina and Tennessee and used 2009 proxy data, which was the most recently completed fiscal year at the time of the Review. The asset size for this peer group was within the range of \$667 million to \$2.1 billion, with a median of \$1.3 billion based on December 31, 2009 assets. The peer group included all financial institutions satisfying these criteria with the exception of any financial institution that applied for participation in the Capital Purchase Program and did not receive approval. Based on these criteria, the following financial institutions were included in the peer group: Cardinal Financial Corporation (VA); NewBridge Bancorp (NC); Eagle Bancorp, Inc. (MD); First United Corporation (MD); Capital Bank Corporation (NC); Southern Community Financial Corporation (NC); BNC Bancorp (NC); Wilson Bank Holding Company (TN); First Security Group, Inc. (TN); Community Bankers Trust Corporation (VA); Shore Bancshares, Inc. (MD); Eastern Virginia Bankshares, Inc. (VA); Peoples Bancorp of North Carolina, Inc. (NC); Crescent Financial Corporation (NC); National Bankshares, Inc. (VA); Middleburg Financial Corporation (VA); Old Point Financial Corporation (VA); ECB Bancorp, Inc. (NC); First South Bancorp, Inc. (NC); Tri-County Financial Corporation (MD); American National Bankshares Inc. (VA); 1st Financial Services Corporation (NC); HCSB Financial Corporation (SC); Community Capital Corporation (SC); Southern First Bancshares, Inc. (SC); Valley Financial Corporation (VA); Monarch Financial Holdings, Inc. (VA); and Access National Corporation (VA).

The market analysis was based on the following surveys:

- Towers Watson, 2010/2011 Top Management Compensation Survey
- Towers Watson, 2010/2011 Financial Services Survey Suite
- William M. Mercer, 2010 Executive Compensation Survey

The market analysis was also based on PM&P's proprietary database of banking institutions. All survey data was updated to January 1, 2011, using an annual update factor of 3%, which was the projected total 2011 salary increase for the financial services industry according to WorldatWork's 2010/2011 Total Salary Increase Budget Survey.

The Review concluded that total compensation for the CEO was at the 18th percentile of the 2010 peer group data and was at 75% of the median using the market analysis data. When reviewing the data for the CFO, the Review considered data for both chief financial officers and chief operating officers in order to encompass the CFO's range of responsibilities. The Review concluded that total compensation for the CFO was at the 64th percentile of the 2010 peer group data and was at 93% of the median using the market analysis data.

In addition to reviewing compensation, the Review considered the structure of both the performance-based incentive and equity-based award metrics for key executives, including the CEO and the CFO. Based on the Review and recommendations from PM&P, including areas in which the metrics varied significantly from those used generally in the market and noting the need for more flexibility with regard to the level of achievement for the equity-based awards, for 2011 incentive compensation the Committee expanded the performance-based incentive metrics to include an asset quality component in addition to the ROE and ROA metrics already being used. The Committee also revised the equity-based award metric of the relative five-year total shareholder return by replacing the NASDAQ Bank Index with a custom index comprised of the peer companies selected each year based on criteria developed by PM&P for the Review and changed the measurement date for determining the equity-based awards from September 30th to December 31st beginning in 2011. Further, the Committee elected to incorporate a scaled payout percentage when determining the equity-based awards earned under the management incentive plan, rather than an absolute percentage based on achieving the overall goal. Finally, the Committee decided to use the same criteria from the 2010 peer group described above to determine the peer group in subsequent years, with the companies meeting these criteria subject to change from year to year as the peer group is updated to account for changes in asset size due to mergers, acquisitions or growth.

Base annual salary and short-term incentive compensation for the President and CEO of the Mortgage Corporation are established by an employment agreement originally entered into in 1995 and amended and restated as of January 1, 2013. The employment agreement provides for a fixed annual base salary and a performance-based short-term incentive directly related to the profitability of the Mortgage Corporation. The President and CEO of the Mortgage Corporation was responsible for bringing all of the critical personnel and operations of the Mortgage Corporation to the Corporation, at no cost to the Corporation. As a result, his employment agreement included a bonus provision for a percentage of future profits.

Benchmarking. In establishing a peer group for 2012, for purposes of performance-based incentive compensation and equity compensation, the Committee used the same criteria for determining the annual peer group that PM&P used in the Review. For 2012, the updated peer group (the “2012 peer group”) consisted of 24 publicly-traded commercial financial institutions headquartered in Virginia, Maryland, North Carolina, South Carolina and Tennessee. The asset size for this peer group was within the range of \$667 million to \$2.1 billion, with a median of \$1.06 billion based on December 31, 2011 assets. The peer group included all financial institutions satisfying these criteria with the exception of any financial institution that applied for participation in the Capital Purchase Program and did not receive approval. Based on these criteria, the following financial institutions were included in the peer group: NewBridge Bancorp (NC); First United Corporation (MD); Wilson Bank Holding Company (TN); First Security Group, Inc. (TN); Community Bankers Trust Corporation (VA); Shore Bancshares, Inc. (MD); Eastern Virginia Bankshares, Inc. (VA); Peoples Bancorp of North Carolina, Inc. (NC); Crescent Financial Bancshares, Inc. (NC); National Bankshares, Inc. (VA); Middleburg Financial Corporation (VA); Old Point Financial Corporation (VA); ECB Bancorp, Inc. (NC); First South Bancorp, Inc. (NC); Tri-County Financial Corporation (MD); American National Bankshares Inc. (VA); 1st Financial Services Corporation (NC); Southern First Bancshares, Inc. (SC); Valley Financial Corporation (VA); Monarch Financial Holdings, Inc. (VA); Carolina Bank Holdings, Inc. (NC); Palmetto Bancshares, Inc. (SC); Security Federal Corporation (SC); and Access National Corporation (VA).

2012 Executive Compensation Components. For 2012, the principal components of compensation for named executive officers as defined in Item 402 of Regulation S-K were:

- base salary;
- performance-based incentive compensation;
- equity compensation;

- retirement and other benefits; and
- perquisites.

These elements combine to promote the objectives described above. Base salary, retirement plans and other benefits and perquisites provide a minimum level of compensation that helps attract and retain qualified executives. Performance-based incentives and equity compensation reward achievement of long-term and short-term goals and align executive compensation with the creation of longer-term shareholder value and promote retention.

Base Salaries. We provide named executive officers and other employees with base salaries to compensate them for services rendered during the fiscal year. Base salaries for named executive officers (with the exception of the President and CEO of the Mortgage Corporation) are determined for each executive based on his or her position and responsibility by using market data. Salary levels are considered annually as part of the Committee's performance review process as well as upon a promotion or other change in job responsibility. During its review of base salaries for executives for 2012, the Committee primarily considered:

- Market data provided by PM&P in 2010;
- Compensation data for the 2012 peer group;
- Responsibilities of the executive;
- Internal review of the executive's compensation relative to other officers; and
- Individual performance of the executive.

For 2012, for the CEO, the Committee took into account the factors identified above and PM&P's Review results that indicated the CEO average base salary for peer financial institutions was \$345,000 in 2009. At the CEO's request, his base salary was limited to \$253,000 in 2010, \$268,000 in 2011, and \$275,000 in 2012. For the CFO, the Committee, after taking into account the factors identified above, determined that his base salary should be increased to \$230,000 for 2012 from \$220,000 for 2011. In addition to the factors mentioned above, the Committee determined the base salary was appropriate in light of the CFO's responsibilities, which include the functions of a chief operating officer in addition to chief financial officer functions, and his duties associated with the oversight of C&F Finance, a significant subsidiary of the Corporation. Similar analyses were performed for other senior officers.

Performance-Based Incentive Compensation. Short-term cash incentive compensation for the CEO and CFO is governed by the Corporation's Management Incentive Plan ("MIP") adopted in 2005. Under the MIP, at the beginning of 2012 the Committee established performance objectives for the Corporation and the award formula or matrix by which all incentive awards were to be calculated. Executive officers were assigned a cash award target, to be paid if the Corporation achieved targeted performance goals in 2012, as well as minimum and maximum award levels if the Corporation achieved below or above the targeted performance goals. The Committee has the discretion to adjust upward or downward any award earned under the MIP or to grant an award even when minimum goals are not achieved.

For the named executive officers, with the exception of the President and CEO of the Mortgage Corporation, incentive compensation is designed to reward overall corporate performance by setting awards based on return on average equity ("ROE") and return on average assets ("ROA") relative to ROE and ROA of the peer financial institutions selected by the Committee to establish compensation levels for the CEO and CFO. The cash incentive compensation for the President and CEO of the Mortgage Corporation is set forth in his employment agreement and is based solely on a percentage of income before taxes generated by the Mortgage Corporation.

The remainder of management has more diverse performance goals consistent with the business they are managing. Where an employee has responsibility for the performance of a particular business, the performance goals are heavily weighted toward the operational performance of that unit. However, for members of the senior management team of the Bank (not including the named executive officers) at least 30% of their bonus is based on the ROE and ROA of the Corporation relative to the ROE and ROA of the peer financial institutions. All other employees earn bonuses based on the operational performance goals they have been assigned.

The cash award targets for the CEO and CFO for 2012 were based on achievement of a corporate goal, which was a weighted measure of the Corporation's ROE and ROA for 2012 relative to the 2012 peer group. This measure is the combined ranking of ROE and ROA of the 2012 peer group placing twice the weight on ROE ranking. Depending on the level of achievement with respect to the corporate goal under the MIP, for 2012 the CEO could earn a cash award of up to a maximum of 90% of his base salary as of January 1, 2012 and the CFO could earn a cash award of up to a maximum of 70% of his base salary as of January 1, 2012. The Committee chose these award levels so that the maximum awards would be paid when the Corporation has performed the best in Virginia and at or above the 90th percentile of the other financial institutions in the 2012 peer group based on combined ROE and ROA performance, while performance below the 40th percentile (the minimum award level) would result in no incentive payment. The Committee has the discretion under the MIP to adjust upward or downward any award earned under the MIP within the minimum and maximum award levels established by the Committee, or to grant an award even if the minimum corporate goal is not achieved. In addition to the Corporation's ROE and ROA performance versus the 2012 peer group, the Committee also reviewed the asset quality of the Corporation. As part of this review, the Committee looked at asset quality measures at the Bank, C&F Finance and the Mortgage Corporation. These asset quality metrics included nonperforming assets to average loans, nonperforming assets to average assets, charge off ratios, delinquency percentages, loan indemnifications, and extension rates on loans and repossession rates, including quarterly trends and comparisons to available asset quality metrics of the companies in the 2012 peer group. Based on the Corporation's ROE and ROA for 2012, in which the Corporation achieved results in excess of the 90th percentile of the 2012 peer group, and the Committee's review of relevant asset quality metrics, the CEO was entitled to a cash bonus of 79% of his base salary for 2012, but based on a recommendation from the CEO, the Committee awarded him a cash bonus of 55% of his base salary. The CFO was entitled to a cash bonus of 61% of his base salary for 2012, but based on his recommendation, the Committee awarded him a cash bonus of 60.9% of his base salary.

All short-term incentive payments to the President and CEO of the Mortgage Corporation for 2012 were made in accordance with his employment agreement and related directly to the profitability of the Mortgage Corporation.

Equity Compensation. The Corporation adopted the 2004 Incentive Stock Plan effective April 20, 2004 and amended the plan in 2008 to add restricted stock units and permit awards to non-employee directors under the plan. As amended, the plan permits the issuance of up to 500,000 shares of common stock for awards to key employees and non-employee directors of the Corporation and its subsidiaries in the form of stock options, stock appreciation rights, restricted stock and restricted stock units. With respect to executive compensation, the purpose of the 2004 Incentive Stock Plan is to promote the success of the Corporation and its subsidiaries by providing incentives to key employees and non-employee directors that link their personal interests with the long-term financial success of the Corporation and with growth in shareholder value. The 2004 Incentive Stock Plan is designed to provide flexibility to the Corporation in its ability to motivate, attract, and retain the services of key employees.

Each year, the Committee considers the desirability of granting long-term incentive awards under the 2004 Incentive Stock Plan. The Committee may utilize stock options, stock appreciation rights, restricted stock, restricted stock units, or a combination thereof, to focus executive officers, as well as other officers, on building profitability and shareholder value. The Committee notes in particular its view that equity grants make a desirable long-term compensation method because they closely align the interests of management with shareholder value. The Committee has the authority to establish equity goals and awards for all participants.

Historically, the primary form of equity compensation awarded by the Corporation was incentive and non-qualified stock options. This form was selected because of the favorable accounting and tax treatments received. However, beginning in 2006 the accounting treatment for stock options changed, making stock options a less attractive form of equity compensation. Consequently, certain changes were made to the equity award program. First, the form of equity award was changed to restricted stock. Second, a holding period and minimum stock ownership requirement was established for equity awards. If the 2013 Plan proposed in Proposal Five is approved by shareholders, no

additional awards will be granted under the 2004 Incentive Stock Plan; however, executive officers and other key employees would be eligible to receive awards, pursuant to the MIP or in the Board's discretion, under the 2013 Plan.

Under the MIP, executive officers may be awarded equity-based awards under the 2004 Incentive Stock Plan based on the achievement of targeted performance goal(s). For 2012, the equity-based award targets for the named executive officers were based solely on achievement of one corporate goal, which was five-year total shareholder return of the Corporation compared to the 2012 peer group. The Committee chose this longer-term measure because the Committee wanted to reward sustained performance. If the corporate goal is achieved under the MIP, for 2012 the CEO could earn a target equity-based award of 45% of his base salary as of January 1, 2012 and the CFO could earn a target equity-based award of 35% of his base salary as of January 1, 2012. These targets were selected to maintain overall compensation competitiveness if the Corporation shows sustained total shareholder return. The MIP permits the Committee to award a scaled payout based on performance that is higher or lower than the target. For 2012, if the Corporation's five-year total shareholder return is equal to or higher than the 70th percentile of the 2012 peer group, the CEO and CFO would earn 50% of their target award; if the Corporation's five-year total shareholder return is equal to or higher than the 80th or 90th percentile of the 2012 peer group, the CEO and CFO would earn 65% or 80%, respectively, of their target award. If the Corporation's five-year total shareholder return is below the 70th percentile or above the 100th percentile of the 2012 peer group, the Committee could use its discretion to grant or adjust an award of no more than 200% of the target. This ability to make equity-based awards based on the scaled payout percentage is in addition to the Committee's ability to adjust an award upward or downward in its discretion.

The President and CEO of the Mortgage Corporation does not have a targeted equity-based award stated as a percentage of his base salary. As with the CEO and CFO, if the one corporate goal mentioned above is met or the Committee at its discretion grants an award, the President and CEO of the Mortgage Corporation is eligible for an equity-based award. Grants of equity for the President and CEO of the Mortgage Corporation are recommended to the Committee by the CEO based on the performance of the Mortgage Corporation for the fiscal year.

The measurement date for the 2012 equity-based awards under the MIP was December 31, 2012. As of December 31, 2012, the five-year total shareholder return of the Corporation was above the five-year total shareholder return of the 2012 peer group. Based on this performance and the scaled payout formula discussed above, the Committee could have granted equity-based awards to the CEO and CFO equal to 200% of their equity-based award targets. Instead, in the exercise of its discretion as permitted under the MIP and the CEO's request for a smaller award, on January 15, 2013 the Committee granted 3,900 shares of restricted stock each to the CEO and CFO and 800 shares of restricted stock to the President and CEO of the Mortgage Corporation, which amounted to 57%, 68% and 17% of the base salaries of the CEO, CFO and President and CEO of the Mortgage Corporation, respectively. Because the Corporation's performance exceeded that of the 2012 peer group, the award to the CEO and the CFO was greater than their target awards of 45% and 35%, respectively, of base salary. The Committee believed that granting these awards would assist in retaining the services of the CEO, CFO and President and CEO of the Mortgage Corporation because these awards generally do not vest for five years. The amount of each award was based on achieving the corporate goal mentioned above and on the executive officer's performance, the level of his responsibilities, and internal equity considerations.

The Corporation's practice is to determine the dollar amount of equity compensation that is to be awarded for the equity component of the MIP and then to grant a number of shares of restricted stock that have a fair market value equal to that amount on the date of grant, rounded to avoid fractional shares. The fair market value is determined based on the closing price of the stock on the date of grant. For named executive officers, awards are generally made at the January meeting of the Board of Directors each year. For all other employees, with the exception of significant promotions and new hires, awards are generally made at the December meeting of the Board of Directors each year. The restricted stock granted for 2012 performance under the MIP is "time based." In order for the restricted stock to be earned or vest, the employee must remain employed for a period of five years after the date of grant. Once restricted stock awards vest, employees may not sell more than 50% of the award until a minimum level of stock ownership by the employee is achieved. Minimum ownership levels range from three times annual base salary for the CEO, one and one-half times annual base salary for the other named executive officers, one times annual base salary

for other senior officers, and for other selected officers one-half of such officer's annual base salary.

Retirement and Other Benefits. The Bank maintains a tax-qualified cash balance pension plan known as the VBA Master Defined Benefit Plan for Citizens and Farmers Bank (the "Retirement Plan") covering substantially all Bank employees who had reached the age of 21 and had been fully employed for at least one year. Under the cash balance plan, each participant's account receives two forms of credits: compensation credits and interest credits. Compensation credits equal a percentage of each participant's compensation. Compensation for this purpose includes both salary and bonus, subject to the compensation limit applicable to tax-qualified plans, which limit was \$250,000 for 2012. The applicable compensation credit percentage ranges between 1% and 12% depending on the participant's combined age and years of credited service at the end of each plan year. Interest credits for a year are based on the prior year's December average yield on 30-year Treasuries plus 150 basis points, not to exceed the Internal Revenue Service ("IRS") third segment rate.

Upon termination of employment and after having completed at least three years of service, a participant will receive the amount then credited to the participant's cash balance account in an actuarially equivalent joint and survivor annuity (if married) or single life annuity (if not married). The participant may also choose from other optional forms of benefit, including a lump sum payment in the amount of the cash balance account. The Retirement Plan does not cover non-employee directors. The amount expensed for the Retirement Plan during the year ended December 31, 2012 was \$436,253. The Retirement Plan allows for early retirement at the age of 55. The amount available at this age will be the amount then credited to the participant's cash balance account. Mr. Dillon is eligible for early retirement under the Retirement Plan and was entitled to a payment of \$1,194,105 as of December 31, 2012.

The Bank maintains a tax-qualified 401(k) plan known as the Virginia Bankers Association Master Defined Contribution Plan for Citizens and Farmers Bank (the "Savings Plan"), pursuant to which all Bank employees, including the CEO and CFO, may make pre-tax contributions to the plan of up to 95% of covered compensation, subject to certain limitations on the amount under federal law. The Bank will match 100% of the first 5% of pay that is contributed to the Savings Plan, subject to statutory limitations. All employee contributions to the Savings Plan are fully vested upon contribution and Bank matching contributions vest at 20% annually beginning after two years of service and are fully vested at six years of service, or earlier in the event of retirement, death or attainment of age 65 while an employee.

In addition, each plan year, the Bank may make a profit sharing contribution to the Savings Plan. The amount of such contribution, if any, is within the discretion of the Bank's Board of Directors and will be determined during each plan year. Such contributions are only allocated to "covered participants," which designation is determined annually based on working at least 1,000 hours and being employed on the last day of the year (or ceasing employment due to retirement or death). The CEO and CFO were covered participants in 2012. For a covered participant, any profit sharing contribution is allocated to the employee's account based on the proportion of the employee's covered compensation to the covered compensation of all other covered participants. Profit sharing contributions are subject to the same vesting rules that apply to matching contributions under the Savings Plan. There was no profit sharing contribution to the Savings Plan for 2012.

The Mortgage Corporation also maintains a tax-qualified 401(k) plan known as the C&F Mortgage Corporation 401(k) Plan (the "401(k) Plan") pursuant to which eligible Mortgage Corporation employees can make pre-tax contributions of from 1% to 100% of compensation (with a discretionary company match), subject to statutory limitations. Substantially all employees of the Mortgage Corporation, including the President and CEO of the Mortgage Corporation, who have attained the age of 18 are eligible to participate on the first day of the next month following their employment date. The 401(k) Plan provides for an annual discretionary matching contribution to the account of each "eligible participant," based in part on the Mortgage Corporation's profitability for the year and on each employee's contributions to the 401(k) Plan. The 401(k) Plan also permits an additional annual discretionary employer contribution for "eligible participants," which is allocated to an employee's account based on the proportion of the employee's covered compensation to the covered compensation of all other eligible participants. "Eligible participants" are determined annually based on working at least 1,000 hours and being employed on the last day of the year. All employee contributions are fully vested upon contribution. An employee is vested in the employer's contributions 25% after two years of service, 50% after three years of service, 75% after four years of service, and fully vested after five years or attainment of age 65 while employed.

In addition to the Savings Plan and the 401(k) Plan, named executive officers and certain other eligible executives of the Corporation and its subsidiaries can participate in a non-qualified deferred compensation plan known as the Restated VBA Executives' Non-Qualified Deferred Compensation Plan for C&F Financial Corporation (the "Nonqualified Plan"). The Nonqualified Plan is designed to provide for deferral opportunities otherwise restricted by qualified plan limits and to establish a long-term retention incentive for our executives. The plan provides for five types of deferrals:

(1) Employee deferrals whereby certain employees are permitted to make deferrals of salary or cash incentive compensation. The CEO, CFO and President and CEO of the Mortgage Corporation did not elect any deferral of salary or cash incentive compensation for 2012.

(2) Excess match deferrals whereby the Corporation contributes to the Nonqualified Plan the amount of employer matching contributions in excess of statutory limitations. Any matching amounts in excess of the maximum annual pre-tax contribution for qualified retirement plans allowed by the Internal Revenue Service are deposited in the Nonqualified Plan. For the CEO and CFO, the amount accrued in 2012 was \$8,000 and \$4,500 respectively. The President and CEO of C&F Mortgage Corporation did not receive an excess match deferral for 2012.

(3) Excess profit sharing deferrals whereby the Corporation contributes to the Nonqualified Plan the amount of discretionary employer profit sharing contributions in excess of statutory limitations. No employer profit sharing contribution was made for 2012.

(4) Excess cash balance deferrals whereby the Corporation contributes to the Nonqualified Plan the amount entitled under the Retirement Plan in excess of statutory limitations. For the CEO and CFO, the amount accrued in 2012 was \$17,600 and \$9,200 respectively. The President and CEO of C&F Mortgage Corporation did not receive excess cash balance deferrals in 2012.

(5) Supplemental retirement deferrals whereby the Corporation makes discretionary employer contributions for the CEO in recognition of his performance and service, and discretionary employer contributions for the CFO as a retention incentive consistent with the Corporation's overall compensation strategy. For the CEO and CFO, the amounts accrued in 2012 were \$50,000 and \$23,000, respectively. While the contributions for the CEO vest immediately, the contributions for the CFO do not vest until death, disability, retirement or change in control. The President and CEO of C&F Mortgage Corporation was not awarded a supplemental deferral for 2012.

Perquisites. The annual cost to the Corporation of perquisites, including mandatory executive physicals every two years, use of a Corporation-owned automobile, matching charitable contributions, club dues and tax preparation assistance common among the Corporation's peer financial institutions, provided to the CEO exceeded \$10,000 in the aggregate for 2012, but did not exceed \$10,000 in the aggregate for 2011 or 2010. These amounts for 2012 are detailed in note 1 to the All Other Compensation Table for 2012 on page 28.

The annual cost to the Corporation of perquisites, including mandatory executive physicals every two years, use of a Corporation-owned automobile, matching charitable contributions and club dues for the CFO, exceeded \$10,000 in the aggregate for 2012, 2011 and 2010. These amounts for 2012 are detailed in note 1 to the All Other Compensation Table for 2012 on page 28.

The CEO and the CFO also participate in other benefit plans on the same terms as other employees. These plans include medical, dental, life, and disability insurance.

The annual cost to the Corporation of perquisites, including use of a Corporation-owned automobile and payments for medical and dental insurance in excess of those made for all salaried employees, provided to the President and CEO of the Mortgage Corporation exceeded \$10,000 in the aggregate for 2012, 2011 and 2010. These amounts for 2012 are detailed in note 1 to the All Other Compensation Table for 2012 on page 28.

Change in Vacation Policy. In December 2011, the Bank amended its vacation policy for all employees to reduce the amount of unused vacation that can be accrued and carried forward to future periods. Specifically with regard to the CEO and the CFO, prior to this amendment, the CEO and the CFO each could carry forward an unlimited amount of unused vacation. Beginning in 2012, a 120-hour vacation carryover limit was established for the CEO and the CFO

each. In connection with this policy change, in January 2012, the Bank made a one-time payout to affected employees, including the CEO and the CFO, of unused vacation accrued in excess of this carryover limit through December 31, 2011.

Prohibition on Hedging and Pledging Transactions. Under the Corporation's insider trading policy, directors and executive officers, including the named executive officers, are prohibited from (i) pledging the Corporation's stock as collateral for loans and (ii) selling the Corporation's stock "short," trading in the Corporation's stock in or through a margin account or otherwise engaging in hedging transactions or speculative or short-term trading of the Corporation's stock. These provisions are part of the Corporation's overall program to prevent the Corporation's directors and executive officers, including the named executive officers, from trading on material non-public information.

Employment and Change in Control Agreements. As is typical in the mortgage industry, Mr. McKernon is employed by the Mortgage Corporation under an employment agreement originally entered into in 1995 and amended and restated as of January 1, 2013. Under the agreement, the Mortgage Corporation has employed Mr. McKernon as its President and CEO under a three-year "evergreen" agreement, which remains in effect at all times unless and until terminated as permitted by the agreement. Either party, by notice to the other at any time and for any reason, may give notice of an intention to terminate the agreement three years from the date notice is received by the other. Additionally, either party may terminate the agreement in the event the Mortgage Corporation fails to meet certain specified financial performance criteria for a stipulated period or of a stipulated amount within a prescribed time period. The agreement terminates upon the death or disability of Mr. McKernon, or upon the failure of either party to fulfill its obligations under the agreement. Under the agreement, the Mortgage Corporation in 2012 paid Mr. McKernon an annual base salary of \$195,000, and beginning in 2013 will pay Mr. McKernon an annual base salary of \$220,000, in each case payable in monthly installments. The Mortgage Corporation also is obligated to pay Mr. McKernon a bonus, computed and paid on a monthly basis, based upon a variable percentage of the Mortgage Corporation's financial performance for the preceding month, subject to adjustment annually in order that the total bonus for a fiscal year will be equal to the specified percentage as determined by the year-end financial performance amount on which the bonus is based. The Mortgage Corporation has the right, at any time and at its option, to "buy out" Mr. McKernon's agreement and terminate his employment for an amount based upon the Mortgage Corporation's financial performance. In the event of a termination of his employment for any reason other than pursuant to a three-year notice, the Mortgage Corporation also may purchase a limited non-solicitation commitment from Mr. McKernon.

The agreement also provides that Mr. McKernon will be entitled, during his employment, to benefits commensurate with those furnished to other employees of the Mortgage Corporation. Prior to the January 1, 2013 amendment and restatement, the agreement also provided for Mr. McKernon to receive life insurance equal to three times his base salary. The agreement also contains provisions requiring confidentiality of information regarding the Mortgage Corporation. Mr. McKernon may terminate his employment agreement upon an event of "covered termination" as defined in his change in control agreement. Any termination of the employment agreement also will terminate Mr. McKernon's change in control agreement, except a termination of his employment agreement as described in the preceding sentence.

Effective with the January 1, 2013 amendment and restatement, the agreement now also provides that any incentive-based compensation or award Mr. McKernon receives will be subject to any clawback required pursuant to law, rule, regulation or stock exchange listing requirement or any policy of the Corporation adopted pursuant to any such law, rule, regulation or listing requirement.

The Corporation has entered into "change in control agreements" with the CEO, CFO and the President and CEO of the Mortgage Corporation because the Board has determined that it is in the best interest of the Corporation and its shareholders to have the continued dedication of these executives, notwithstanding the possibility, threat or occurrence of a change in control. The agreement for the CEO provides certain payments and benefits in the event of a termination of his employment by the Corporation without "cause," or by the CEO for "good reason," during the period beginning on the occurrence of a "change in control" (as defined in the agreement) of the Corporation and ending 61 days after the second anniversary of the change in control date. In such event, the CEO would be entitled (i) to

receive in a lump sum, two and one-half times the sum of his highest annual base salary during the 24-month period preceding the change in control date and his highest annual bonus for the three fiscal years preceding the change in control date; (ii) for a period of three years following termination, to receive continuing health insurance, life insurance, and similar benefits under the Corporation's welfare benefit plans and to have the three-year period credited as service towards completion of any service requirement for retiree coverage under the Corporation's welfare benefit plans; and (iii) if the CEO requests within six months after his termination, to have the Corporation acquire his primary residence for its appraised fair market value.

The agreements for the CFO and the President and CEO of the Mortgage Corporation provide certain payments and benefits in the event of a termination of their employment by the Corporation without “cause,” or by the CFO and the President and CEO of the Mortgage Corporation for “good reason” within the period of coverage following a change in control. In March 2012, the agreements for the CFO and the President and CEO of the Mortgage Corporation were amended to provide for the same period of coverage as in the CEO’s agreement. As a result, the agreements for the CFO and the President and CEO of the Mortgage Corporation now provide for the payments and benefits described below in the event of a covered termination during the period beginning on the occurrence of a change in control and ending 61 days after the second anniversary of the change in control date. In such event, the CFO and the President and CEO of the Mortgage Corporation would each be entitled (i) to receive in a lump sum, two times his highest annual base salary during the 24-month period preceding the change in control date and (ii) for a period of two years following termination, to receive continuing health insurance, life insurance, and similar benefits under the Corporation’s welfare benefit plans and to have the two-year period credited as service towards completion of any service requirement for retiree coverage under the Corporation’s welfare benefit plans. In addition, the CFO would be entitled to two times his highest annual bonus for the three fiscal years preceding the change in control date. Any payments which could have been made under these agreements to the CEO, CFO and the President and CEO of the Mortgage Corporation in 2012 would have been limited in accordance with the TARP Standards if the triggering events had occurred before the TARP Period ended on April 11, 2012.

Under these agreements following a change in control, the CEO, CFO and the President and CEO of the Mortgage Corporation may voluntarily terminate their employment for “good reason” and become entitled to these payments and benefits under certain circumstances. These circumstances include, but are not limited to, a material adverse change in position, authority or responsibilities, or a reduction in rate of annual base salary, benefits (including incentives, bonuses, stock compensation, and retirement and welfare plan coverage) or other perquisites as in effect immediately prior to the change in control date, as well as a right to terminate voluntarily during the 60-day periods after the change in control date, the first anniversary of the change in control date and the second anniversary of the change in control date. If any payments to or benefits under (collectively, “payments”) these change in control agreements would be subject to excise tax as an “excess parachute payment” under federal income tax rules, the Corporation has agreed to pay the CEO, CFO and the President and CEO of the Mortgage Corporation additional amounts (“gross-up payments”) to adjust for the incremental tax costs of such payments. However, if such payments and gross-up payments do not provide a net after-tax benefit of at least \$25,000, as compared to the net after-tax proceeds resulting from an elimination of the gross-up payments and a reduction of the payments such that the receipt of payments would not give rise to any excise tax, then payments and benefits provided under the agreements will be reduced, so that the CEO, CFO and the President and CEO of the Mortgage Corporation will not be subject to a federal excise tax.

The Corporation does not provide for payments upon termination outside of the change in control agreements, but may negotiate individual severance packages with departing executives on a case-by-case basis. For terminations due to retirement, early retirement, disability and death, vesting of any unvested stock options, restricted stock and retirement benefits occur at the date of termination. Assuming termination for any of these reasons had occurred on December 31, 2012, because all outstanding stock options were already fully vested, these types of terminations would only trigger additional vesting of restricted stock and retirement benefits. The value of restricted stock vesting would have been \$420,552, \$410,817 and \$116,820 for the CEO, CFO and President and CEO of Mortgage Corporation, respectively. The value of retirement benefits vesting would have been \$279,269 for the CFO. The CEO and the President and CEO of the Mortgage Corporation would not have experienced any additional vesting with respect to retirement benefits because they are fully vested.

The following table shows the potential payments upon termination, including following a change in control of the Corporation, for the named executive officers based on agreements and plans in effect as of December 31, 2012. The amounts in this table are calculated assuming the change in control or termination event occurred on December 31, 2012 and all executives were paid in a lump sum payment.

Executive Payments and Benefits upon Termination Table

Name and Principal Position	Severance Compensation		Benefits and Perquisites				Total
	Severance	Performance -Based Incentive Compensation	Unvested and Accelerated Restricted Stock	Welfare Benefits	Supplemental Retirement Benefits	280G Tax Gross-ups ^{5,6}	
Larry G. Dillon Chairman/President/Chief Executive Officer							
Voluntary Termination ¹ By Corporation without Cause ¹	-	-	-	-	-	-	-
By Corporation with Cause ¹	-	-	-	-	-	-	-
Change in Control ² By Corporation without Cause	\$ 687,500	\$ 375,000	\$ 420,552	\$ 30,635	-	\$ 634,196	\$ 2,147,883
By Executive with Good Reason	\$ 687,500	\$ 375,000	\$ 420,552	\$ 30,635	-	\$ 634,196	\$ 2,147,883
Retirement	-	-	\$ 420,552	-	-	-	\$ 420,552
Disability ⁸	-	-	\$ 420,552	-	-	-	\$ 420,552
Death ⁸	-	-					