

C & F FINANCIAL CORP
Form 10-Q
November 06, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number 000-23423

C&F FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia 54-1680165
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(804) 843-2360

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

At November 3, 2015, the latest practicable date for determination, 3,391,468 shares of common stock, \$1.00 par value, of the registrant were outstanding.

Table of Contents

TABLE OF CONTENTS

| | |
|--|------|
| <u>PART I - Financial Information</u> | Page |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Consolidated Balance Sheets - September 30, 2015 (unaudited) and December 31, 2014</u> | 3 |
| <u>Consolidated Statements of Income (unaudited) - Three and nine months ended September 30, 2015 and 2014</u> | 4 |
| <u>Consolidated Statements of Comprehensive Income (unaudited) - Three and nine months ended September 30, 2015 and 2014</u> | 5 |
| <u>Consolidated Statements of Shareholders' Equity (unaudited) - Nine months ended September 30, 2015 and 2014</u> | 6 |
| <u>Consolidated Statements of Cash Flows (unaudited) - Nine months ended September 30, 2015 and 2014</u> | 7 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 32 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 58 |
| <u>Item 4. Controls and Procedures</u> | 58 |
| <u>PART II - Other Information</u> | 59 |
| <u>Item 1A. Risk Factors</u> | 59 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 59 |
| <u>Item 6. Exhibits</u> | 60 |
| <u>Signatures</u> | 61 |

Table of Contents

Part I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

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

| | September 30, 2015 (unaudited) | December 31, 2014 * |
|--|--------------------------------------|---------------------------|
| Assets | | |
| Cash and due from banks | \$ 9,696 | \$ 10,749 |
| Interest-bearing deposits in other banks | 135,719 | 156,867 |
| Total cash and cash equivalents | 145,415 | 167,616 |
| Securities—available for sale at fair value, amortized cost of \$214,193 and \$214,437, respectively | 220,807 | 221,897 |
| Loans held for sale, at fair value | 43,882 | 28,279 |
| Loans, net of allowance for loan losses of \$35,726 and \$35,606, respectively | 840,740 | 800,198 |
| Restricted stocks, at cost | 3,345 | 3,442 |
| Corporate premises and equipment, net | 36,367 | 37,295 |
| Other real estate owned, net of valuation allowance of \$57 and \$29, respectively | 763 | 786 |
| Accrued interest receivable | 6,654 | 6,421 |
| Goodwill | 14,425 | 14,425 |
| Core deposit intangible, net | 1,838 | 2,583 |
| Bank-owned life insurance | 14,780 | 14,484 |
| Other assets | 44,355 | 40,761 |
| Total assets | \$ 1,373,371 | \$ 1,338,187 |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing demand deposits | \$ 198,354 | \$ 161,839 |
| Savings and interest-bearing demand deposits | 505,227 | 497,755 |
| Time deposits | 338,216 | 366,507 |
| Total deposits | 1,041,797 | 1,026,101 |
| Short-term borrowings | 11,792 | 14,436 |
| Long-term borrowings | 142,029 | 127,488 |
| Trust preferred capital notes | 25,130 | 25,103 |
| Accrued interest payable | 687 | 740 |
| Other liabilities | 22,615 | 20,709 |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | |
|---|--------------|--------------|
| Total liabilities | 1,244,050 | 1,214,577 |
| Shareholders' Equity | | |
| Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,391,079 and 3,418,750 shares issued and outstanding, respectively, includes, 134,625 and 135,600 of unvested shares, respectively) | 3,257 | 3,283 |
| Additional paid-in capital | 8,883 | 9,456 |
| Retained earnings | 114,954 | 107,785 |
| Accumulated other comprehensive income, net | 2,227 | 3,086 |
| Total shareholders' equity | 129,321 | 123,610 |
| Total liabilities and shareholders' equity | \$ 1,373,371 | \$ 1,338,187 |

* Derived from audited consolidated financial statements.

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

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income | | | | |
| Interest and fees on loans | \$ 21,067 | \$ 20,050 | \$ 59,688 | \$ 59,366 |
| Interest on interest-bearing deposits and federal funds sold | 84 | 92 | 270 | 288 |
| Interest and dividends on securities | | | | |
| U.S. government agencies and corporations | 117 | 172 | 363 | 556 |
| Tax-exempt obligations of states and political subdivisions | 1,030 | 1,094 | 3,156 | 3,326 |
| Taxable obligations of states and political subdivisions | 46 | 92 | 138 | 138 |
| Corporate bonds and other | 434 | 338 | 1,316 | 1,170 |
| Total interest income | 22,778 | 21,838 | 64,931 | 64,844 |
| Interest expense | | | | |
| Savings and interest-bearing deposits | 270 | 241 | 819 | 761 |
| Time deposits | 816 | 745 | 2,287 | 2,366 |
| Borrowings | 879 | 889 | 2,482 | 2,637 |
| Trust preferred capital notes | 294 | 241 | 878 | 713 |
| Total interest expense | 2,259 | 2,116 | 6,466 | 6,477 |
| Net interest income | 20,519 | 19,722 | 58,465 | 58,367 |
| Provision for loan losses | 4,142 | 4,140 | 9,812 | 10,915 |
| Net interest income after provision for loan losses | 16,377 | 15,582 | 48,653 | 47,452 |
| Noninterest income | | | | |
| Gains on sales of loans | 1,156 | 1,188 | 4,803 | 4,003 |
| Service charges on deposit accounts | 1,119 | 1,179 | 3,210 | 3,357 |
| Other service charges and fees | 1,883 | 1,672 | 5,083 | 4,668 |
| Net gains on calls and sales of available for sale securities | 22 | 23 | 25 | 26 |
| Investment services income | 372 | 348 | 1,077 | 954 |
| Other | 253 | 302 | 1,223 | 1,700 |
| Total noninterest income | 4,805 | 4,712 | 15,421 | 14,708 |
| Noninterest expenses | | | | |
| Salaries and employee benefits | 9,107 | 8,900 | 29,209 | 27,208 |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Occupancy | 2,226 | 2,188 | 6,606 | 6,503 |
| Other | 4,928 | 4,483 | 13,850 | 14,182 |
| Total noninterest expenses | 16,261 | 15,571 | 49,665 | 47,893 |
| Income before income taxes | 4,921 | 4,723 | 14,409 | 14,267 |
| Income tax expense | 1,444 | 1,430 | 4,186 | 4,340 |
| Net income | \$ 3,477 | \$ 3,293 | \$ 10,223 | \$ 9,927 |
| Net income per share - basic | \$ 1.02 | \$ 0.97 | \$ 3.01 | \$ 2.92 |
| Net income per share - assuming dilution | \$ 1.02 | \$ 0.97 | \$ 3.01 | \$ 2.88 |
| Weighted average number of shares outstanding - basic | 3,392,480 | 3,405,162 | 3,400,296 | 3,403,749 |
| Weighted average number of shares outstanding - assuming dilution | 3,392,480 | 3,405,308 | 3,400,437 | 3,446,472 |

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

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 3,477 | \$ 3,293 | \$ 10,223 | \$ 9,927 |
| Other comprehensive income (loss): | | | | |
| Changes in defined benefit plan assets and benefit obligations | | | | |
| Changes in net loss arising during the period ¹ | (29) | 40 | (87) | 24 |
| Tax effect | 11 | (14) | 33 | (8) |
| Amortization of prior service cost arising during the period ¹ | 14 | (85) | 42 | (51) |
| Tax effect | (5) | 30 | (15) | 18 |
| Net of tax amount | (9) | (29) | (27) | (17) |
| Unrealized gain (loss) on cash flow hedging instruments | | | | |
| Unrealized holding gain (loss) arising during the period | (449) | 53 | (431) | 139 |
| Tax effect | 158 | (19) | 151 | (53) |
| Net of tax amount | (291) | 34 | (280) | 86 |
| Unrealized holding gains (losses) on securities | | | | |
| Unrealized holding gains (losses) arising during the period | 1,446 | 602 | (825) | 5,715 |
| Tax effect | (506) | (212) | 289 | (1,993) |
| Reclassification adjustment for gains included in net income ² | (22) | (23) | (25) | (26) |
| Tax effect | 8 | 8 | 9 | 9 |
| Net of tax amount | 926 | 375 | (552) | 3,705 |
| Other comprehensive income (loss): | 626 | 380 | (859) | 3,774 |
| Comprehensive income | \$ 4,103 | \$ 3,673 | \$ 9,364 | \$ 13,701 |

¹ These items are included in the computation of net periodic benefit cost. See Note 7, Employee Benefit Plans, for additional information.

² Gains are included in "Net gains on calls and sales of available for sale securities" on the consolidated statements of income.

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

Table of Contents

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except per share amounts)

| | Common Stock | Additional Paid - In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|-----------------|------------------------------------|----------------------|---|----------------------------------|
| Balance December 31, 2014 | \$ 3,283 | \$ 9,456 | \$ 107,785 | \$ 3,086 | \$ 123,610 |
| Comprehensive income: | | | | | |
| Net income | — | — | 10,223 | — | 10,223 |
| Other comprehensive loss | — | — | — | (859) | (859) |
| Share-based compensation | — | 779 | — | — | 779 |
| Restricted stock vested | 13 | (13) | — | — | — |
| Common stock issued | 3 | 98 | — | — | 101 |
| Common stock purchased | (42) | (1,437) | — | — | (1,479) |
| Cash dividends declared – common stock (\$0.90 per share) | — | — | (3,054) | — | (3,054) |
| Balance September 30, 2015 | \$ 3,257 | \$ 8,883 | \$ 114,954 | \$ 2,227 | \$ 129,321 |

| | Common Stock | Additional Paid - In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|----------------------------------|-----------------|------------------------------------|----------------------|---|----------------------------------|
| Balance December 31, 2013 | \$ 3,269 | \$ 10,686 | \$ 99,492 | \$ (266) | \$ 113,181 |
| Comprehensive income: | | | | | |
| Net income | — | — | 9,927 | — | 9,927 |
| Other comprehensive income | — | — | — | 3,774 | 3,774 |
| Common stock warrant repurchased | — | (2,303) | — | — | (2,303) |
| Share-based compensation | — | 721 | — | — | 721 |
| Restricted stock vested | 8 | (16) | — | — | (8) |
| Common stock issued | 2 | 97 | — | — | 99 |
| Common stock purchased | (3) | (90) | — | — | (93) |
| | — | — | (3,029) | — | (3,029) |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

Cash dividends declared – common
stock (\$0.89 per share)

| | | | | | |
|----------------------------|----------|----------|------------|----------|------------|
| Balance September 30, 2014 | \$ 3,276 | \$ 9,095 | \$ 106,390 | \$ 3,508 | \$ 122,269 |
|----------------------------|----------|----------|------------|----------|------------|

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

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2015 | 2014 |
| Operating activities: | | |
| Net income | \$ 10,223 | \$ 9,927 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,901 | 2,072 |
| Provision for loan losses | 9,812 | 10,915 |
| Provision for indemnifications | 212 | 182 |
| Provision for other real estate owned losses | 90 | — |
| Share-based compensation | 779 | 713 |
| Net accretion of certain acquisition-related fair value adjustments | (1,562) | (2,166) |
| Accretion of discounts and amortization of premiums on securities, net | 1,162 | 1,075 |
| Realized gains on sales and calls of securities | (25) | (26) |
| Net realized gains on sales of other real estate owned | (242) | (206) |
| Net realized gains on sale of corporate premises and equipment | (37) | (59) |
| Increase in bank-owned life insurance cash surrender value | (263) | (256) |
| Origination of loans held for sale | (423,999) | (363,684) |
| Proceeds from sales of loans held for sale | 413,199 | 367,656 |
| Gains on sales of loans held for sale | (4,803) | (4,003) |
| Change in other assets and liabilities: | | |
| Accrued interest receivable | (233) | 117 |
| Other assets | (76) | (3,537) |
| Accrued interest payable | (53) | (52) |
| Other liabilities | 1,417 | 631 |
| Net cash provided by operating activities | 7,502 | 19,299 |
| Investing activities: | | |
| Proceeds from maturities, calls and sales of securities available for sale | 24,402 | 31,864 |
| Purchases of securities available for sale | (24,960) | (28,795) |
| Net redemptions of restricted stocks | 97 | 646 |
| Purchase of loan portfolio | (16,258) | — |
| Net increase in loans | (36,175) | (18,302) |
| Proceeds from sales of other real estate owned | 705 | 4,767 |
| Purchases of corporate premises and equipment, net | (1,000) | (1,603) |
| Net cash used in investing activities | (53,189) | (11,423) |
| Financing activities: | | |
| Net increase in demand, interest-bearing demand and savings deposits | 43,987 | 25,881 |
| Net decrease in time deposits | (27,966) | (31,892) |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | |
|---|------------|------------|
| Net increase in borrowings | 11,897 | 651 |
| Repurchase of common stock warrant | — | (2,303) |
| Issuance of common stock | 101 | 99 |
| Repurchase of common stock | (1,479) | (93) |
| Cash dividends | (3,054) | (3,029) |
| Net cash provided by (used in) financing activities | 23,486 | (10,686) |
| Net decrease in cash and cash equivalents | (22,201) | (2,810) |
| Cash and cash equivalents at beginning of year | 167,616 | 148,139 |
| Cash and cash equivalents at end of period | \$ 145,415 | \$ 145,329 |
| Supplemental disclosure | | |
| Interest paid | \$ 6,817 | \$ 7,351 |
| Income taxes paid | 450 | 2,399 |
| Supplemental disclosure of noncash investing and financing activities | | |
| Unrealized (losses) gains on securities available for sale | \$ (850) | \$ 5,689 |
| Transfers between loans, other real estate owned and repossessed assets | 3,814 | 2,735 |
| Pension adjustment | (45) | (27) |
| Unrealized (losses) gain on cash flow hedging instruments | (431) | 139 |

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (the SEC). They do not include all of the information and notes required by U.S. GAAP for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2014.

The unaudited consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation) and its wholly-owned subsidiary, Citizens and Farmers Bank (the Bank or C&F Bank). All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, the Corporation owns C&F Financial Statutory Trust I, C&F Financial Statutory Trust II and Central Virginia Bankshares Statutory Trust I, all of which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as a liability of the Corporation.

Nature of Operations: The Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, C&F Bank, which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. On October 1, 2013, the Corporation acquired Central Virginia Bankshares, Inc. (CVBK) and its wholly-owned subsidiary, Central Virginia Bank (CVB), which was an independent commercial bank chartered under the laws of the Commonwealth of Virginia. On March 22, 2014, CVBK was merged with and into C&F Financial Corporation and CVB was merged with and into C&F Bank.

The Bank has five wholly-owned active subsidiaries: C&F Mortgage Corporation and Subsidiaries (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (formerly C&F Investment Services, Inc.), C&F Insurance Services, Inc. and CVB Title Services, Inc., all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, was formed to originate and sell residential mortgages and through its subsidiary, Certified Appraisals LLC, provides ancillary mortgage loan production services for residential appraisals, and through its subsidiary, Lender Solutions LLC, provides loan origination processing services to third parties. C&F Finance, acquired on September 1, 2002, is a finance company providing automobile loans through indirect lending programs. C&F Wealth Management Corporation, organized in

April 1995 and renamed in May 2015, is a full-service brokerage firm offering a comprehensive range of investment services. C&F Insurance Services, Inc., organized in July 1999, owns an equity interest in an insurance agency that sells insurance products to customers of C&F Bank, C&F Mortgage and other financial institutions that have an equity interest in the agency. CVB Title Services, Inc., was organized for the primary purpose of owning membership interests in two insurance-related limited liability companies. Business segment data is presented in Note 9.

Basis of Presentation: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the allowance for indemnifications, impairment of loans, projected cash flows of purchased credit impaired loans, impairment of securities, the valuation of other real estate owned, the projected benefit obligation under the defined benefit pension plan, the valuation of deferred taxes, fair value measurements and goodwill impairment. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

Table of Contents

Reclassification: Certain reclassifications have been made to prior period amounts to conform to the current period presentation. None of these reclassifications are considered material. See Note 2 for additional information about reclassifications related to the adoption of new accounting standards.

Derivative Financial Instruments: The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheet. The Corporation's derivative financial instruments as of September 30, 2015 and December 31, 2014 consisted of (1) the fair value of interest rate lock commitments (IRLCs) on mortgage loans that will be sold in the secondary market and the related forward commitments to sell mortgage loans and (2) interest rate swaps that qualified as cash flow hedges on the Corporation's trust preferred capital notes. Because the IRLCs and forward sales commitments are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of the Corporation's IRLCs and forward sales commitments and realized gains and losses upon ultimate sale of the loans are classified as noninterest income. The effective portion of the gain or loss on the Corporation's cash flow hedges is reported as a component of other comprehensive income, net of deferred income taxes, and reclassified into earnings in the same period or period(s) during which the hedged transactions affect earnings.

Share-Based Compensation: Compensation expense for the third quarter and first nine months of 2015 included expense, net of forfeitures, of \$204,000 (\$126,000 after tax) and \$779,000 (\$483,000 after tax), respectively, for restricted stock granted during 2010 through 2015. As of September 30, 2015, there was \$2.41 million of total unrecognized compensation expense related to unvested restricted stock that will be recognized over the remaining requisite service periods.

A summary of activity for restricted stock awards during the first nine months of 2015 and 2014 is presented below:

| | Shares | Weighted-Average Grant Date Fair Value |
|------------------------------|----------|--|
| Unvested, January 1, 2015 | 135,600 | \$ 34.34 |
| Granted | 16,700 | 37.72 |
| Vested | (12,600) | 25.78 |
| Forfeitures | (5,075) | 44.44 |
| Unvested, September 30, 2015 | 134,625 | \$ 35.18 |

| | Shares | Weighted- Average Grant Date Fair Value |
|------------------------------|---------|--|
| Unvested, January 1, 2014 | 120,183 | \$ 31.18 |
| Granted | 15,750 | 41.38 |
| Vested | (8,100) | 18.77 |
| Forfeitures | (1,500) | 41.25 |
| Unvested, September 30, 2014 | 126,333 | \$ 33.13 |

Table of Contents

Stock option activity during the nine months ended September 30, 2015 and 2014 and stock options outstanding at September 30, 2015 and 2014 are summarized below:

| | Shares | Exercise Price* | Remaining Contractual Life (in years)* | Intrinsic Value of Unexercised In-The Money Options (in 000's) |
|---|----------|-----------------|--|--|
| Options outstanding and exercisable at January 1, 2015 | 100,762 | \$ 37.75 | 0.9 | \$ — |
| Expired | (12,000) | \$ 35.20 | | |
| Options outstanding and exercisable at September 30, 2015 | 88,762 | \$ 38.10 | 0.5 | \$ — |

* Weighted average

| | Shares | Exercise Price* | Remaining Contractual Life (in years)* | Intrinsic Value of Unexercised In-The Money Options (in 000's) |
|---|----------|-----------------|--|--|
| Options outstanding and exercisable at January 1, 2014 | 164,150 | \$ 38.21 | 1.7 | \$ 1,224 |
| Expired | (12,000) | \$ 37.50 | | |
| Options outstanding and exercisable at September 30, 2014 | 152,150 | \$ 38.27 | 1.0 | \$ — |

* Weighted average

Recent Significant Accounting Pronouncements:

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, Investments-Equity Method and Joint Ventures - Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income

tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU became effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-01 did not have a material effect on the Corporation's financial statements. The adoption of ASU 2014-01 is described further in Note 2.

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115." The amendments in ASU 2015-08 amend various paragraphs in the ASC regarding positions of the staff of the SEC pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have a material effect on our financial statements.

In July 2015, the FASB issued ASU No. 2015-12, "Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) – 1. Fully Benefit-Responsive Investment Contracts, 2. Plan Investment Disclosures, and 3. Measurement Date Practical Expedient." The amendments within this ASU are in 3 parts. Among other things, Part I amendments designate contract value as the only

Table of Contents

required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments; and Part III amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end. The amendments in Parts I and II of this ASU are effective on a retrospective basis and Part III is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Corporation is currently assessing the effect that ASU 2015-12 will have on its financial statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Corporation does not expect the adoption of ASU 2015-16 to have a material effect on its financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on the Corporation's financial position, results of operations or cash flows.

NOTE 2: Adoption of New Accounting Standards

The Corporation adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, as of January 1, 2015. As permitted by the guidance, the Corporation has elected to amortize the initial cost of investments in affordable housing projects over the period in which the Corporation will receive related tax credits, which approximates the proportional amortization method, and the resulting amortization is recognized as a component of income taxes attributable to continuing operations. Historically, the amortization related to these investments were recognized within noninterest expense. The Corporation adopted this guidance in the first quarter of 2015 with retrospective application as required by ASU 2014-01. Prior period results have been restated to conform to this presentation.

As of September 30, 2015, the carrying value of the Corporation's aggregate investment in qualified affordable housing projects was \$2.59 million and the aggregate commitment to provide additional capital to these investments was \$1.26 million. Amortization recognized as a component of income tax expense for the three and nine months ended September 30, 2015 and 2014 was \$101,000 and \$304,000, respectively, compared to \$104,000 and \$311,000 for the three and nine months ended September 30, 2014, respectively.

Table of Contents

NOTE 3: Securities

Debt and equity securities, all of which are classified as available for sale are summarized as follows:

| (Dollars in thousands) | September 30, 2015 | | | Fair Value |
|--|--------------------|------------------|------------------|------------|
| | Amortized | Gross Unrealized | Gross Unrealized | |
| | Cost | Gains | Losses | |
| U.S. government agencies and corporations | \$ 19,710 | \$ 6 | \$ (113) | \$ 19,603 |
| Mortgage-backed securities | 73,687 | 1,055 | (148) | 74,594 |
| Obligations of states and political subdivisions | 120,796 | 5,962 | (148) | 126,610 |
| | \$ 214,193 | \$ 7,023 | \$ (409) | \$ 220,807 |

| (Dollars in thousands) | December 31, 2014 | | | Fair Value |
|--|-------------------|------------------|------------------|------------|
| | Amortized | Gross Unrealized | Gross Unrealized | |
| | Cost | Gains | Losses | |
| U.S. government agencies and corporations | \$ 23,409 | \$ 1 | \$ (476) | \$ 22,934 |
| Mortgage-backed securities | 66,716 | 935 | (32) | 67,619 |
| Obligations of states and political subdivisions | 124,312 | 7,158 | (126) | 131,344 |
| | \$ 214,437 | \$ 8,094 | \$ (634) | \$ 221,897 |

The amortized cost and estimated fair value of securities at September 30, 2015, by the earlier of contractual maturity or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

| (Dollars in thousands) | September 30, 2015 | |
|-------------------------|--------------------|------------|
| | Amortized Cost | Fair Value |
| Due in one year or less | \$ 29,171 | \$ 29,361 |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | |
|--|------------|------------|
| Due after one year through five years | 136,630 | 140,922 |
| Due after five years through ten years | 32,084 | 33,094 |
| Due after ten years | 16,308 | 17,430 |
| | \$ 214,193 | \$ 220,807 |

Proceeds from the maturities, calls and sales of securities available for sale for the three and nine months ended September 30, 2015 were \$7.52 million and \$24.40 million, respectively, resulting in gross realized gains of \$22,000 and \$25,000, respectively. Proceeds from the maturities, calls and sales of securities available for sale for the three and nine months ended September 30, 2014 were \$10.31 million and \$31.86 million, respectively, resulting in gross realized gains of \$42,000 and \$45,000, respectively and gross realized losses of \$19,000 and \$19,000, respectively.

The Corporation pledges securities primarily as collateral for public deposits and repurchase agreements. Securities with an aggregate amortized cost of \$82.97 million and an aggregate fair value of \$86.37 million were pledged at

Table of Contents

September 30, 2015. Securities with an aggregate amortized cost of \$106.31 million and an aggregate fair value of \$110.37 million were pledged at December 31, 2014.

Securities in an unrealized loss position at September 30, 2015, by duration of the period of the unrealized loss, are shown below.

| (Dollars in thousands) | Less Than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies and corporations | \$ 2,549 | \$ 1 | \$ 9,048 | \$ 112 | \$ 11,597 | \$ 113 |
| Mortgage-backed securities | 9,514 | 120 | 2,317 | 28 | 11,831 | 148 |
| Obligations of states and political subdivisions | 7,542 | 75 | 4,406 | 73 | 11,948 | 148 |
| Total temporarily impaired securities | \$ 19,605 | \$ 196 | \$ 15,771 | \$ 213 | \$ 35,376 | \$ 409 |

There were 60 debt securities totaling \$35.38 million considered temporarily impaired at September 30, 2015. The primary cause of the temporary impairments in the Corporation's investments in debt securities was fluctuations in interest rates. Interest rates decreased during the third quarter of 2015, primarily in the middle and long-end of the United States Treasury yield curve, thereby decreasing unrealized losses on certain of the Corporation's debt securities as compared to June 30, 2015. Prices for debt securities were higher as interest rates declined, primarily due to the Federal Open Market Committee's decision to delay an anticipated increase in the Federal Funds rate amidst concerns that slowing global growth could hamper the United States economy and a continued decline in commodity prices that lowered the outlook for inflation. Interest rates in the municipal bond sector, which includes the Corporation's obligations of states and political subdivisions, were also lower during the third quarter of 2015, driven by the same economic and financial factors noted above that impacted the overall interest rate environment, lower new issuance volume, and lowered municipal credit risk premiums. At September 30, 2015, approximately 97 percent of the Corporation's obligations of states and political subdivisions, as measured by market value, were rated "A" or better by Standard & Poor's or Moody's Investors Service. Of those in a net unrealized loss position, approximately 95 percent were rated "A" or better, as measured by market value, at September 30, 2015. For the approximately five percent not rated "A" or better, as measured by market value at September 30, 2015, the Corporation considers these to meet regulatory credit quality standards, such that the securities have low risk of default by the obligor, and the full and timely repayment of principal and interest is expected over the expected life of the investment. Because the Corporation intends to hold these investments in debt securities to maturity and it is more likely than not that the Corporation will not be required to sell these investments before a recovery of unrealized losses, the Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2015 and no other-than-temporary impairment has been recognized.

Securities in an unrealized loss position at December 31, 2014, by duration of the period of the unrealized loss, are shown below.

| (Dollars in thousands) | Less Than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies and corporations | \$ 1,966 | \$ 2 | \$ 21,234 | \$ 474 | \$ 23,200 | \$ 476 |
| Mortgage-backed securities | — | — | 4,518 | 32 | 4,518 | 32 |
| Obligations of states and political subdivisions | 6,279 | 51 | 6,049 | 75 | 12,328 | 126 |
| Total temporarily impaired securities | \$ 8,245 | \$ 53 | \$ 31,801 | \$ 581 | \$ 40,046 | \$ 634 |

The Corporation's investment in restricted stocks totaled \$3.35 million at September 30, 2015 and consisted of \$3.20 million of Federal Home Loan Bank (FHLB) stock and \$145,000 of Community Bankers Bank (CBB) stock. Restricted stock is generally viewed as a long-term investment and as restricted investment securities, which are carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating restricted stock for impairment, their respective values are based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Corporation does not consider its investment in restricted stocks to be other-than-temporarily impaired at September 30, 2015 and no impairment has been recognized. Total restricted stocks is

Table of Contents

shown as a separate line item on the balance sheet and is not a part of the available-for-sale securities portfolio. At December 31, 2014, the Corporation's restricted stocks included \$3.30 million of FHLB stock and \$145,000 of CBB stock.

NOTE 4: Loans

Major classifications of loans are summarized as follows:

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Real estate – residential mortgage | \$ 186,082 | \$ 179,817 |
| Real estate – construction 1 | 7,086 | 7,325 |
| Commercial, financial and agricultural 2 | 335,096 | 306,845 |
| Equity lines | 50,533 | 50,321 |
| Consumer | 9,888 | 8,163 |
| Consumer finance | 287,781 | 283,333 |
| | 876,466 | 835,804 |
| Less allowance for loan losses | (35,726) | (35,606) |
| Loans, net | \$ 840,740 | \$ 800,198 |

¹ Includes the Corporation's real estate construction lending and consumer real estate lot lending.

² Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Consumer loans included \$310,000 and \$355,000 of demand deposit overdrafts at September 30, 2015 and December 31, 2014, respectively.

The outstanding principal balance and the carrying amount of loans acquired pursuant to the Corporation's acquisition of CVB (or acquired loans) that were recorded at fair value at the acquisition date and are included in the consolidated balance sheet at September 30, 2015 and December 31, 2014 were as follows:

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| (Dollars in thousands) | September 30, 2015 | | | December 31, 2014 | | |
|--|--|---|---------------------------|--|---|---------------------------|
| | Acquired Loans - Purchased Credit Impaired | Acquired Loans - Purchased Performing | Acquired Loans - Total | Acquired Loans - Purchased Credit Impaired | Acquired Loans - Purchased Performing | Acquired Loans - Total |
| Outstanding principal balance | \$ 26,918 | \$ 74,285 | \$ 101,203 | \$ 36,541 | \$ 85,015 | \$ 121,556 |
| Carrying amount | | | | | | |
| Real estate – residential mortgage | \$ 1,336 | \$ 16,231 | \$ 17,567 | \$ 1,723 | \$ 18,688 | \$ 20,411 |
| Commercial, financial and agricultural | 13,202 | 38,895 | 52,097 | 19,367 | 45,015 | 64,382 |
| Equity lines | 284 | 14,603 | 14,887 | 318 | 15,464 | 15,782 |
| Consumer | — | 347 | 347 | 16 | 979 | 995 |
| Total acquired loans | \$ 14,822 | \$ 70,076 | \$ 84,898 | \$ 21,424 | \$ 80,146 | \$ 101,570 |

¹ Includes acquired loans classified by the Corporation as commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Table of Contents

Loans on nonaccrual status were as follows:

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Real estate – residential mortgage | \$ 2,044 | \$ 2,472 |
| Real estate – construction: | | |
| Construction lending | — | — |
| Consumer lot lending | — | — |
| Commercial, financial and agricultural: | | |
| Commercial real estate lending | 1,811 | 2,033 |
| Land acquisition and development lending | — | — |
| Builder line lending | 306 | — |
| Commercial business lending | — | — |
| Equity lines | 397 | 356 |
| Consumer | 6 | 43 |
| Consumer finance | 807 | 1,040 |
| Total loans on nonaccrual status | \$ 5,371 | \$ 5,944 |

The past due status of loans as of September 30, 2015 was as follows:

| (Dollars in thousands) | 30 - 59 Days Past Due ³ | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | PCI | Current ¹ | Total Loans ² | 90+ Days Past Due and Accruing |
|--|---------------------------------------|--------------------------|----------------------|-------------------|----------|----------------------|--------------------------|--------------------------------------|
| Real estate – residential mortgage | \$ 908 | \$ 41 | \$ 818 | \$ 1,767 | \$ 1,336 | \$ 182,979 | \$ 186,082 | \$ 276 |
| Real estate – construction: | | | | | | | | |
| Construction lending | — | — | — | — | — | 4,963 | 4,963 | — |
| Consumer lot lending | — | — | — | — | — | 2,123 | 2,123 | — |
| Commercial, financial and agricultural: | | | | | | | | |
| Commercial real estate lending | 5,513 | 775 | 119 | 6,407 | 11,264 | 183,733 | 201,404 | 148 |
| Land acquisition and development lending | — | — | — | — | — | 44,063 | 44,063 | — |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | | | | |
|-----------------------------|-----------|----------|----------|-----------|-----------|------------|------------|--------|
| Builder line lending | — | 306 | — | 306 | — | 22,413 | 22,719 | — |
| Commercial business lending | 44 | 330 | — | 374 | 1,938 | 64,598 | 66,910 | — |
| Equity lines | 63 | 48 | 668 | 779 | 284 | 49,470 | 50,533 | 500 |
| Consumer | 35 | 3 | 6 | 44 | — | 9,844 | 9,888 | — |
| Consumer finance | 13,448 | 2,005 | 807 | 16,260 | — | 271,521 | 287,781 | — |
| Total | \$ 20,011 | \$ 3,508 | \$ 2,418 | \$ 25,937 | \$ 14,822 | \$ 835,707 | \$ 876,466 | \$ 924 |

¹ For the purposes of the table above, “Current” includes loans that are 1-29 days past due.

² Includes purchased credit impaired loans of \$171,000.

³ Commercial real estate loans past due 30-59 days at September 30, 2015 consist of loans to one borrower which were 30 days past due. The scheduled loan payments have since been received.

The table above includes the following:

- nonaccrual loans that are current of \$2.93 million, 30-59 days past due of \$73,000, 60-89 days past due of \$696,000 and 90+ days past due of \$1.67 million.
- performing loans purchased in the acquisition of CVB that are current of \$69.25 million, 30-59 days past due of \$337,000, and 90+ days past due of \$485,000.

Table of Contents

The past due status of loans as of December 31, 2014 was as follows:

| (Dollars in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | PCI | Current ¹ | Total Loans | 90+ Days Past Due and Accruing |
|--|--------------------------|--------------------------|----------------------|-------------------|-----------|----------------------|-------------|--------------------------------------|
| Real estate – residential mortgage | \$ 1,481 | \$ 256 | \$ 679 | \$ 2,416 | \$ 1,723 | \$ 175,678 | \$ 179,817 | \$ — |
| Real estate – construction: | | | | | | | | |
| Construction lending | — | — | — | — | | 3,839 | 3,839 | — |
| Consumer lot lending | — | — | — | — | | 3,486 | 3,486 | — |
| Commercial, financial and agricultural: | | | | | | | | |
| Commercial real estate lending | 88 | — | 115 | 203 | 13,011 | 171,566 | 184,780 | — |
| Land acquisition and development lending | — | — | — | — | 3,379 | 44,094 | 47,473 | — |
| Builder line lending | — | — | — | — | 48 | 20,207 | 20,255 | — |
| Commercial business lending | 21 | 53 | — | 74 | 2,929 | 51,334 | 54,337 | — |
| Equity lines | 319 | 205 | 122 | 646 | 318 | 49,357 | 50,321 | 14 |
| Consumer | 15 | 37 | 6 | 58 | 16 | 8,089 | 8,163 | — |
| Consumer finance | 12,421 | 2,599 | 1,040 | 16,060 | — | 267,273 | 283,333 | — |
| Total | \$ 14,345 | \$ 3,150 | \$ 1,962 | \$ 19,457 | \$ 21,424 | \$ 794,923 | \$ 835,804 | \$ 14 |

¹ For the purposes of the table above, “Current” includes loans that are 1-29 days past due.

The table above includes the following:

- nonaccrual loans that are current of \$3.06 million, 30-59 days past due of \$697,000, 60 - 89 days past due of \$417,000 and 90+ days past due of \$1.77 million.
- performing loans purchased in the acquisition of CVB that are current of \$79.01 million, 30-59 days past due of \$634,000, 60-89 days past due of \$88,000 and 90+ days past due of \$413,000.

Loan modifications that were classified as TDRs during the three and nine months ended September 30, 2015 and 2014 were as follows:

| | Three Months Ended September 30, 2015 | | 2014 | | Pre- Modification Recorded Investment | Post- Modification Recorded Investment |
|--|--|--|---|--------------------|--|---|
| | Number of Loans | Pre- Modification Recorded Investment | Post- Modification Recorded Investment | Number of Loans | | |
| (Dollars in thousands) | | | | | | |
| Real estate – residential mortgage – interest reduction | 1 | \$ 202 | \$ 202 | — | \$ — | \$ — |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending – interest reduction | — | — | — | 1 | 103 | 103 |
| Consumer – interest rate concession | 1 | 115 | 115 | — | — | — |
| Total | 2 | \$ 317 | \$ 317 | 1 | \$ 103 | \$ 103 |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | | 2014 | | Pre- Modification Recorded Investment | Post- Modification Recorded Investment |
|--|---|--|---|--------------------|--|---|
| | Number of Loans | Pre- Modification Recorded Investment | Post- Modification Recorded Investment | Number of Loans | | |
| Real estate – residential mortgage – interest reduction | 1 | \$ 202 | \$ 202 | — | \$ — | \$ — |
| Real estate – residential mortgage – interest rate concession | 1 | 239 | 239 | 1 | 328 | 328 |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending – interest reduction | — | — | — | 1 | 103 | 103 |
| Commercial real estate lending – interest rate concession | 1 | 15 | 15 | — | — | — |
| Commercial business lending – interest rate concession | 1 | 17 | 17 | — | — | — |
| Consumer – interest rate concession | 2 | 261 | 261 | — | — | — |
| Total | 6 | \$ 734 | \$ 734 | 2 | \$ 431 | \$ 431 |

A TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due. There were no TDR defaults during the three and nine months ended September 30, 2015 and 2014.

At September 30, 2015 and December 31, 2014, all impaired loans had an allowance for loan loss established. Impaired loans, which consisted solely of TDRs, and the related allowance at September 30, 2015 were as follows:

| (Dollars in thousands) | Recorded Investment in Loans | Unpaid Principal Balance | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|------------------------|------------------------------------|--------------------------------|----------------------|--|----------------------------------|
|------------------------|------------------------------------|--------------------------------|----------------------|--|----------------------------------|

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | |
|---|----------|----------|--------|----------|--------|
| Real estate – residential mortgage | \$ 2,762 | \$ 2,932 | \$ 408 | \$ 2,847 | \$ 72 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 2,364 | 2,542 | 381 | 2,397 | 75 |
| Commercial business lending | 102 | 102 | 15 | 111 | 5 |
| Equity lines | 30 | 32 | 1 | 32 | 1 |
| Consumer | 353 | 353 | 45 | 355 | 10 |
| Total | \$ 5,611 | \$ 5,961 | \$ 850 | \$ 5,742 | \$ 163 |

Impaired loans, which included TDR loans of \$5.83 million, and the related allowance at December 31, 2014 were as follows:

| (Dollars in thousands) | Recorded Investment in Loans | Unpaid Principal Balance | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|---|------------------------------------|--------------------------------|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 3,000 | \$ 3,094 | \$ 417 | \$ 2,931 | \$ 139 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 2,786 | 2,908 | 440 | 2,735 | 150 |
| Commercial business lending | 103 | 103 | 15 | 115 | 7 |
| Equity lines | 30 | 32 | 1 | 25 | 2 |
| Consumer | 95 | 95 | 6 | 95 | 4 |
| Total | \$ 6,014 | \$ 6,232 | \$ 879 | \$ 5,901 | \$ 302 |

PCI loans had an unpaid principal balance of \$26.91 million and a carrying value of \$14.82 million at September 30, 2015. Determining the fair value of purchased credit impaired loans required the Corporation to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of the

Table of Contents

cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the effect of estimated credit losses and is called the nonaccretable difference, and is not recorded. In accordance with U.S. GAAP, there was no carry-over of previously established allowance for loan losses for acquired loans.

The following table presents a summary of the change in the accretable yield of the PCI loan portfolio for the nine months ended September 30, 2015 and 2014:

| (Dollars in thousands) | September 30, | |
|--|---------------|-----------|
| | 2015 | 2014 |
| Accretable yield, balance at beginning of period | \$ 13,488 | \$ 7,776 |
| Accretion | (2,047) | (2,446) |
| Reclassification of nonaccretable difference due to improvement in expected cash flows | 287 | 10,605 |
| Other changes, net | (307) | (1,886) |
| Accretable yield, balance at end of period | \$ 11,421 | \$ 14,049 |

NOTE 5: Allowance for Loan Losses

The following table presents the changes in the allowance for loan losses by major classification during the nine months ended September 30, 2015.

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| (Dollars in thousands) | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|----------------------------|--|-----------------------------|--|-----------------|----------|---------------------|-----------|
| Allowance for loan losses: | | | | | | | |
| Balance at | | | | | | | |
| December 31, 2014 | \$ 2,313 | \$ 434 | \$ 7,744 | \$ 812 | \$ 211 | \$ 24,092 | \$ 35,606 |
| Provision charged to | | | | | | | |
| operations | 43 | (340) | 78 | 197 | 67 | 9,767 | 9,812 |
| Loans charged off | (93) | — | (22) | — | (213) | (13,051) | (13,379) |
| Recoveries of loans | | | | | | | |
| previously charged off | 243 | — | 24 | — | 231 | 3,189 | 3,687 |
| Balance at | | | | | | | |
| September 30, 2015 | \$ 2,506 | \$ 94 | \$ 7,824 | \$ 1,009 | \$ 296 | \$ 23,997 | \$ 35,726 |

The following table presents the changes in the allowance for loan losses by major classification during the nine months ended September 30, 2014.

| (Dollars in thousands) | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|--------------------------------|--|-----------------------------|--|-----------------|----------|---------------------|-----------|
| Allowance for loan losses: | | | | | | | |
| Balance at December 31, 2013 | \$ 2,355 | \$ 434 | \$ 7,805 | \$ 892 | \$ 273 | \$ 23,093 | \$ 34,852 |
| Provision charged to | | | | | | | |
| operations | 45 | — | — | — | — | 10,870 | 10,915 |
| Loans charged off | (147) | — | (224) | (47) | (242) | (12,717) | (13,377) |
| Recoveries of loans previously | | | | | | | |
| charged off | 37 | — | 111 | — | 210 | 2,825 | 3,183 |
| Balance at | | | | | | | |
| September 30, 2014 | \$ 2,290 | \$ 434 | \$ 7,692 | \$ 845 | \$ 241 | \$ 24,071 | \$ 35,573 |

Table of Contents

The following table presents, as of September 30, 2015, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment, collectively evaluated for impairment or PCI loans), the total loans and loans by impairment methodology (individually evaluated for impairment, collectively evaluated for impairment or PCI loans).

| (Dollars in thousands) | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|---|----------------------------------|--------------------------|--------------------------------------|--------------|----------|------------------|------------|
| Allowance for loan losses: | | | | | | | |
| Balance at September 30, 2015 | \$ 2,506 | \$ 94 | \$ 7,824 | \$ 1,009 | \$ 296 | \$ 23,997 | \$ 35,726 |
| Ending balance: individually evaluated for impairment | \$ 408 | \$ — | \$ 396 | \$ 1 | \$ 45 | \$ — | \$ 850 |
| Ending balance: collectively evaluated for impairment | \$ 2,098 | \$ 94 | \$ 7,393 | \$ 1,008 | \$ 251 | \$ 23,997 | \$ 34,841 |
| Ending balance: acquired loans - purchase credit impaired | \$ — | \$ — | \$ 35 | \$ — | \$ — | \$ — | \$ 35 |
| Loans: | | | | | | | |
| Balance at September 30, 2015 | \$ 186,082 | \$ 7,086 | \$ 335,096 | \$ 50,533 | \$ 9,888 | \$ 287,781 | \$ 876,466 |
| Ending balance: individually evaluated for impairment | \$ 2,762 | \$ — | \$ 2,466 | \$ 30 | \$ 353 | \$ — | \$ 5,611 |
| Ending balance: collectively evaluated for impairment | \$ 181,984 | \$ 7,086 | \$ 319,428 | \$ 50,219 | \$ 9,535 | \$ 287,781 | \$ 856,033 |
| Ending balance: acquired loans - purchase credit impaired | \$ 1,336 | \$ — | \$ 13,202 | \$ 284 | \$ — | \$ — | \$ 14,822 |

The following table presents, as of December 31, 2014, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment), the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment).

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| (Dollars in thousands) | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|---|--|-----------------------------|--|-----------------|----------|---------------------|------------|
| Allowance for loan losses: | | | | | | | |
| Ending balance | \$ 2,313 | \$ 434 | \$ 7,744 | \$ 812 | \$ 211 | \$ 24,092 | \$ 35,606 |
| Ending balance: individually evaluated for impairment | \$ 417 | \$ — | \$ 455 | \$ 1 | \$ 6 | \$ — | \$ 879 |
| Ending balance: collectively evaluated for impairment | \$ 1,896 | \$ 434 | \$ 7,289 | \$ 811 | \$ 205 | \$ 24,092 | \$ 34,727 |
| Ending balance: acquired loans - purchase credit impaired | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Loans: | | | | | | | |
| Ending balance | \$ 179,817 | \$ 7,325 | \$ 306,845 | \$ 50,321 | \$ 8,163 | \$ 283,333 | \$ 835,804 |
| Ending balance: individually evaluated for impairment | \$ 3,000 | \$ — | \$ 2,889 | \$ 30 | \$ 95 | \$ — | \$ 6,014 |
| Ending balance: collectively evaluated for impairment | \$ 175,094 | \$ 7,325 | \$ 284,589 | \$ 49,973 | \$ 8,052 | \$ 283,333 | \$ 808,366 |
| Ending balance: acquired loans - purchase credit impaired | \$ 1,723 | \$ — | \$ 19,367 | \$ 318 | \$ 16 | \$ — | \$ 21,424 |

Table of Contents

Loans by credit quality indicators as of September 30, 2015 were as follows:

| (Dollars in thousands) | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|--|------------|--------------------|-------------|---------------------------|--------------------|
| Real estate – residential mortgage | \$ 180,329 | \$ 1,386 | \$ 2,323 | \$ 2,044 | \$ 186,082 |
| Real estate – construction: | | | | | |
| Construction lending | 4,915 | 48 | — | — | 4,963 |
| Consumer lot lending | 2,123 | — | — | — | 2,123 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 179,047 | 6,008 | 14,538 | 1,811 | 201,404 |
| Land acquisition and development lending | 42,815 | 855 | 393 | — | 44,063 |
| Builder line lending | 20,876 | 908 | 629 | 306 | 22,719 |
| Commercial business lending | 54,412 | 1,454 | 11,044 | — | 66,910 |
| Equity lines | 48,727 | 642 | 767 | 397 | 50,533 |
| Consumer | 9,487 | 132 | 263 | 6 | 9,888 |
| | \$ 542,731 | \$ 11,433 | \$ 29,957 | \$ 4,564 | \$ 588,685 |

¹ At September 30, 2015, the Corporation did not have any loans classified as Doubtful or Loss.

Included in the table above are loans purchased in connection with the acquisition of CVB of \$74.34 million pass rated, \$4.49 million special mention, \$5.42 million substandard and \$652,000 substandard nonaccrual.

| (Dollars in thousands) | Performing | Non-Performing | Total |
|------------------------|------------|----------------|------------|
| Consumer finance | \$ 286,974 | \$ 807 | \$ 287,781 |

Loans by credit quality indicators as of December 31, 2014 were as follows:

| (Dollars in thousands) | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|------------------------|------|--------------------|-------------|---------------------------|--------------------|
|------------------------|------|--------------------|-------------|---------------------------|--------------------|

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | |
|--|------------|-----------|-----------|----------|------------|
| Real estate – residential mortgage | \$ 171,414 | \$ 2,978 | \$ 2,953 | \$ 2,472 | \$ 179,817 |
| Real estate – construction: | | | | | |
| Construction lending | 1,191 | — | 2,648 | — | 3,839 |
| Consumer lot lending | 3,486 | — | — | — | 3,486 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 165,804 | 4,136 | 12,807 | 2,033 | 184,780 |
| Land acquisition and development lending | 43,693 | 1,136 | 2,644 | — | 47,473 |
| Builder line lending | 18,321 | 1,389 | 545 | — | 20,255 |
| Commercial business lending | 41,813 | 930 | 11,594 | — | 54,337 |
| Equity lines | 48,443 | 772 | 750 | 356 | 50,321 |
| Consumer | 7,984 | 103 | 33 | 43 | 8,163 |
| | \$ 502,149 | \$ 11,444 | \$ 33,974 | \$ 4,904 | \$ 552,471 |

¹ At December 31, 2014, the Corporation did not have any loans classified as Doubtful or Loss.

Included in the table above are loans purchased in connection with the acquisition of CVB of \$87.27 million pass rated, \$2.99 million special mention, \$10.71 million substandard and \$603,000 substandard nonaccrual.

| (Dollars in thousands) | Performing | Non-Performing | Total |
|------------------------|------------|----------------|------------|
| Consumer finance | \$ 282,293 | \$ 1,040 | \$ 283,333 |

Table of Contents

NOTE 6: Shareholders' Equity and Earnings Per Common Share

Accumulated Other Comprehensive Income

The following table presents the cumulative balances of the components of accumulated other comprehensive income, net of deferred taxes of \$1.19 million and \$1.66 million as of September 30, 2015 and December 31, 2014, respectively.

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| Net unrealized gains on securities | \$ 4,298 | \$ 4,850 |
| Net unrecognized loss on cash flow hedges | (343) | (64) |
| Net unrecognized losses on defined benefit plan | (1,728) | (1,700) |
| Total accumulated other comprehensive income | \$ 2,227 | \$ 3,086 |

Common Shares

During the first nine months of 2015 and 2014, 38,759 shares and 2,800 shares, respectively, were purchased under a share repurchase program authorized by the Corporation's Board of Directors. The Corporation purchased 3,281 and 225 shares of its common stock from employees to satisfy tax withholding obligations arising upon the vesting of restricted shares during the first nine months of 2015 and 2014, respectively.

Earnings Per Common Share

The components of the Corporation's earnings per common share calculations are as follows:

| (Dollars in thousands) | Three Months Ended | |
|--|--------------------|-----------|
| | September 30, | |
| | 2015 | 2014 |
| Net income | \$ 3,477 | \$ 3,293 |
| Weighted average number of common shares used in earnings per common share—basic | 3,392,480 | 3,405,162 |
| Effect of dilutive securities: | | |
| Stock option awards and warrant | — | 146 |
| Weighted average number of common shares used in earnings per common share—assuming dilution | 3,392,480 | 3,405,308 |

| (Dollars in thousands) | Nine Months Ended | |
|--|-------------------|-----------|
| | September 30, | |
| | 2015 | 2014 |
| Net income | \$ 10,223 | \$ 9,927 |
| Weighted average number of common shares used in earnings per common share—basic | 3,400,296 | 3,403,749 |
| Effect of dilutive securities: | | |
| Stock option awards and warrant | 141 | 42,723 |
| Weighted average number of common shares used in earnings per common share—assuming dilution | 3,400,437 | 3,446,472 |

Potential common shares that may be issued by the Corporation for its stock option awards, and when it was outstanding in 2014, the warrant (the Warrant) to purchase common stock of the Corporation originally issued to the United States Department of the Treasury (Treasury) as part of the Corporation's participation in the Capital Purchase Program, are determined using the treasury stock method. Approximately 88,762 shares issuable upon exercise of options were not included in computing diluted earnings per common share for both the three and nine months ended September 30, 2015 and approximately 164,150 and 145,470 shares issuable upon exercise of options for the three and nine months ended

Table of Contents

September 30, 2014, respectively, were not included in computing diluted earnings per common share because they were anti-dilutive. The Corporation repurchased the Warrant from Treasury during the second quarter of 2014.

The Corporation has applied the two-class method of computing basic and diluted EPS for each period presented because the Corporation's unvested restricted shares outstanding contain rights to nonforfeitable dividends. Accordingly, the weighted average number of common shares used in the calculation of basic and diluted EPS includes both vested and unvested common shares outstanding.

NOTE 7: Employee Benefit Plans

The Bank has a non-contributory cash balance pension plan for which the components of net periodic benefit cost are as follows:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 267 | \$ 190 | \$ 801 | \$ 572 |
| Interest cost | 117 | 113 | 351 | 339 |
| Expected return on plan assets | (253) | (208) | (759) | (624) |
| Amortization of prior service cost | (14) | (85) | (42) | (51) |
| Amortization of net loss | 29 | 40 | 87 | 24 |
| Net periodic benefit cost | \$ 146 | \$ 50 | \$ 438 | \$ 260 |

NOTE 8: Fair Value of Assets and Liabilities

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

- Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as U.S. Treasury securities.

- Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Valuation is determined using model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Corporation's estimates of assumptions that market participants would use in pricing the respective asset or liability. Valuation techniques may include the use of pricing models, discounted cash flow models and similar techniques.

U.S. GAAP allows an entity the irrevocable option to elect fair value (the fair value option) for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation has elected to use fair value accounting for its entire portfolio of loans held for sale (LHFS).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following describes the valuation techniques and inputs used by the Corporation in determining the fair value of certain assets recorded at fair value on a recurring basis in the financial statements.

Table of Contents

Securities available for sale. The Corporation primarily values its investment portfolio using Level 2 fair value measurements, but may also use Level 1 or Level 3 measurements if required by the composition of the portfolio. At September 30, 2015 and December 31, 2014, the Corporation's entire investment securities portfolio was comprised of securities available for sale, which were valued using Level 2 fair value measurements. The Corporation has contracted with third party portfolio accounting service vendors for valuation of its securities portfolio. The vendors' sources for security valuation are Standard & Poor's Securities Evaluations Inc. (SPSE), Thomson Reuters Pricing Service (TRPS), and Interactive Data Pricing and Reference Data LLC (IDC). Each source provides opinions, known as evaluated prices, as to the value of individual securities based on model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. SPSE and IDC provide evaluated prices for the Corporation's obligations of states and political subdivisions category of securities. Both sources use proprietary pricing models and pricing systems, mathematical tools and judgment to determine an evaluated price for a security based upon a hierarchy of market information regarding that security or securities with similar characteristics. TRPS and IDC provide evaluated prices for the Corporation's U.S. government agencies and corporations and mortgage-backed categories of securities. Fixed-rate callable securities of the U.S. government agencies and corporations category are individually evaluated on an option adjusted spread basis for callable issues or on a nominal spread basis incorporating the term structure of agency market spreads and the appropriate risk free benchmark curve for non-callable issues. Fixed-rate securities issued by the Small Business Association in the U.S. government agencies and corporations category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Pass-through mortgage-backed securities (or MBS) in the mortgage-backed category are grouped into aggregate categories defined by issuer program, weighted average coupon, and weighted average maturity. Each aggregate is benchmarked to a relative mortgage-backed to-be-announced (TBA) or other benchmark price. TBA prices are obtained from market makers and live trading systems. Collateralized mortgage obligations in the mortgage-backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Each evaluation is determined using an option adjusted spread and prepayment model based on volatility-driven, multi-dimensional spread tables.

Loans held for sale. Fair value of the Corporation's LHFS is based on observable market prices for similar instruments traded in the secondary mortgage loan markets in which the Corporation conducts business. The Corporation's portfolio of LHFS is classified as Level 2.

Derivative asset (liability) - IRLCs. The Corporation recognizes IRLCs at fair value. Fair value of IRLCs is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Corporation's IRLCs are classified as Level 2.

Derivative asset (liability) - cash flow hedges. The Corporation's derivative financial instruments have been designated as and qualify as cash flow hedges. The fair value of the Corporation's cash flow hedges is determined using the discounted cash flow method. All of the Corporation's cash flow hedges are classified as Level 2.

Table of Contents

The following table presents the balances of financial assets measured at fair value on a recurring basis.

| (Dollars in thousands) | September 30, 2015 | | | Assets at Fair Value |
|--|-----------------------|-------------------------|------------------|-------------------------|
| | Fair Value Level 1 | Measurements Level 2 | Using Level 3 | |
| Assets: | | | | |
| Securities available for sale | | | | |
| U.S. government agencies and corporations | \$ — | \$ 19,603 | \$ — | \$ 19,603 |
| Mortgage-backed securities | — | 74,594 | — | 74,594 |
| Obligations of states and political subdivisions | — | 126,610 | — | 126,610 |
| Total securities available for sale | — | 220,807 | — | 220,807 |
| Loans held for sale | — | 43,882 | — | 43,882 |
| Derivative asset - IRLC | — | 823 | — | 823 |
| Total assets | \$ — | \$ 265,512 | \$ — | \$ 265,512 |
| Liabilities: | | | | |
| Derivative liability - cash flow hedges | \$ — | \$ 534 | \$ — | \$ 534 |

| (Dollars in thousands) | December 31, 2014 | | | Assets at Fair Value |
|--|-----------------------|-------------------------|------------------|-------------------------|
| | Fair Value Level 1 | Measurements Level 2 | Using Level 3 | |
| Assets: | | | | |
| Securities available for sale | | | | |
| U.S. government agencies and corporations | \$ — | \$ 22,934 | \$ — | \$ 22,934 |
| Mortgage-backed securities | — | 67,619 | — | 67,619 |
| Obligations of states and political subdivisions | — | 131,344 | — | 131,344 |
| Total securities available for sale | — | 221,897 | — | 221,897 |
| Loans held for sale | — | 28,279 | — | 28,279 |
| Derivative asset - IRLC | — | 448 | — | 448 |
| Derivative asset - cash flow hedges | — | 40 | — | 40 |
| Total assets | \$ — | \$ 250,664 | \$ — | \$ 250,664 |
| Liabilities: | | | | |
| Derivative liability - cash flow hedges | \$ — | \$ 143 | \$ — | \$ 143 |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure and recognize certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. The following describes the valuation techniques and inputs used by the Corporation in determining the fair value of certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans. The Corporation does not record loans held for investment at fair value on a recurring basis. However, there are instances when a loan is considered impaired and an allowance for loan losses is established. A loan is considered impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. All TDRs are considered impaired loans. The Corporation measures impairment on a loan-by-loan basis for commercial, construction and residential loans in excess of \$500,000 by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Additionally, management reviews current market conditions, borrower history, past experience with similar loans and economic conditions. Based on management's review, additional write-downs to fair value may be incurred. The Corporation maintains a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. When the fair value of an impaired loan is based solely on observable cash flows, market price or a current appraisal, the Corporation records the impaired loan as nonrecurring Level 2.

Table of Contents

However, if based on management's review, additional write-downs to fair value are required or if the impaired loan otherwise does not meet the standards for Level 2 classification, the Corporation records the impaired loan as nonrecurring Level 3.

The measurement of impaired loans of less than \$500,000 is based on each loan's future cash flows discounted at the loan's effective interest rate rather than the market rate of interest, which is not a fair value measurement and is therefore excluded from fair value disclosure requirements.

Other real estate owned (OREO). Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure. Initial fair value is based upon appraisals the Corporation obtains from independent licensed appraisers. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of like properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Corporation may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further other-than-temporary deterioration in market conditions. As such, we record OREO as nonrecurring Level 3.

The following table presents the balances of financial assets measured at fair value on a non-recurring basis.

| (Dollars in thousands) | September 30, 2015 | | | |
|------------------------------|--|---------|----------|----------|
| | Fair Value Measurements Using Assets at Fair | | | |
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans, net | \$ — | \$ — | \$ 2,073 | \$ 2,073 |
| Other real estate owned, net | — | — | 763 | 763 |
| Total | \$ — | \$ — | \$ 2,836 | \$ 2,836 |

| (Dollars in thousands) | December 31, 2014 | | | |
|------------------------------|--|---------|----------|----------|
| | Fair Value Measurements Using Assets at Fair | | | |
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans, net | \$ — | \$ — | \$ 1,224 | \$ 1,224 |
| Other real estate owned, net | — | — | 786 | 786 |
| Total | \$ — | \$ — | \$ 2,010 | \$ 2,010 |

The following table presents quantitative information about Level 3 fair value measurements for financial assets measured at fair value on a non-recurring basis as of September 30, 2015:

| (Dollars in thousands) | Fair Value Measurements at September 30, 2015 | | | |
|------------------------------|---|------------------------|---|-----------------|
| | Fair Value | Valuation Technique(s) | Unobservable Inputs | Range of Inputs |
| Impaired loans, net | \$ 2,073 | Appraisals | Discount to reflect current market conditions and estimated selling costs | 10% - 60% |
| Other real estate owned, net | 763 | Appraisals | Discount to reflect current market conditions and estimated selling costs | 0% - 65% |
| Total | \$ 2,836 | | | |

Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

Table of Contents

The following describes the valuation techniques used by the Corporation to measure certain of its financial instruments at fair value as of September 30, 2015 and December 31, 2014.

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

Loans, net. The fair value of performing loans is estimated using a discounted expected future cash flows analysis based on current rates being offered on similar products in the market. An overall valuation adjustment is made for specific credit risks as well as general portfolio risks. Based on the valuation methodologies used in assessing the fair value of loans and the associated valuation allowance, these loans are considered Level 3.

Loan totals, as listed in the table below, include impaired loans. For valuation techniques used in relation to impaired loans, see the Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis section in this Note 8.

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

Bank-owned life insurance (BOLI). The fair value of BOLI is estimated using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Deposits. The fair value of all demand deposit accounts is the amount payable at the report date. For all other deposits, the fair value is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products in active markets (Level 2).

Borrowings. The fair value of borrowings is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products in active markets (Level 2).

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

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

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

Table of Contents

The following tables reflect the carrying amounts and estimated fair values of the Corporation's financial instruments whether or not recognized on the balance sheet at fair value.

| (Dollars in thousands) | Carrying Value | Fair Value Measurements at September 30, 2015 Using | | | Total Fair Value |
|---|----------------|---|---------|---------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Cash and short-term investments | \$ 145,415 | \$ 145,415 | \$ — | \$ — | \$ 145,415 |
| Securities available for sale | 220,807 | — | 220,807 | — | 220,807 |
| Loans, net | 840,740 | — | — | 852,504 | 852,504 |
| Loans held for sale | 43,882 | — | 43,882 | — | 43,882 |
| Derivative asset - IRLC | 823 | — | 823 | — | 823 |
| Bank-owned life insurance | 14,780 | — | 14,780 | — | 14,780 |
| Accrued interest receivable | 6,654 | 6,654 | — | — | 6,654 |
| Financial liabilities: | | | | | |
| Demand deposits | \$ 703,581 | \$ 703,581 | \$ — | \$ — | \$ 703,581 |
| Time deposits | 338,216 | — | 340,737 | — | 340,737 |
| Borrowings | 178,951 | — | 172,086 | — | 172,086 |
| Derivative liability - cash flow hedges | 534 | — | 534 | — | 534 |
| Accrued interest payable | 687 | 687 | — | — | 687 |

| (Dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2014 Using | | | Total Fair Value |
|-------------------------------------|----------------|--|---------|---------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Cash and short-term investments | \$ 167,616 | \$ 167,616 | \$ — | \$ — | \$ 167,616 |
| Securities available for sale | 221,897 | — | 221,897 | — | 221,897 |
| Loans, net | 800,198 | — | — | 813,010 | 813,010 |
| Loans held for sale | 28,279 | — | 28,279 | — | 28,279 |
| Derivative asset - IRLC | 448 | — | 448 | — | 448 |
| Derivative asset - cash flow hedges | 40 | — | 40 | — | 40 |
| Bank-owned life insurance | 14,484 | — | 14,484 | — | 14,484 |
| Accrued interest receivable | 6,421 | 6,421 | — | — | 6,421 |
| Financial liabilities: | | | | | |
| Demand deposits | \$ 659,594 | \$ 659,594 | \$ — | \$ — | \$ 659,594 |
| Time deposits | 366,507 | — | 369,538 | — | 369,538 |
| Borrowings | 167,027 | — | 160,052 | — | 160,052 |
| | 143 | — | 143 | — | 143 |

Derivative liability - cash flow
hedges

| | | | | | |
|--------------------------|-----|-----|---|---|-----|
| Accrued interest payable | 740 | 740 | — | — | 740 |
|--------------------------|-----|-----|---|---|-----|

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

NOTE 9: Business Segments

The Corporation operates in a decentralized fashion in three principal business segments: Retail Banking, Mortgage Banking and Consumer Finance. Revenues from Retail Banking operations consist primarily of interest earned on loans

Table of Contents

and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from Consumer Finance consist primarily of interest earned on purchased automobile retail installment sales contracts.

The Corporation's other segment includes a full-service brokerage firm that derives revenues from brokerage services and an insurance company that derives revenues from insurance services. The results of the other segment are not significant to the Corporation as a whole and have been included in "Other." Revenue and expenses of the Corporation are also included in "Other," and consist primarily of interest expense associated with the Corporation's trust preferred capital notes and other general corporate expenses.

| (Dollars in thousands) | Three Months Ended September 30, 2015 | | | | | Consolidated |
|-----------------------------------|---------------------------------------|------------------|------------------|----------|--------------|--------------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | |
| Revenues: | | | | | | |
| Interest income | \$ 10,715 | \$ 528 | \$ 12,702 | \$ — | \$ (1,167) | \$ 22,778 |
| Gains on sales of loans | — | 1,156 | — | — | — | 1,156 |
| Other noninterest income | 2,312 | 703 | 237 | 397 | — | 3,649 |
| Total operating income | 13,027 | 2,387 | 12,939 | 397 | (1,167) | 27,583 |
| Expenses: | | | | | | |
| Provision for loan losses | — | 15 | 4,127 | — | — | 4,142 |
| Interest expense | 1,453 | 100 | 1,579 | 294 | (1,167) | 2,259 |
| Salaries and employee benefits | 5,663 | 660 | 2,503 | 281 | — | 9,107 |
| Other noninterest expenses | 4,440 | 1,292 | 1,324 | 98 | — | 7,154 |
| Total operating expenses | 11,556 | 2,067 | 9,533 | 673 | (1,167) | 22,662 |
| Income (loss) before income taxes | 1,471 | 320 | 3,406 | (276) | — | 4,921 |
| Income tax expense (benefit) | 85 | 130 | 1,336 | (107) | — | 1,444 |
| Net income (loss) | \$ 1,386 | \$ 190 | \$ 2,070 | \$ (169) | \$ — | \$ 3,477 |
| Total assets | \$ 1,194,435 | \$ 58,370 | \$ 291,214 | \$ 4,728 | \$ (175,376) | \$ 1,373,371 |
| Goodwill | \$ 3,702 | \$ — | \$ 10,723 | \$ — | \$ — | \$ 14,425 |
| Capital expenditures | \$ 434 | \$ 28 | \$ 7 | \$ 1 | \$ — | \$ 470 |

Three Months Ended September 30, 2014
Retail Mortgage Consumer

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| (Dollars in thousands) | Banking | Banking | Finance | Other | Eliminations | Consolidated |
|-----------------------------------|--------------|-----------|------------|----------|--------------|--------------|
| Revenues: | | | | | | |
| Interest income | \$ 10,925 | \$ 366 | \$ 11,837 | \$ — | \$ (1,290) | \$ 21,838 |
| Gains on sales of loans | — | 1,188 | — | — | — | 1,188 |
| Other noninterest income | 2,301 | 597 | 262 | 364 | — | 3,524 |
| Total operating income | 13,226 | 2,151 | 12,099 | 364 | (1,290) | 26,550 |
| Expenses: | | | | | | |
| Provision for loan losses | — | 15 | 4,125 | — | — | 4,140 |
| Interest expense | 1,460 | 57 | 1,648 | 241 | (1,290) | 2,116 |
| Salaries and employee benefits | 5,509 | 813 | 2,382 | 196 | — | 8,900 |
| Other noninterest expenses | 4,181 | 1,172 | 1,224 | 94 | — | 6,671 |
| Total operating expenses | 11,150 | 2,057 | 9,379 | 531 | (1,290) | 21,827 |
| Income (loss) before income taxes | 2,076 | 94 | 2,720 | (167) | — | 4,723 |
| Income tax expense (benefit) | 396 | 37 | 1,061 | (64) | — | 1,430 |
| Net income (loss) | \$ 1,680 | \$ 57 | \$ 1,659 | \$ (103) | \$ — | \$ 3,293 |
| Total assets | \$ 1,153,939 | \$ 50,439 | \$ 288,328 | \$ 3,656 | \$ (180,367) | \$ 1,315,995 |
| Goodwill | \$ 3,701 | \$ — | \$ 10,724 | \$ — | \$ — | \$ 14,425 |
| Capital expenditures | \$ 306 | \$ 20 | \$ 3 | \$ — | \$ — | \$ 329 |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | | | | | |
|-----------------------------------|--------------------------------------|------------------|------------------|----------|--------------|--------------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
| Revenues: | | | | | | |
| Interest income | \$ 32,157 | \$ 1,301 | \$ 34,985 | \$ — | \$ (3,512) | \$ 64,931 |
| Gains on sales of loans | — | 4,803 | — | — | — | 4,803 |
| Other noninterest income | 6,764 | 1,961 | 751 | 1,142 | — | 10,618 |
| Total operating income | 38,921 | 8,065 | 35,736 | 1,142 | (3,512) | 80,352 |
| Expenses: | | | | | | |
| Provision for loan losses | — | 45 | 9,767 | — | — | 9,812 |
| Interest expense | 4,238 | 240 | 4,622 | 878 | (3,512) | 6,466 |
| Salaries and employee benefits | 17,354 | 3,511 | 7,294 | 1,050 | — | 29,209 |
| Other noninterest expenses | 12,906 | 3,430 | 3,708 | 412 | — | 20,456 |
| Total operating expenses | 34,498 | 7,226 | 25,391 | 2,340 | (3,512) | 65,943 |
| Income (loss) before income taxes | 4,423 | 839 | 10,345 | (1,198) | — | 14,409 |
| Income tax expense (benefit) | 250 | 340 | 4,053 | (457) | — | 4,186 |
| Net income (loss) | \$ 4,173 | \$ 499 | \$ 6,292 | \$ (741) | \$ — | \$ 10,223 |
| Total assets | \$ 1,194,435 | \$ 58,370 | \$ 291,214 | \$ 4,728 | \$ (175,376) | \$ 1,373,371 |
| Goodwill | \$ 3,702 | \$ — | \$ 10,723 | \$ — | \$ — | \$ 14,425 |
| Capital expenditures | \$ 928 | \$ 86 | \$ 47 | \$ 2 | \$ — | \$ 1,063 |

| (Dollars in thousands) | Nine Months Ended September 30, 2014 | | | | | |
|--------------------------------|--------------------------------------|------------------|------------------|-------|--------------|--------------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
| Revenues: | | | | | | |
| Interest income | \$ 32,612 | \$ 997 | \$ 34,959 | \$ — | \$ (3,724) | \$ 64,844 |
| Gains on sales of loans | — | 4,003 | — | — | — | 4,003 |
| Other noninterest income | 6,893 | 1,941 | 824 | 1,047 | — | 10,705 |
| Total operating income | 39,505 | 6,941 | 35,783 | 1,047 | (3,724) | 79,552 |
| Expenses: | | | | | | |
| Provision for loan losses | — | 45 | 10,870 | — | — | 10,915 |
| Interest expense | 4,530 | 151 | 4,807 | 713 | (3,724) | 6,477 |
| Salaries and employee benefits | 17,032 | 2,912 | 6,636 | 628 | — | 27,208 |
| Other noninterest expenses | 13,274 | 3,340 | 3,526 | 545 | — | 20,685 |
| Total operating expenses | 34,836 | 6,448 | 25,839 | 1,886 | (3,724) | 65,285 |
| | 4,669 | 493 | 9,944 | (839) | — | 14,267 |

| | | | | | | |
|--------------------------------------|--------------|-----------|------------|----------|--------------|--------------|
| Income (loss) before income taxes | | | | | | |
| Income tax expense (benefit) | 584 | 197 | 3,878 | (319) | — | 4,340 |
| Net income (loss) | \$ 4,085 | \$ 296 | \$ 6,066 | \$ (520) | \$ — | \$ 9,927 |
| Total assets | \$ 1,153,939 | \$ 50,439 | \$ 288,328 | \$ 3,656 | \$ (180,367) | \$ 1,315,995 |
| Goodwill | \$ 3,701 | \$ — | \$ 10,724 | \$ — | \$ — | \$ 14,425 |
| Capital expenditures | \$ 1,454 | \$ 61 | \$ 87 | \$ 1 | \$ — | \$ 1,603 |

The Retail Banking segment extends a warehouse line of credit to the Mortgage Banking segment, providing a portion of the funds needed to originate mortgage loans. The Retail Banking segment charges the Mortgage Banking segment interest at the daily FHLB advance rate plus 50 basis points. The Retail Banking segment also provides the Consumer Finance segment with a portion of the funds needed to purchase loan contracts by means of variable rate notes that carry interest at one-month LIBOR plus 200 basis points and fixed rate notes that carry interest rates ranging from 3.8 percent to 8.0 percent. The Retail Banking segment acquires certain residential real estate loans from the Mortgage Banking segment at prices similar to those paid by third-party investors. These transactions are eliminated to reach consolidated totals. Certain corporate overhead costs incurred by the Retail Banking segment are not allocated to the Mortgage Banking, Consumer Finance and Other segments.

NOTE 10: Commitments and Financial Instruments with Off-Balance-Sheet Risk

C&F Mortgage enters into IRLCs with customers and will sell the underlying loans to investors on either a best efforts or a mandatory delivery basis. C&F Mortgage mitigates interest rate risk on IRLCs and loans held for sale by (a) entering

Table of Contents

into forward loan sales contracts with investors for loans to be delivered on a best efforts basis or (b) entering into forward sales contracts of MBS for loans to be delivered on a mandatory basis. Both the IRLCs with customers and the forward sales contracts are considered derivative financial instruments. At September 30, 2015, the Corporation had forward sales contracts with a notional value of \$102.7 million, and each loan held for sale by C&F Mortgage was subject to a forward sales agreement. The fair value of these derivative instruments at September 30, 2015 was \$823,000, which was included in other assets.

C&F Mortgage sells substantially all of the residential mortgage loans it originates to third-party counterparties. As is customary in the industry, the agreements with these counterparties require C&F Mortgage to extend representations and warranties with respect to program compliance, borrower misrepresentation, fraud, and early payment performance. Under the agreements, the counterparties are entitled to make loss claims and repurchase requests of C&F Mortgage for loans that contain covered deficiencies. C&F Mortgage has obtained early payment default recourse waivers for a significant portion of its business. Recourse periods for early payment default for the remaining counterparties vary from 90 days up to one year. Recourse periods for borrower misrepresentation or fraud, or underwriting error do not have a stated time limit. C&F Mortgage maintains an indemnification reserve for potential claims made under these recourse provisions. The following table presents the changes in the allowance for indemnification losses for the periods presented:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended | |
|--------------------------------------|----------------------------------|----------|--------------------|----------|
| | 2015 | 2014 | September 30, 2015 | 2014 |
| Allowance, beginning of period | \$ 2,227 | \$ 2,074 | \$ 2,089 | \$ 2,415 |
| Provision for indemnification losses | 73 | 73 | 212 | 182 |
| Payments | — | (64) | (1) | (514) |
| Allowance, end of period | \$ 2,300 | \$ 2,083 | \$ 2,300 | \$ 2,083 |

NOTE 11: Interest Rate Swaps

The Corporation uses interest rate swaps to manage exposure of its trust preferred capital notes to interest rate risk. Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. The Corporation's interest rate swaps qualify as cash flow hedges. The Corporation's cash flow hedges effectively modify the Corporation's exposure to interest rate risk by converting variable rates of interest on \$10.00 million and \$15.00 million of the Corporation's trust preferred capital notes to fixed rates of interest until September 2020 and December 2019, respectively.

The cash flow hedges total notional amount is \$25.00 million. At September 30, 2015, the \$15.0 million of cash flow hedges entered into during 2014 had a fair value of (\$283,000), which is recorded in other liabilities, and the remaining \$10.0 million of cash flow hedges had a fair value of (\$251,000), which is also recorded in other liabilities. The cash flow hedges were fully effective at September 30, 2015 and therefore the net loss on the cash flow hedges was recognized as a component of other comprehensive income (loss), net of deferred income taxes.

Table of Contents

NOTE 12: Other Noninterest Expenses

The following table presents the significant components in the statements of income line “Noninterest Expenses-Other.”

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------|---------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Data processing fees | \$ 944 | \$ 806 | \$ 2,771 | \$ 2,758 |
| Professional fees | 517 | 442 | 1,584 | 1,634 |
| Telecommunication expenses | 379 | 348 | 1,074 | 1,101 |
| Amortization of core deposit intangible | 235 | 290 | 746 | 914 |
| Travel and educational expenses | 284 | 258 | 774 | 813 |
| FDIC insurance expense | 225 | 193 | 668 | 806 |
| Marketing and advertising expenses | 357 | 362 | 978 | 957 |
| All other noninterest expenses | 1,987 | 1,784 | 5,255 | 5,199 |
| Total other noninterest expenses | \$ 4,928 | \$ 4,483 | \$ 13,850 | \$ 14,182 |

Table of Contents

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

Cautionary Statement Regarding Forward-Looking Statements

This report contains statements concerning the Corporation’s expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements may constitute “forward-looking statements” as defined by federal securities laws and may include, but are not limited to, statements regarding future financial performance, liquidity, strategic business initiatives, the Corporation’s and each business segment’s loan portfolio, allowance for loan losses, trends regarding the provision for loan losses, trends regarding net loan charge-offs, trends regarding levels of nonperforming assets and troubled debt restructurings and expenses associated with nonperforming assets, provision for indemnification losses, levels of noninterest income and expense, interest rates and yields including possible future rising interest rate environments, the deposit portfolio including trends in deposit maturities and rates, interest rate sensitivity, market risk, regulatory developments, monetary policy implemented by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) including capital requirements, growth strategy, hedging strategy and financial and other goals. These statements may address issues that involve estimates and assumptions made by management and risks and uncertainties. Actual results could differ materially from historical results or those anticipated by such statements. Factors that could have a material adverse effect on the operations and future prospects of the Corporation include, but are not limited to, changes in:

- interest rates, such as volatility in yields on U.S. Treasury bonds and increases or volatility in mortgage rates
- general business conditions, as well as conditions within the financial markets
- general economic conditions, including unemployment levels
- the legislative/regulatory climate, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and regulations promulgated thereunder, the Consumer Financial Protection Bureau (CFPB) and the regulatory and enforcement activities of the CFPB and the application of the Basel III capital standards to the Corporation and the Bank
- monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Federal Reserve Board, and the effect of these policies on interest rates and business in our markets
- the ability to achieve the results expected from the CVBK acquisition, including continued relationships with major customers, deposit retention and expansion of C&F Bank’s brand recognition

- the value of securities held in the Corporation's investment portfolios

- demand for loan products
 - the quality or composition of the loan portfolios and the value of the collateral securing those loans

- the commercial and residential real estate markets

- the inventory level and pricing of used automobiles, including sales prices of repossessed vehicles

- the level of net charge-offs on loans and the adequacy of our allowance for loan losses

- deposit flows

- demand in the secondary residential mortgage loan markets

Table of Contents

- the level of indemnification losses related to mortgage loans sold
- the strength of the Corporation's counterparties and the economy in general
- competition from both banks and non-banks, including competition in the automobile finance industry
- demand for financial services in the Corporation's market area
- the Corporation's expansion and technology initiatives
- reliance on third parties for key services
- accounting principles, policies and guidelines and elections by the Corporation thereunder

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, and other institutions. As a result, defaults by, or even rumors or questions about defaults by, one or more financial services institutions, or the financial services industry generally, could create another market-wide liquidity crisis similar to that experienced in late 2008 and early 2009 and could lead to losses or defaults by us or by other institutions. There is no assurance that any such losses would not materially adversely affect the Corporation's results of operations.

There can be no assurance that the actions taken by the federal government and regulatory agencies will alleviate the industry or economic factors that may adversely affect the Corporation's business and financial performance. Further, many aspects of the Dodd-Frank Act remain subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall effect on the Corporation's business and financial performance.

These risks and uncertainties, and the risks discussed in more detail in Item 1A, "Risk Factors", of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, should be considered in evaluating the forward-looking statements contained herein. We caution readers not to place undue reliance on those statements, which speak only as of the date of this report.

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

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses: We establish the allowance for loan losses through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance when we believe that the collection of the principal is unlikely. Subsequent recoveries of losses previously charged against the allowance are credited to the allowance. The allowance represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Our judgment in determining the level of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of collateral, overall portfolio quality and review of specific potential losses. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available. For more information see the section titled "Asset Quality" within Part I, Item 2.

Table of Contents

Allowance for Indemnifications: The allowance for indemnifications is established through charges to earnings in the form of a provision for indemnifications, which is included in other noninterest expenses. A loss is charged against the allowance for indemnifications under certain conditions when a purchaser of a loan (investor) sold by C&F Mortgage incurs a loss due to borrower misrepresentation, fraud, early default, or underwriting error. The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses arising from indemnification requests. Management's judgment in determining the level of the allowance is based on the volume of loans sold, historical experience, current economic conditions and information provided by investors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Impairment of Loans: We consider a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimate collection of all amounts due. We measure impairment on a loan-by-loan basis for commercial, construction and residential loans in excess of \$500,000 by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. Troubled debt restructurings (TDRs) are also considered impaired loans, even if the loan balance is less than \$500,000. A TDR occurs when we agree to significantly modify the original terms of a loan by granting a concession due to the deterioration in the financial condition of the borrower.

Loans Acquired in a Business Combination: Loans acquired in a business combination, such as the Corporation's acquisition of CVB in October 2013, are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan losses. Purchased credit-impaired (PCI) loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments. When determining fair value, PCI loans were aggregated into pools of loans based on common risk characteristics as of the date of acquisition such as loan type, date of origination, and evidence of credit quality deterioration such as internal risk grades and past due and nonaccrual status. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the "nonaccretable difference," is not recorded and is available to absorb future credit losses on those loans. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the "accretable yield" and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Subsequent to acquisition, we evaluate on a quarterly basis our estimate of cash flows expected to be collected. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. Subsequent significant increases in cash flows may result in a reversal of post-acquisition provision for loan losses or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan, or

pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

The Corporation's PCI loans currently consist of loans acquired in connection with the acquisition of CVB. PCI loans that were classified as nonperforming loans by CVB are no longer classified as nonperforming so long as, at acquisition and quarterly re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans.

Loans not designated as PCI loans as of the acquisition date are designated as purchased performing loans. The Corporation accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required in future periods for any deterioration in these loans subsequent to the acquisition.

Table of Contents

Impairment of Securities: Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, we do not intend to sell the security and it is not more-likely-than-not that we will be required to sell the security before recovery, we must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. For equity securities, impairment is considered to be other-than-temporary based on our ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in net income. We regularly review each investment security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, our best estimate of the present value of cash flows expected to be collected from debt securities, our intention with regard to holding the security to maturity and the likelihood that we would be required to sell the security before recovery.

Other Real Estate Owned (OREO): Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value less costs to sell at the date of foreclosure. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of like properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Corporation may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further other-than-temporary deterioration in market conditions.

Goodwill: The Corporation's goodwill was recognized in connection with the Corporation's acquisition of CVBK in 2013 and C&F Bank's acquisition of C&F Finance Company in September 2002. With the adoption of ASU 2011-08, Intangible-Goodwill and Other-Testing Goodwill for Impairment, in 2012, the Corporation may first assess qualitative factors to determine if it is more likely than not that the fair value of goodwill is less than the carrying amount, which determines if the two-step goodwill impairment test is necessary. If the likelihood of impairment is more than 50 percent, the Corporation must perform a test for impairment and we may be required to record impairment charges. In assessing the recoverability of the Corporation's goodwill, major assumptions used in determining impairment are increases in future income, sales multiples in determining terminal value and the discount rate applied to future cash flows. If an impairment test is performed, we will prepare a sensitivity analysis by increasing the discount rate, lowering sales multiples and reducing increases in future income.

Retirement Plan: C&F Bank maintains a non-contributory, cash balance pension plan for eligible full-time employees as specified by the plan. Plan assets, which consist primarily of mutual funds invested in marketable equity securities and corporate and government fixed income securities, are valued using market quotations. C&F Bank's actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions may include the discount rate, the interest crediting rate, the estimated future return on plan assets and the anticipated rate of future salary increases. Changes in these assumptions in the future, if any, or in the method under which benefits

are calculated may impact pension assets, liabilities or expense.

Derivative Financial Instruments: The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheet. The Corporation's derivative financial instruments consist of (1) IRLCs on mortgage loans that will be held for sale and related forward sales commitments and (2) interest rate swaps that qualify as cash flow hedges of the Corporation's trust preferred capital notes. Because the IRLCs and forward sale commitments are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of the Corporation's IRLCs and forward sales commitments and realized gains and losses upon ultimate sale of the loans are reported as noninterest income. The effective portion of the gain or loss on the Corporation's cash flow hedges is reported as a component of other comprehensive income, net of deferred taxes, and reclassified into earnings in the same periods during which the hedged transactions affect earnings.

Table of Contents

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

For further information concerning accounting policies, refer to Item 8, "Financial Statements and Supplementary Data," under the heading "Note 1: Summary of Significant Accounting Policies" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

OVERVIEW

Our primary financial goals are to maximize the Corporation's earnings and to deploy capital in profitable growth initiatives that will enhance long-term shareholder value. We track three primary financial performance measures in order to assess the level of success in achieving these goals: (i) return on average assets (ROA), (ii) return on average common equity (ROE), and (iii) growth in earnings. In addition to these financial performance measures, we track the performance of the Corporation's three principal business segments: retail banking, mortgage banking, and consumer finance. We also actively manage our capital through growth, dividends and share repurchases, while considering the need to maintain a strong regulatory capital position.

Financial Performance Measures

Net income for the Corporation was \$3.5 million for the third quarter of 2015, or \$1.02 per common share assuming dilution, compared with net income of \$3.3 million for the third quarter of 2014, or \$0.97 per common share assuming dilution. Net income for the Corporation was \$10.2 million for the first nine months of 2015, or \$3.01 per common share assuming dilution, compared with net income of \$9.9 million for the first nine months of 2014, or \$2.88 per common share assuming dilution. The increase in net income for the third quarter of 2015, as compared to the third quarter of 2014, resulted from higher earnings at the Mortgage Banking and Consumer Finance segments, offset in part by lower earnings at the Retail Banking segment; whereas, the increase in net income for the first nine months of 2015, as compared to the first nine months of 2014, was attributable to an increase in earnings at each of the Corporation's principal business segments.

The Corporation's annualized ROE and ROA were 10.87 percent and 1.01 percent, respectively, for the third quarter of 2015, compared to 10.92 percent and 0.99 percent, respectively, for the third quarter of 2014. For the first nine months of 2015, the Corporation's annualized ROE and ROA were 10.84 percent and 1.00 percent, respectively,

compared to 11.21 percent and 1.00 percent, respectively, for the first nine months of 2014. The decline in ROE for both the third quarter and first nine months of 2015, compared to the same periods of 2014, resulted from internal capital growth of 6.0 percent and 6.5 percent, respectively, which outpaced earnings growth. The increase in ROA for the third quarter of 2015, compared to third quarter of 2014, resulted from the increase in net income for the third quarter of 2015, which offset the effects of the increase in average assets. ROA for the first nine months of 2015 compared to the first nine months of 2014 remained constant.

Principal Business Activities.

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

Retail Banking: The Retail Banking segment reported net income of \$1.4 million for the third quarter of 2015, compared to net income of \$1.7 million for the third quarter of 2014. For the first nine months of 2015, C&F Bank reported net income of \$4.2 million, compared to net income of \$4.1 million for the first nine months of 2014. The decline in net income of the Retail Banking segment for the third quarter of 2015 resulted from (1) a decline in the yield on the Bank's investment and loan portfolios due to the effects of the low interest rate environment, coupled with a decline in the net accretion attributable to fair value accounting adjustments, as discussed below, and (2) higher personnel costs associated with generating commercial and small business loan growth. Partially offsetting these negative factors were (1) the effects

Table of Contents

of loan growth on interest income, (2) a shift in deposit composition from time deposits to non-interest bearing demand deposits and non-term savings, money market and interest bearing deposits accounts, which pay lower interest rates, (3) a lower cost of borrowings resulting from the maturity of a portion of the Bank's higher-rate FHLB advances and (4) cost savings related to the integration of CVB into the Bank's infrastructure. These same factors influenced the Bank's results for the first nine months of 2015. However, the cost savings associated with the CVB integration had a more significant effect on the 2.2 percent increase in net income for the first nine months of 2015, compared to net income generated during the first nine months of 2014.

The results for the third quarter and first nine months of 2015 and 2014 for the Retail Banking segment have been affected by the fair value accounting adjustments recorded in connection with the acquisition of CVB in 2013. These adjustments resulted from marking assets and liabilities acquired from CVB to their fair values as of the acquisition date. As a result, yields on loans and investments acquired from CVB increased and the cost of certificates of deposit decreased, the benefits of which were partially offset by the (1) amortization of the core deposit intangible and (2) higher depreciation expense associated with the buildings acquired in the CVB merger. The net accretion attributable to these adjustments for the third quarter and first nine months of 2015 was \$208,000 and \$1.1 million, net of taxes (\$315,000 and \$1.6 million before taxes), respectively, compared to \$337,000 and \$1.5 million, net of taxes (\$511,000 and \$2.2 million before taxes) for the third quarter and first nine months of 2014, respectively.

The Bank's total nonperforming assets were \$5.3 million at September 30, 2015, compared to \$5.5 million at December 31, 2014. Nonperforming assets included \$4.6 million in nonaccrual loans at September 30, 2015 and \$4.7 million at December 31, 2014, and \$763,000 in OREO at September 30, 2015, compared to \$786,000 at December 31, 2014. Troubled debt restructurings at September 30, 2015 and December 31, 2014 were \$5.6 million and \$5.8 million, respectively, of which \$2.3 million and \$2.0 million at September 30, 2015 and at December 31, 2014, respectively, were included in nonaccrual loans.

Mortgage Banking: The Mortgage Banking segment reported net income of \$190,000 for the third quarter of 2015, compared to net income of \$57,000 for the third quarter of 2014. For the first nine months of 2015, C&F Mortgage reported net income of \$499,000, compared to \$296,000 for the first nine months of 2014. The improvement in net income resulted from increased mortgage loan origination volume compared to the third quarter and first nine months of 2014 due to rate fluctuations, particularly in the 10-year Treasury rate, which resulted in higher non-interest income, partially offset by an increase in production-based compensation. Loan origination volume for the third quarter of 2015 increased to \$146.6 million from \$146.2 million for the third quarter of 2014 and increased to \$424.0 million for the first nine months of 2015 from \$363.7 million for the first nine months of 2014. The amount of loan originations during the third quarter of 2015 for refinancings and new and resale home purchases were \$22.0 million and \$124.6 million, respectively, compared to \$17.5 million and \$128.7 million, respectively, during the third quarter of 2014. The amount of loan originations during the first nine months of 2015 for refinancings and new and resale home purchases were \$80.6 million and \$343.4 million, respectively, compared to \$48.0 million and \$315.7 million, respectively, during the first nine months of 2014.

Although earnings increased slightly at the Mortgage Banking segment in the third quarter, increasing future profitability at the current origination levels will be challenging due to the fixed costs of maintaining the personnel, compliance and technology infrastructure required to support mortgage banking activities. Our goal is to increase origination volume at the mortgage banking segment through internal growth in existing markets and through strategic initiatives.

Consumer Finance: The Consumer Finance segment reported net income of \$2.1 million for the third quarter of 2015, compared to net income of \$1.7 million for the third quarter of 2014. For the first nine months of 2015, C&F Finance reported net income of \$6.3 million, compared to net income of \$6.1 million for the first nine months of 2014.

At the end of the second quarter of 2015, the consumer finance segment purchased a \$19.6 million loan portfolio for \$16.3 million, and recorded a purchase discount of \$3.3 million, which will be accreted into income over the remaining life of the portfolio. The improvement in net income for the third quarter and first nine months of 2015 was primarily due to the incremental income from the acquired loan portfolio. In addition, a \$1.1 million decline in the provision for loan losses contributed to the earnings improvement for the first nine months of 2015 as compared to the same period of 2014.

Table of Contents

Increased competition and loan pricing strategies that competitors have used to grow market share continue to suppress loan growth and adversely affect the average yield of the consumer finance segment's loan portfolio. Average loans during the third quarter of 2015 decreased \$155,000, compared to the third quarter of 2014; whereas, average loans during the first nine months of 2015 increased \$331,000, compared to the first nine months of 2014.

The results of the Consumer Finance segment included a \$4.1 million provision for loan losses for both the third quarter of 2015 and the third quarter of 2014. For the first nine months of 2015, the provision for loan losses was \$9.8 million, compared to \$10.9 million for the first nine months of 2014. The annualized net charge-off ratio for the third quarter and first nine months of 2015 was 5.53 percent and 4.66 percent, respectively compared to 5.18 percent and 4.68 percent for the third quarter and first nine months of 2014, respectively. The ratio of the allowance for loan losses to total loans decreased to 8.34 percent at September 30, 2015 from 8.50 percent at December 31, 2014. The decrease in this ratio at September 30, 2015 was primarily due to the inclusion of the consumer finance loans purchased during the second quarter of 2015 to the segment's portfolio, which had the effect of reducing this ratio 41 basis points. While the Corporation expects the purchase discount accretion on this portfolio to mitigate the effect of losses on the purchased loans, this portfolio is routinely re-evaluated as part of the segment's and the Corporation's overall analysis of the adequacy of the allowance for loan losses. Management believes that the current allowance for loan losses is adequate to absorb probable losses inherent in the consumer finance loan portfolio. However, if factors influencing the Consumer Finance segment result in a higher net charge-off ratio, C&F Finance may need to continue to increase the level of its allowance for loan losses, which could negatively affect future earnings.

Capital Management. Total shareholders' equity was \$129.3 million at September 30, 2015, compared to \$123.6 million at December 31, 2014. Capital growth resulted from earnings for the first nine months of 2015, offset in part by share repurchases during the first nine months of 2015 and dividends declared of 30 cents and 90 cents per share during the third quarter and first nine months of 2015, respectively. The third quarter dividend was paid on October 1, 2015 and equated to a payout ratio of 29.4 percent of third quarter net income. The dividend payout ratio was 29.9 percent for the first nine months of 2015.

The Corporation's Board of Directors has authorized a share repurchase program for the Corporation's outstanding common stock (the Repurchase Program). For more information about the Repurchase Program, see Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds" under the heading "Issuer Purchases of Equity Securities" in this Quarterly Report on Form 10-Q.

Table of Contents

RESULTS OF OPERATIONS

The following table presents the average balance sheets, the amounts of interest earned on earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates, for the three and nine months ended September 30, 2015 and 2014. Loans include loans held for sale. Loans placed on nonaccrual status are included in the balances and are included in the computation of yields, but had no material effect. Accretion and amortization of fair value purchase adjustments are included in the computation of yields on loans and investments and on the cost of deposits and borrowings acquired in connection with the purchase of CVB and the Consumer Finance segment's acquired loan portfolio. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield as if income taxes were paid using the federal corporate income tax rate of 34 percent).

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

| (Dollars in thousands) | Three Months Ended September 30, 2015 | | | 2014 | | |
|--|--|--------------------|----------------|--------------------|--------------------|----------------|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Securities: | | | | | | |
| Taxable | \$ 101,976 | \$ 596 | 2.34 % | \$ 97,842 | \$ 602 | 2.46 % |
| Tax-exempt | 115,529 | 1,562 | 5.41 | 118,632 | 1,657 | 5.59 |
| Total securities | 217,505 | 2,158 | 3.97 | 216,474 | 2,259 | 4.17 |
| Total loans | 918,158 | 21,090 | 9.11 | 862,214 | 20,059 | 9.23 |
| Interest-bearing deposits in other banks and federal funds sold | 137,255 | 84 | 0.24 | 147,817 | 92 | 0.24 |
| Total earning assets | 1,272,918 | 23,332 | 7.28 | 1,226,505 | 22,410 | 7.25 |
| Allowance for loan losses | (35,303) | | | (35,278) | | |
| Total non-earning assets | 133,518 | | | 133,408 | | |
| Total assets | \$ 1,371,133 | | | \$ 1,324,635 | | |
| Liabilities and Shareholders' | | | | | | |
| Equity | | | | | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing demand deposits | \$ 198,799 | \$ 105 | 0.21 % | \$ 185,006 | \$ 96 | 0.21 % |
| Money market deposit accounts | 209,163 | 145 | 0.28 | 184,761 | 125 | 0.27 |
| Savings accounts | 99,785 | 20 | 0.08 | 98,252 | 20 | 0.08 |
| Certificates of deposit, \$100 or more | 136,613 | 346 | 0.96 | 142,801 | 305 | 0.85 |
| Other certificates of deposit | 205,287 | 471 | 0.90 | 230,851 | 440 | 0.76 |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | | |
|---|--------------|-----------|--------|--------------|-----------|--------|
| Total time and savings deposits | 849,647 | 1,087 | 0.50 | 841,671 | 986 | 0.47 |
| Borrowings | 180,741 | 1,172 | 2.54 | 170,718 | 1,130 | 2.59 |
| Total interest-bearing liabilities | 1,030,388 | 2,259 | 0.86 | 1,012,389 | 2,116 | 0.82 |
| Demand deposits | 190,342 | | | 170,773 | | |
| Other liabilities | 22,457 | | | 20,814 | | |
| Total liabilities | 1,243,187 | | | 1,203,976 | | |
| Shareholders' equity | 127,946 | | | 120,659 | | |
| Total liabilities and shareholders' equity | \$ 1,371,133 | | | \$ 1,324,635 | | |
| Net interest income | | \$ 21,073 | | | \$ 20,294 | |
| Interest rate spread | | | 6.42 % | | | 6.43 % |
| Interest expense to average earning assets (annualized) | | | 0.69 % | | | 0.68 % |
| Net interest margin (annualized) | | | 6.58 % | | | 6.58 % |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | | | 2014 | | |
|--|---|--------------------|----------------|--------------------|--------------------|----------------|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Securities: | | | | | | |
| Taxable | \$ 99,051 | \$ 1,816 | 2.44 % | \$ 95,419 | \$ 1,864 | 2.60 % |
| Tax-exempt | 117,236 | 4,781 | 5.44 | 118,191 | 5,039 | 5.69 |
| Total securities | 216,287 | 6,597 | 4.07 | 213,610 | 6,903 | 4.31 |
| Total loans | 897,195 | 59,739 | 8.90 | 852,406 | 59,395 | 9.32 |
| Interest-bearing deposits in other banks and federal funds sold | 148,233 | 270 | 0.24 | 159,314 | 288 | 0.24 |
| Total earning assets | 1,261,715 | 66,606 | 7.04 | 1,225,330 | 66,586 | 7.26 |
| Allowance for loan losses | (35,436) | | | (34,994) | | |
| Total non-earning assets | 132,593 | | | 133,090 | | |
| Total assets | \$ 1,358,872 | | | \$ 1,323,426 | | |
| Liabilities and Shareholders' | | | | | | |
| Equity | | | | | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing demand deposits | \$ 202,481 | \$ 343 | 0.23 % | \$ 184,596 | \$ 332 | 0.24 % |
| Money market deposit accounts | 202,783 | 417 | 0.27 | 179,223 | 365 | 0.27 |
| Savings accounts | 99,247 | 59 | 0.08 | 98,042 | 64 | 0.09 |
| Certificates of deposit, \$100 or more | 140,381 | 928 | 0.92 | 147,919 | 975 | 0.88 |
| Other certificates of deposit | 212,507 | 1,360 | 0.88 | 237,889 | 1,391 | 0.78 |
| Total time and savings deposits | 857,399 | 3,107 | 0.50 | 847,669 | 3,127 | 0.49 |
| Borrowings | 172,014 | 3,359 | 2.58 | 170,663 | 3,350 | 2.59 |
| Total interest-bearing liabilities | 1,029,413 | 6,466 | 0.84 | 1,018,332 | 6,477 | 0.84 |
| Demand deposits | 182,308 | | | 166,076 | | |
| Other liabilities | 21,436 | | | 20,994 | | |
| Total liabilities | 1,233,157 | | | 1,205,402 | | |
| Shareholders' equity | 125,715 | | | 118,024 | | |
| Total liabilities and shareholders' equity | \$ 1,358,872 | | | \$ 1,323,426 | | |
| Net interest income | | \$ 60,140 | | | \$ 60,109 | |
| Interest rate spread | | | 6.19 % | | | 6.42 % |
| Interest expense to average earning assets (annualized) | | | 0.69 % | | | 0.70 % |
| Net interest margin (annualized) | | | 6.35 % | | | 6.56 % |

Interest income and expense are affected by fluctuations in interest rates, by changes in the volume of earning assets and interest-bearing liabilities, and by the interaction of rate and volume factors. The following table presents the

direct causes of the period-to-period changes in the components of net interest income on a taxable-equivalent basis. We calculated the rate and volume variances using a formula prescribed by the SEC. Rate/volume variances, the third element in the calculation, are not shown separately in the table, but are allocated to the rate and volume variances in proportion to the relationship of the absolute dollar amounts of the change in each. Loans include both nonaccrual loans and loans held for sale.

Table of Contents

TABLE 2: Rate-Volume Recap

| (Dollars in thousands) | Three Months Ended | | |
|---|------------------------------|----------|------------|
| | September 30, 2015 from 2014 | | |
| | Increase (Decrease) | | Total |
| | Due to | | Increase |
| | Rate | Volume | (Decrease) |
| Interest income: | | | |
| Loans | \$ (1,523) | \$ 2,554 | \$ 1,031 |
| Securities: | | | |
| Taxable | (112) | 106 | (6) |
| Tax-exempt | (53) | (42) | (95) |
| Interest-bearing deposits in other banks and federal funds sold | (1) | (7) | (8) |
| Total interest income | (1,689) | 2,611 | 922 |
| Interest expense: | | | |
| Time and savings deposits: | | | |
| Interest-bearing demand deposits | 2 | 7 | 9 |
| Money market deposit accounts | 2 | 18 | 20 |
| Savings accounts | (1) | 1 | — |
| Certificates of deposit, \$100 or more | 109 | (68) | 41 |
| Other certificates of deposit | 266 | (235) | 31 |
| Total time and savings deposits | 378 | (277) | 101 |
| Borrowings | (119) | 161 | 42 |
| Total interest expense | 259 | (116) | 143 |
| Change in net interest income | \$ (1,948) | \$ 2,727 | \$ 779 |

| (Dollars in thousands) | Nine Months Ended | | |
|---|------------------------------|----------|------------|
| | September 30, 2015 from 2014 | | |
| | Increase (Decrease) | | Total |
| | Due to | | Increase |
| | Rate | Volume | (Decrease) |
| Interest income: | | | |
| Loans | \$ (3,666) | \$ 4,010 | \$ 344 |
| Securities: | | | |
| Taxable | (146) | 98 | (48) |
| Tax-exempt | (218) | (40) | (258) |
| Interest-bearing deposits in other banks and federal funds sold | 5 | (23) | (18) |
| Total interest income | (4,025) | 4,045 | 20 |

Interest expense:

Time and savings deposits:

| | | | |
|--|------------|----------|-------|
| Interest-bearing demand deposits | (28) | 39 | 11 |
| Money market deposit accounts | 3 | 49 | 52 |
| Savings accounts | (6) | 1 | (5) |
| Certificates of deposit, \$100 or more | 41 | (88) | (47) |
| Other certificates of deposit | 199 | (230) | (31) |
| Total time and savings deposits | 209 | (229) | (20) |
| Borrowings | (23) | 32 | 9 |
| Total interest expense | 186 | (197) | (11) |
| Change in net interest income | \$ (4,211) | \$ 4,242 | \$ 31 |

Net interest income, on a taxable-equivalent basis, for the three months ended September 30, 2015 was \$21.1 million, compared to \$20.3 million for the three months ended September 30, 2014. Net interest income, on a taxable-equivalent basis, for both the first nine months of 2015 and 2014 was \$60.1 million. Annualized net interest margin remained stable at 6.58 percent for the third quarter of 2015 and decreased 21 basis points to 6.35 percent for the first nine months of 2015

Table of Contents

relative to the same periods for 2014. The decrease in net interest margin during the first nine months of 2015 was attributable to a decrease of 22 basis points in the yield on interest-earning assets for the first nine months of 2015, offset in part by increases in average total interest earning assets and in demand deposits that pay no interest. The decrease in the yield on interest-earning assets was primarily attributable to decreases in the yields on the investment and loan portfolios.

Average loans, which includes both loans held for investment and loans held for sale, increased \$55.9 million to \$918.2 million for the third quarter of 2015, and increased \$44.8 million to \$897.2 million for the first nine months of 2015, compared to the same periods of 2014. Average loans held for sale increased \$17.2 million, or 52.6 percent, for the third quarter of 2015 and \$13.2 million, or 44.9 percent, for the first nine months of 2015, compared to the same periods of 2014. Average loans held for sale increased for the third quarter and first nine months of 2015 due to fluctuations in the period of time between mortgage loan origination and sale to a third-party investor. Mortgage loan originations at the Mortgage Banking segment were relatively flat for the third quarter of 2015 compared to the third quarter of 2014. Mortgage loan originations increased 16.6 percent in the first nine months of 2015 compared to the first nine months of 2014. Average loans held for investment for the Retail Banking segment increased \$38.3 million, or 7.1 percent, for the third quarter of 2015 and \$30.7 million, or 5.7 percent, for the first nine months of 2015, compared to the same periods of 2014. Average loans at the Retail Banking segment increased for the quarter and first nine months of 2015 due to growth in commercial real estate lending, commercial business lending and business line lending. Average loans held for investment for the Consumer Finance segment decreased \$155,000, or 0.1 percent, for the third quarter of 2015 and increased \$331,000 for the first nine months of 2015, compared to the same periods of 2014.

The overall yield on average loans decreased 12 basis points to 9.11 percent for the third quarter of 2015 and 42 basis points to 8.90 percent for the first nine months of 2015, compared to the same periods of 2014. The decrease in the average loan yield is due to the decline in the average yield at both the Retail Banking and Consumer Finance segments. At the Consumer Finance segment the decrease in yield is the result of increased competition and loan pricing strategies that competitors have used to grow market share. Partially offsetting the decrease in the yield is the incremental income from the Consumer Finance segment's higher yielding acquired loan portfolio that was acquired late in the second quarter of 2015. The Bank's average yields have declined due to the effects of net originations and variable rate loans renewing in the low interest rate environment. In the third quarter and first nine months of 2015 there were \$463,000 and \$1.7 million, respectively, of accretion related to the fair value adjustments to CVB's loan portfolio. The accretion contributed approximately 20 basis points to the yield on loans and 14 basis points to the yield on interest earning assets and the net interest margin for the third quarter of 2015 and contributed approximately 28 basis points to the yield on loans and 14 basis points to the yield on interest earning assets and the net interest margin for the third quarter of 2014. The accretion contributed approximately 26 basis points to the yield on loans and 18 basis points to the yield on interest earning assets and the net interest margin for the first nine months of 2015 and contributed approximately 24 basis points to the yield on loans and 17 basis points to the yield on interest earning assets and the net interest margin for the first nine months of 2014.

Average securities available for sale increased \$1.0 million and \$2.7 million for the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. The average yield on the securities portfolio decreased

20 basis points and 24 basis points for the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014 due to (1) the purchase of lower-yielding, shorter-term securities, including through reinvestment of the proceeds from calls and maturities of longer-term, higher yielding securities and (2) the current interest rate environment. The Corporation has utilized the strategy of investing in lower-yielding, shorter-term securities to limit exposure to a potential future rising interest rate environment by limiting the security portfolio's duration.

Average interest-bearing deposits in other banks and federal funds sold decreased \$10.6 million and \$11.1 million for the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. These decreases occurred as the Corporation used these deposits to partially fund loan growth at the Retail Banking segment for the third quarter and first nine months of 2015. The average yield on these overnight funds remained constant for the third quarter of 2015 and first nine months of 2015 compared to the same periods in 2014.

Average interest-bearing time and savings deposits increased \$8.0 million and \$9.7 million for the third quarter and first nine months of 2015, respectively, compared to the same periods in 2014. The average cost of interest-bearing deposits increased 3 basis points during the third quarter of 2015, as compared to the same period of 2014, and increased 1 basis point for the first nine months of 2015, compared to the first nine months of 2014. The average cost of interest-bearing deposits during the third quarter and first nine months of 2015 was benefited from the shift in deposit composition from

Table of Contents

time deposits to non-interest bearing demand deposits and non-term savings, money market and interest-bearing demand deposits, which pay at lower rates. Time deposit accretion related to the acquisition accounting adjustment to the CVB time deposits had no effect on the cost of interest-bearing deposits for the third quarter of 2015 and reduced cost by 4 basis points for the first nine months of 2015, compared to a reduction of 13 basis points for both the third quarter and first nine months of 2014.

Average borrowings increased \$10.0 million and \$1.4 million for the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. The increases resulted from borrowings related to the purchase of a consumer finance loan portfolio at the end of the second quarter of 2015. The average cost of borrowings decreased 5 basis points and 1 basis point during the third quarter and first nine months of 2015, as compared to the same periods of 2014, respectively, as a result of the maturity of higher interest rate FHLB advances, which were replaced with lower interest rate FHLB advances.

The continuing challenge at the Retail Banking segment will be the deployment of excess cash into earning assets as we expect continued significant competition for loans in our markets and the low interest rate environment to continue to suppress yields on loans and investment securities. The yield on loans at the Consumer Finance segment will be most affected by increased competition and loan pricing strategies that competitors may use to grow market share in automobile financing. This increased competition may result in continued lower yields and lower loan growth as the Consumer Finance segment responds to competitive pricing pressures and fewer purchases of automobile retail installment sales contracts.

Noninterest Income

TABLE 3: Noninterest Income

| (Dollars in thousands) | Three Months Ended September 30, 2015 | | | | Total |
|---|---------------------------------------|------------------|------------------|------------------------|----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| Gains on sales of loans | \$ — | \$ 1,156 | \$ — | \$ — | \$ 1,156 |
| Service charges on deposit accounts | 1,119 | — | — | — | 1,119 |
| Other service charges and fees | 1,091 | 788 | 4 | — | 1,883 |
| Net gains on calls of available for sale securities | 22 | — | — | — | 22 |
| Investment services income | — | — | — | 372 | 372 |
| Other income (expense) | 80 | (85) | 233 | 25 | 253 |
| Total noninterest income | \$ 2,312 | \$ 1,859 | \$ 237 | \$ 397 | \$ 4,805 |

| (Dollars in thousands) | Three Months Ended September 30, 2014 | | | | Total |
|---|---------------------------------------|------------------|------------------|------------------------|----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| Gains on sales of loans | \$ — | \$ 1,188 | \$ — | \$ — | \$ 1,188 |
| Service charges on deposit accounts | 1,179 | — | — | — | 1,179 |
| Other service charges and fees | 1,007 | 661 | 4 | — | 1,672 |
| Net gains on calls of available for sale securities | 23 | — | — | — | 23 |
| Investment services income | — | — | — | 348 | 348 |
| Other income (expense) | 92 | (64) | 258 | 16 | 302 |
| Total noninterest income | \$ 2,301 | \$ 1,785 | \$ 262 | \$ 364 | \$ 4,712 |

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | | | | Total |
|---|--------------------------------------|------------------|------------------|------------------------|-----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| Gains on sales of loans | \$ — | \$ 4,803 | \$ — | \$ — | \$ 4,803 |
| Service charges on deposit accounts | 3,210 | — | — | — | 3,210 |
| Other service charges and fees | 3,132 | 1,941 | 10 | — | 5,083 |
| Net gains on calls and sales of available for sale securities | 25 | — | — | — | 25 |
| Investment services income | — | — | — | 1,077 | 1,077 |
| Other income | 397 | 20 | 741 | 65 | 1,223 |
| Total noninterest income | \$ 6,764 | \$ 6,764 | \$ 751 | \$ 1,142 | \$ 15,421 |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, 2014 | | | | |
|---|--------------------------------------|---------------------|---------------------|---------------------------|-----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Gains on sales of loans | \$ — | \$ 4,003 | \$ — | \$ — | \$ 4,003 |
| Service charges on deposit accounts | 3,357 | — | — | — | 3,357 |
| Other service charges and fees | 2,909 | 1,731 | 11 | 17 | 4,668 |
| Net gains on calls and sales of available for sale securities | 26 | — | — | — | 26 |
| Investment services income | — | — | — | 954 | 954 |
| Other income | 601 | 210 | 813 | 76 | 1,700 |
| Total noninterest income | \$ 6,893 | \$ 5,944 | \$ 824 | \$ 1,047 | \$ 14,708 |

Total noninterest income increased \$93,000, or 2.0 percent, in the third quarter of 2015 and increased \$713,000, or 4.8 percent in the first nine months of 2015, compared to the same periods in 2014. The increase in total noninterest income for the first nine months of 2015 was driven by higher noninterest income at the Mortgage Banking segment from higher gains on sales of loans and ancillary loan origination fees resulting from higher loan production. These increases were partially offset by lower noninterest income at the Retail Banking segment for the first nine months of 2015, compared to the same period in 2014 due to a decline in overdraft fees, which was offset in part by higher maintenance fees, check card interchange income and other branch fee income. In addition, other noninterest income during 2014 included non-recurring income related to the termination of the CVB credit card program. Other income for both the Retail Banking and the Mortgage Banking segments also decreased due to net unrealized depreciation related to the non-qualified pension plan during the third quarter and first nine months of 2015, compared to net appreciation during the same periods of 2014.

Noninterest Expense

TABLE 4: Noninterest Expense

| (Dollars in thousands) | Three Months Ended September 30, 2015 | | | | |
|--------------------------------------|---------------------------------------|---------------------|---------------------|---------------------------|----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Salaries and employee benefits | \$ 5,663 | \$ 660 | \$ 2,503 | \$ 281 | \$ 9,107 |
| Occupancy expense | 1,580 | 475 | 168 | 3 | 2,226 |
| Other expenses: | | | | | |
| OREO expenses | 37 | — | — | — | 37 |
| Provision for indemnification losses | — | 73 | — | — | 73 |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | |
|---------------------------|-----------|----------|----------|--------|-----------|
| Other expenses | 2,823 | 743 | 1,156 | 96 | 4,818 |
| Total other expenses | 2,860 | 816 | 1,156 | 96 | 4,928 |
| Total noninterest expense | \$ 10,103 | \$ 1,951 | \$ 3,827 | \$ 380 | \$ 16,261 |

Three Months Ended September 30, 2014

| (Dollars in thousands) | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------------|-----------|
| Salaries and employee benefits | \$ 5,509 | \$ 813 | \$ 2,382 | \$ 196 | \$ 8,900 |
| Occupancy expense | 1,561 | 465 | 160 | 2 | 2,188 |
| Other expenses: | | | | | |
| OREO expenses | 95 | — | — | — | 95 |
| Provision for indemnification losses | — | 73 | — | — | 73 |
| Other expenses | 2,525 | 634 | 1,064 | 92 | 4,315 |
| Total other expenses | 2,620 | 707 | 1,064 | 92 | 4,483 |
| Total noninterest expense | \$ 9,690 | \$ 1,985 | \$ 3,606 | \$ 290 | \$ 15,571 |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | | | | |
|--------------------------------------|--------------------------------------|---------------------|---------------------|---------------------------|-----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Salaries and employee benefits | \$ 17,354 | \$ 3,511 | \$ 7,294 | \$ 1,050 | \$ 29,209 |
| Occupancy expense | 4,698 | 1,388 | 511 | 9 | 6,606 |
| Other expenses: | | | | | |
| OREO expenses | 27 | — | — | — | 27 |
| Provision for indemnification losses | — | 212 | — | — | 212 |
| Other expenses | 8,181 | 1,830 | 3,197 | 403 | 13,611 |
| Total other expenses | 8,208 | 2,042 | 3,197 | 403 | 13,850 |
| Total noninterest expense | \$ 30,260 | \$ 6,941 | \$ 11,002 | \$ 1,462 | \$ 49,665 |

| (Dollars in thousands) | Nine Months Ended September 30, 2014 | | | | |
|--------------------------------------|--------------------------------------|---------------------|---------------------|---------------------------|-----------|
| | Retail Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Salaries and employee benefits | \$ 17,032 | \$ 2,912 | \$ 6,636 | \$ 628 | \$ 27,208 |
| Occupancy expense | 4,592 | 1,362 | 545 | 4 | 6,503 |
| Other expenses: | | | | | |
| OREO expenses | 17 | — | — | — | 17 |
| Provision for indemnification losses | — | 182 | — | — | 182 |
| Other expenses | 8,665 | 1,796 | 2,981 | 541 | 13,983 |
| Total other expenses | 8,682 | 1,978 | 2,981 | 541 | 14,182 |
| Total noninterest expense | \$ 30,306 | \$ 6,252 | \$ 10,162 | \$ 1,173 | \$ 47,893 |

Total noninterest expenses increased \$690,000, or 4.4 percent, in the third quarter 2015 and increased \$1.8 million, or 3.7 percent, in the first nine months of 2015, compared to the same periods in 2014. The increase in total noninterest expenses resulted primarily from higher personnel costs during the third quarter and first nine months of 2015, compared to the same periods in 2014, at (1) C&F Bank due to increased staff levels and support positions associated with the addition of commercial loan personnel dedicated to growing C&F Bank's commercial and small business loan portfolio, (2) C&F Mortgage due to higher production-based compensation associated with the higher loan volume, offset by unrealized depreciation recognized in the nonqualified defined contribution plan, and (3) C&F Finance due to entry into new markets over the past several years, competition for qualified personnel and staffing increases for compliance and asset quality processes. General operating expenses at C&F Finance increased due to higher (1) collection expenses, (2) application volume and (3) conversion costs related to data processing and lending systems to enhance our systems and support future growth. Other expenses for both the Retail Banking and Mortgage Banking segments includes net unrealized depreciation related to the non-qualified pension plan for the third quarter and first nine months of 2015. The year-to-date increases were offset in part by lower operating expenses at C&F Bank due to cost savings associated with the integration of CVB's operations into C&F Bank's infrastructure.

Income Taxes

Income tax expense for the third quarter of 2015 amounted to \$1.4 million resulting in an effective tax rate of 29.3 percent, compared with \$1.4 million, or 30.3 percent, for the third quarter of 2014. Income tax expense for the first nine months of 2015 totaled \$4.2 million, resulting in an effective tax rate of 29.1 percent, compared to \$4.3 million and 30.4 percent for the first nine months of 2014. The Corporation recognized higher tax credits for its investments in affordable housing projects during the third quarter and first nine months of 2015. Therefore, the Corporation's effective tax rate declined in 2015 compared to 2014.

As described in Part I. Item 1. "Financial Statements," under the heading "Note 2: Adoption of New Accounting Standards" in this Quarterly Report on Form 10-Q, effective January 1, 2015, the Corporation began recognizing amortization of its investments in qualified affordable housing projects as a component of income taxes. As required by ASU 2014-01, non-interest expense and income tax expense for 2014 have been restated for the retrospective application of this standard. Accordingly, income tax expense included \$101,000 and \$304,000 of amortization during the third quarter and first nine months of 2015, respectively, and \$104,000 and \$311,000 of amortization during the third quarter and first nine months of 2014.

Table of Contents

ASSET QUALITY

Allowance for Loan Losses

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance. Table 5 summarizes the allowance activity for the periods indicated:

TABLE 5: Allowance for Loan Losses

| (Dollars in thousands) | Three Months Ended September 30, | |
|---|----------------------------------|-----------|
| | 2015 | 2014 |
| Allowance, beginning of period | \$ 35,571 | \$ 35,258 |
| Provision for loan losses: | | |
| Retail Banking segment | — | — |
| Mortgage Banking segment | 15 | 15 |
| Consumer Finance segment | 4,127 | 4,125 |
| Total provision for loan losses | 4,142 | 4,140 |
| Loans charged off: | | |
| Real estate—residential mortgage | (17) | (68) |
| Real estate—construction ¹ | — | — |
| Commercial, financial and agricultural ² | — | (50) |
| Equity lines | — | — |
| Consumer | (99) | (95) |
| Consumer finance | (4,928) | (4,619) |
| Total loans charged off | (5,044) | (4,832) |
| Recoveries of loans previously charged off: | | |
| Real estate—residential mortgage | 32 | 13 |
| Real estate—construction ¹ | — | — |
| Commercial, financial and agricultural ² | 7 | 64 |
| Equity lines | — | — |
| Consumer | 65 | 40 |
| Consumer finance | 953 | 890 |
| Total recoveries | 1,057 | 1,007 |
| Net loans charged off | (3,987) | (3,825) |

Edgar Filing: C & F FINANCIAL CORP - Form 10-Q

| | | | | | |
|---|----|--------|---|------|--------|
| Allowance, end of period | \$ | 35,726 | | \$ | 35,573 |
| Ratio of annualized net charge-offs to average total loans outstanding during period for Retail Banking | | 0.01 | % | 0.07 | % |
| Ratio of annualized net charge-offs to average total loans outstanding during period for Consumer Finance | | 5.53 | % | 5.18 | % |

Table of Contents

| (Dollars in thousands) | Nine Months Ended September 30, | | | |
|--|---------------------------------|-----------|------|---|
| | 2015 | 2014 | | |
| Allowance, beginning of period | \$ 35,606 | \$ 34,852 | | |
| Provision for loan losses: | | | | |
| Retail Banking segment | — | — | | |
| Mortgage Banking segment | 45 | 45 | | |
| Consumer Finance segment | 9,767 | 10,870 | | |
| Total provision for loan losses | 9,812 | 10,915 | | |
| Loans charged off: | | | | |
| Real estate—residential mortgage | (93) | (147) | | |
| Real estate—construction ¹ | — | — | | |
| Commercial, financial and agricultural ² | (22) | (224) | | |
| Equity lines | — | (47) | | |
| Consumer | (213) | (242) | | |
| Consumer finance | (13,051) | (12,717) | | |
| Total loans charged off | (13,379) | (13,377) | | |
| Recoveries of loans previously charged off: | | | | |
| Real estate—residential mortgage | 243 | 37 | | |
| Real estate—construction ¹ | — | — | | |
| Commercial, financial and agricultural ² | 24 | 111 | | |
| Equity lines | — | — | | |
| Consumer | 231 | 210 | | |
| Consumer finance | 3,189 | 2,825 | | |
| Total recoveries | 3,687 | 3,183 | | |
| Net loans charged off | (9,692) | (10,194) | | |
| Allowance, end of period | \$ 35,726 | \$ 35,573 | | |
| Ratio of annualized net (recoveries) charge-offs to average total loans outstanding during period for Retail Banking | (0.04) | % | 0.07 | % |
| Ratio of annualized net charge-offs to average total loans outstanding during period for Consumer Finance | 4.66 | % | 4.68 | % |

¹Includes the Corporation's real estate construction lending and consumer real estate lot lending.

²Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Table of Contents

Table 6 presents the allocation of the allowance for loan losses at September 30, 2015 and December 31, 2014.

TABLE 6: Allocation of Allowance for Loan Losses

| (Dollars in thousands) | September 30, 2015 | | December 31, 2014 | |
|---|-----------------------|---|----------------------|---|
| Allocation of allowance for loan losses: | | | | |
| Real estate—residential mortgage | \$ 2,506 | | \$ 2,313 | |
| Real estate—construction 1 | 94 | | 434 | |
| Commercial, financial and agricultural 2 | 7,824 | | 7,744 | |
| Equity lines | 1,009 | | 812 | |
| Consumer | 296 | | 211 | |
| Consumer finance | 23,997 | | 24,092 | |
| Unallocated | — | | — | |
| Total allowance for loan losses | \$ 35,726 | | \$ 35,606 | |
| Ratio of loans to total period-end loans: | | | | |
| Real estate—residential mortgage | 21 | % | 21 | % |
| Real estate—construction 1 | 1 | | 1 | |
| Commercial, financial and agricultural 2 | 38 | | 37 | |
| Equity lines | 6 | | 6 | |
| Consumer | 1 | | 1 | |
| Consumer finance | 33 | | 34 | |
| | 100 | % | 100 | % |

¹ Includes the Corporation's real estate construction lending and consumer real estate lot lending.

² Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Credit Quality

Loans by credit quality indicators are presented in Table 7 below. The characteristics of these loan ratings are as follows:

- Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. The borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. When necessary, acceptable personal guarantors support the loan.
- Special mention loans have a specific, identified weakness in the borrower's operations and in the borrower's ability to generate positive cash flow on a sustained basis. The borrower's recent payment history is characterized by late payments. The Corporation's risk exposure is mitigated by collateral supporting the loan. The collateral is considered to be well-margined, well maintained, accessible and readily marketable.
- Substandard loans are considered to have specific and well-defined weaknesses that jeopardize the viability of the Corporation's credit extension. The payment history for the loan has been inconsistent and the expected or projected primary repayment source may be inadequate to service the loan. The estimated net liquidation value of the collateral pledged and/or ability of the personal guarantor(s) to pay the loan may not adequately protect the Corporation. There is a distinct possibility that the Corporation will sustain some loss if the deficiencies associated with the loan are not corrected in the near term. A substandard loan would not

Table of Contents

automatically meet the Corporation's definition of impaired unless it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement.

- Substandard nonaccrual loans have the same characteristics as substandard loans; however, they have a nonaccrual classification because it is probable that the Corporation will not be able to collect all amounts due. All substandard commercial, construction and residential loans in excess of \$500,000 and all trouble debt restructurings are individually evaluated for impairment.
- Doubtful loans have all the weaknesses inherent in a loan that is classified substandard but with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high.
- Loss loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

TABLE 7: Credit Quality Indicators

Loans by credit quality indicators as of September 30, 2015 were as follows:

| (Dollars in thousands) | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|---|------------|--------------------|-------------|---------------------------|--------------------|
| Real estate – residential mortgage | \$ 180,329 | \$ 1,386 | \$ 2,323 | \$ 2,044 | \$ 186,082 |
| Real estate – construction ² | 7,038 | 48 | — | — | 7,086 |
| Commercial, financial and agricultural ³ | 297,150 | 9,225 | 26,604 | 2,117 | 335,096 |
| Equity lines | 48,727 | 642 | 767 | 397 | 50,533 |
| Consumer | 9,487 | 132 | 263 | 6 | 9,888 |
| | \$ 542,731 | \$ 11,433 | \$ 29,957 | \$ 4,564 | \$ 588,685 |

| (Dollars in thousands) | Performing | Non-Performing | Total |
|------------------------|------------|----------------|------------|
| Consumer finance | \$ 286,974 | \$ 807 | \$ 287,781 |

¹ At September 30, 2015, the Corporation did not have any loans classified as Doubtful or Loss.

² Includes the Corporation's real estate construction lending and consumer real estate lot lending.

³ Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Included in the table above are loans purchased in connection with the acquisition of CVB of \$74.3 million pass rated, \$4.5 million special mention, \$5.4 million substandard and \$652,000 substandard nonaccrual.

Table of Contents

Loans by credit quality indicators as of December 31, 2014 were as follows:

| (Dollars in thousands) | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|---|------------|--------------------|-------------|---------------------------|--------------------|
| Real estate – residential mortgage | \$ 171,414 | \$ 2,978 | \$ 2,953 | \$ 2,472 | \$ 179,817 |
| Real estate – construction ² | 4,677 | — | 2,648 | — | 7,325 |
| Commercial, financial and agricultural ³ | 269,631 | 7,591 | 27,590 | 2,033 | 306,845 |
| Equity lines | 48,443 | 772 | 750 | 356 | 50,321 |
| Consumer | 7,984 | 103 | 33 | 43 | 8,163 |
| | \$ 502,149 | \$ 11,444 | \$ 33,974 | \$ 4,904 | \$ 552,471 |

| (Dollars in thousands) | Performing | Non-Performing | Total |
|------------------------|------------|----------------|------------|
| Consumer finance | \$ 282,293 | \$ 1,040 | \$ 283,333 |

¹ At December 31, 2014, the Corporation did not have any loans classified as Doubtful or Loss.

² Includes the Corporation's real estate construction lending and consumer real estate lot lending.

³ Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Included in the table above are loans purchased in connection with the acquisition of CVB of \$87.3 million pass rated, \$3.0 million special mention, \$10.7 million substandard and \$603,000 substandard nonaccrual.

The Retail Banking segment's allowance for loan losses as of September 30, 2015 increased \$169,000 since December 31, 2014 as a result of net recoveries during the first nine months of 2015. There was no provision for loan losses at the Retail Banking segment during the first nine months of 2015 because of a decline in historical losses and the overall improvement in the credit quality of the loan portfolio as indicated by the \$4.0 million decline in substandard loans and the \$340,000 decline in substandard nonaccrual loans. The ratio of the allowance for loan losses to total loans, excluding purchased credit impaired loans, declined to 1.95 percent at September 30, 2015, compared to 2.08 percent at December 31, 2014 because of loan growth during 2015. We believe that the current level of the allowance for loan losses at C&F Bank is adequate to absorb any losses on existing loans that may become uncollectible. If economic conditions deteriorate in future periods, a higher level of nonperforming loans may be experienced, which may then require a higher provision for loan losses.

The Consumer Finance segment's allowance for loan losses as of September 30, 2015 decreased by \$95,000 since December 31, 2014, and its provision for loan losses decreased \$1.1 million for the first nine months of 2015, compared to the same period in 2014. The allowance for loan losses as a percentage of loans decreased to 8.34 percent at September 30, 2015, compared to 8.50 percent at December 31, 2014. The decrease in this ratio at September 30, 2015 was primarily due to the inclusion of the consumer finance loans purchased during the second quarter of 2015, which had the effect of reducing this ratio 41 basis points. While the Corporation expects the purchase discount accretion on this portfolio to mitigate the effect of losses on the purchased loans, this portfolio is routinely re-evaluated as part of the segment's and the Corporation's overall analysis of the adequacy of the allowance for loan losses. We believe that the current level of the allowance for loan losses at the Consumer Finance segment is adequate to absorb any losses on existing loans that may become uncollectible. However, if factors influencing the Consumer Finance segment result in higher net charge-off ratio in future periods, the Consumer Finance segment may need to increase the level of its allowance for loan losses, which could negatively affect future earnings of the Consumer Finance segment.

Table of Contents

Nonperforming Assets

Table 8 summarizes nonperforming assets at September 30, 2015 and December 31, 2014.

TABLE 8: Nonperforming Assets

Retail Banking Segment

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Loans, excluding purchased loans | \$ 500,342 | \$ 447,613 |
| Purchased performing loans ¹ | 70,076 | 80,146 |
| Purchased credit impaired loans ¹ | 14,822 | 21,424 |
| Total loans | \$ 585,240 | \$ 549,183 |
| Nonaccrual loans ² | \$ 3,911 | \$ 4,114 |
| Purchased performing-nonaccrual loans ³ | 653 | 603 |
| Total nonaccrual loans | 4,564 | 4,717 |
| OREO ⁴ | 763 | 786 |
| Total nonperforming assets ⁵ | \$ 5,327 | \$ 5,503 |
| Accruing loans past due for 90 days or more ⁶ | \$ 924 | \$ 14 |
| Troubled debt restructurings (TDRs) ² | \$ 5,344 | \$ 5,549 |
| Purchased performing TDRs ⁷ | \$ 267 | \$ 278 |
| Allowance for loan losses (ALL) | \$ 11,131 | \$ 10,961 |
| Nonperforming assets to total loans and OREO | 0.91 | 1.00 |
| ALL to total loans, excluding purchased credit impaired loans ⁸ | 1.95 | 2.08 |
| ALL to total nonaccrual loans | 243.89 | 232.37 |

¹ The loans acquired from CVB are tracked in two separate categories - "purchased performing" and "purchased credit impaired." The fair value adjustments for the purchased performing loans are (1) \$1.0 million at September 30, 2015 and \$1.1 million at December 31, 2014 for interest and (2) \$3.2 million at September 30, 2015 and \$3.8 million at December 31, 2014 for credit. The fair value adjustments for the purchased credit impaired loans are (1) \$4.3 million at September 30, 2015 and \$5.1 million at December 31, 2014 for interest and (2) \$7.8 million at September 30, 2015 and \$10.0 million at December 31, 2014 for credit.

- ² Nonaccrual loans include nonaccrual TDRs of \$2.3 million at September 30, 2015 and \$2.0 million at December 31, 2014.
- ³ Purchased performing-nonaccrual loans are presented net of fair value interest and credit marks totaling \$251,000 at September 30, 2015 and \$249,000 at December 31, 2014.
- ⁴ OREO is recorded at its estimated fair market value less cost to sell.
- ⁵ As required by acquisition accounting, purchased credit impaired loans that were considered nonaccrual and TDRs prior to the acquisition lose these designations and are not included in post-acquisition nonperforming assets as presented in the Asset Quality section of this table.
- ⁶ Accruing loans past due for 90 days or more include purchased credit impaired loans of \$171,000 as of September 30, 2015.
- ⁷ Purchased performing TDRs are accruing and are presented net of fair value interest and credit marks totaling \$8,550 at September 30, 2015 and \$9,200 at December 31, 2014.
- ⁸ For the purpose of calculating this ratio, purchased performing loans are included in total loans. Purchased performing loans were marked to fair value on acquisition date; therefore, no allowance for loan losses was recorded for these loans.

Table of Contents

Mortgage Banking Segment

| (Dollars in thousands) | September 30, 2015 | | December 31, 2014 | |
|---------------------------------|-----------------------|---|----------------------|---|
| Nonaccrual loans | \$ — | | \$ 187 | |
| Total loans | \$ 3,445 | | \$ 3,288 | |
| ALL | \$ 598 | | \$ 553 | |
| Nonaccrual loans to total loans | — | % | 5.69 | % |
| ALL to loans | 17.36 | | 16.82 | |
| ALL to nonaccrual loans | — | | 295.72 | |

Consumer Finance Segment

| (Dollars in thousands) | September 30, 2015 | | December 31, 2014 | |
|---|-----------------------|---|----------------------|---|
| Nonaccrual loans | \$ 807 | | \$ 1,040 | |
| Total loans | \$ 287,781 | | \$ 283,333 | |
| ALL | \$ 23,997 | | \$ 24,092 | |
| Nonaccrual consumer finance loans to total consumer finance loans | 0.28 | % | 0.37 | % |
| ALL to total consumer finance loans | 8.34 | | 8.50 | |

Nonperforming assets of the Retail Banking segment totaled \$5.3 million at September 30, 2015, compared to \$5.5 million at December 31, 2014, a 3.2 percent decrease during the first nine months of 2015. The Retail Banking Segment's nonperforming assets included \$4.6 million of nonaccrual loans at September 30, 2015, compared to \$4.7 million at December 31, 2014, and included \$763,000 of OREO at September 30, 2015, compared to \$786,000 at December 31, 2014. We believe we have provided adequate loan loss reserves based on current appraisals or evaluations of the loan collateral. In some cases, appraisals have been adjusted to reflect current trends including sales prices, expenses, absorption periods and other current relevant factors.

Nonaccrual loans at the Consumer Finance segment were \$807,000 at September 30, 2015, compared to \$1.0 million at December 31, 2014. The ratio of the allowance for loan losses to total loans decreased to 8.34 percent at September 30, 2015 from 8.50 percent at December 31, 2014, primarily due to the inclusion of the consumer finance loans purchased during the second quarter of 2015, which had the effect of reducing this ratio 41 basis points. Nonaccrual

consumer finance loans remain relatively low compared to the allowance for loan losses and the total consumer finance loan portfolio because the Consumer Finance segment generally initiates repossession of loan collateral once a loan is 60 days or more past due but before the loan reaches 90 days or more past due and is evaluated for nonaccrual status.

Impaired Loans

We measure impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. TDRs occur when we agree to significantly modify the original terms of a loan by granting a concession due to the deterioration in the financial condition of the borrower. These concessions typically are made for loss mitigation purposes and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs are considered impaired loans.

Table of Contents

TABLE 9: Impaired Loans

Impaired loans, which consisted solely of TDR loans, and the related allowance at September 30, 2015, were as follows:

| (Dollars in thousands) | Recorded Investment in Loans | Unpaid Principal Balance | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|---|---------------------------------------|--------------------------------|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 2,762 | \$ 2,932 | \$ 408 | \$ 2,847 | \$ 72 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 2,364 | 2,542 | 381 | 2,397 | 75 |
| Commercial business lending | 102 | 102 | 15 | 111 | 5 |
| Equity lines | 30 | 32 | 1 | 32 | 1 |
| Consumer | 353 | 353 | 45 | 355 | 10 |
| Total | \$ 5,611 | \$ 5,961 | \$ 850 | \$ 5,742 | \$ 163 |

Impaired loans, which included \$5.8 million of TDR loans, and the related allowance at December 31, 2014, were as follows:

| (Dollars in thousands) | Recorded Investment in Loans | Unpaid Principal Balance | Related Allowance | Average Balance Total Loans | Interest Income Recognized |
|---|---------------------------------------|--------------------------------|----------------------|--------------------------------------|----------------------------------|
| Real estate – residential mortgage | \$ 3,000 | \$ 3,094 | \$ 417 | \$ 2,931 | \$ 139 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 2,786 | 2,908 | 440 | 2,735 | 150 |
| Commercial business lending | 103 | 103 | 15 | 115 | 7 |
| Equity lines | 30 | 32 | 1 | 25 | 2 |
| Consumer | 95 | 95 | 6 | 95 | 4 |

| | | | | | |
|-------|----------|----------|--------|----------|--------|
| Total | \$ 6,014 | \$ 6,232 | \$ 879 | \$ 5,901 | \$ 302 |
|-------|----------|----------|--------|----------|--------|

TDRs at September 30, 2015 and December 31, 2014 were as follows:

TABLE 10: Troubled Debt Restructurings

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|------------------------------|-----------------------|----------------------|
| Accruing TDRs | \$ 3,361 | \$ 3,801 |
| Nonaccrual TDRs ¹ | 2,250 | 2,026 |
| Total TDRs ² | \$ 5,611 | \$ 5,827 |

¹ Included in nonaccrual loans in Table 8: Nonperforming Assets.

² Included in impaired loans in Table 9: Impaired Loans.

While TDRs are considered impaired loans, not all TDRs are on nonaccrual status. If a loan was on nonaccrual status at the time of the TDR modification, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the Corporation's policy for returning loans to accrual status. If a loan was accruing prior to being modified as a TDR and if the Corporation concludes that the borrower is able to make such modified payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the TDR will remain on an accruing status.

Table of Contents

FINANCIAL CONDITION

At September 30, 2015, the Corporation had total assets of \$1.37 billion, which was an increase of \$35.2 million since December 31, 2014. The increase resulted primarily from increases of \$15.6 million in loans held for sale at C&F Mortgage and \$40.5 million in loans held for investment, which were funded by cash and cash equivalents, demand and savings deposit growth and long-term borrowings.

Loan Portfolio

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

TABLE 11: Summary of Loans Held for Investment

| (Dollars in thousands) | September 30, 2015 | | | December 31, 2014 | | |
|---|--------------------|---------|---|-------------------|---------|---|
| | Amount | Percent | | Amount | Percent | |
| Real estate—residential mortgage | \$ 186,082 | 21 | % | \$ 179,817 | 21 | % |
| Real estate—construction 1 | 7,086 | 1 | | 7,325 | 1 | |
| Commercial, financial, and agricultural 2 | 335,096 | 38 | | 306,845 | 37 | |
| Equity lines | 50,533 | 6 | | 50,321 | 6 | |
| Consumer | 9,888 | 1 | | 8,163 | 1 | |
| Consumer finance | 287,781 | 33 | | 283,333 | 34 | |
| Total loans | 876,466 | 100 | % | 835,804 | 100 | % |
| Less allowance for loan losses | (35,726) | | | (35,606) | | |
| Total loans, net | \$ 840,740 | | | \$ 800,198 | | |

¹ Includes the Corporation's real estate construction lending and consumer real estate lot lending.

² Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Investment Securities

The investment portfolio plays a primary role in the management of the Corporation's interest rate sensitivity. In addition, the portfolio serves as a source of liquidity and is used as needed to meet collateral requirements. The investment portfolio consists of securities available for sale, which may be sold in response to changes in market interest rates, changes in prepayment risk, increases in loan demand, general liquidity needs and other similar factors. These securities are carried at estimated fair value. At September 30, 2015 and December 31, 2014, all securities in the Corporation's investment portfolio were classified as available for sale.

Table of Contents

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

TABLE 12: Securities Available for Sale

| (Dollars in thousands) | September 30, 2015 | | December 31, 2014 | |
|---|--------------------|---------|-------------------|---------|
| | Amount | Percent | Amount | Percent |
| U.S. government agencies and corporations | \$ 19,603 | 9 % | \$ 22,934 | 10 % |
| Mortgage-backed securities | 74,594 | 34 | 67,619 | 31 |
| Obligations of states and political subdivisions | 126,610 | 57 | 131,344 | 59 |
| Total available for sale securities at fair value | \$ 220,807 | 100 % | \$ 221,897 | 100 % |

For more information about the Corporation's securities available for sale, including a description of securities in an unrealized loss position at September 30, 2015 and December 31, 2014, see Part I, Item 1, "Financial Statements" under the heading "Note 3: Securities" in this Quarterly Report on Form 10-Q.

Deposits

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

During the first nine months of 2015 deposits increased \$15.7 million to \$1.04 billion at September 30, 2015, compared to \$1.03 billion at December 31, 2014. This increase resulted primarily from a \$36.5 million increase in non-interest bearing demand deposits of individuals and corporations and a \$7.5 million increase in savings and interest-bearing demand deposits, partially offset by a \$28.3 million decrease in time deposits.

The Corporation had \$2.8 million in brokered money market deposits outstanding at September 30, 2015, compared to \$3.1 million at December 31, 2014. The source of these brokered deposits is uninvested cash balances held in third-party brokerage sweep accounts. The Corporation uses brokered deposits as a means of diversifying liquidity sources, as opposed to a long-term deposit gathering strategy.

Borrowings

Borrowings increased to \$179.0 million at September 30, 2015 from \$167.0 million at December 31, 2014 as a result of utilizing the C&F Finance's non-recourse revolving bank line of credit to finance the purchase of a \$16.3 million (net of discount) portfolio of consumer finance loans in June 2015.

Off-Balance Sheet Arrangements

As of September 30, 2015, there have been no material changes to the off-balance sheet arrangements disclosed in Part I, Item 7, "Management's Discussion and Analysis," under the heading "Off-Balance Sheet Arrangements" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

Contractual Obligations

As of September 30, 2015 and except as set forth below, there have been no material changes outside the ordinary course of business to the contractual obligations disclosed in Part I, Item 7, "Management's Discussion and Analysis," under the heading "Contractual Obligations" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

The Corporation uses derivatives to manage exposure to interest rate risk through the use of interest rate swaps. Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. The Corporation's interest rate swaps qualify as cash flow hedges. The Corporation's cash flow hedges effectively modify the Corporation's exposure to interest rate risk by converting variable rates of interest on \$15.0 million and \$10.0 million of the Corporation's trust preferred capital notes to fixed rates of interest until December 2019 and September 2020, respectively. The cash flow hedges' total notional amount is \$25.0 million. At September 30, 2015, the \$15.0 million cash flow hedges had a fair value of \$(283,000) and the \$10.0 million cash flow hedges had a fair value of \$(251,000), both of which are recorded in other liabilities. The cash flow hedges were fully effective at September 30, 2015.

Liquidity

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

Liquid assets, which include cash and due from banks, interest-bearing deposits at other banks, federal funds sold and nonpledged securities available for sale, totaled \$279.9 million at September 30, 2015, compared to \$279.1 million at December 31, 2014. The Corporation's funding sources at September 30, 2015 are presented in Table 13.

TABLE 13: Funding Sources

| (Dollars in thousands) | September 30, 2015 | | |
|--------------------------------------|--------------------|-------------|-----------|
| | Capacity | Outstanding | Available |
| Unsecured federal funds agreements | \$ 65,000 | \$ — | \$ 65,000 |
| Repurchase agreements | 5,000 | 5,000 | — |
| Repurchase lines of credit | 50,000 | — | 50,000 |
| Borrowings from FHLB | 149,502 | 47,000 | 102,502 |
| Borrowings from Federal Reserve Bank | 18,158 | — | 18,158 |
| Revolving line of credit | 120,000 | 90,029 | 29,971 |

| | | | |
|-------|------------|------------|------------|
| Total | \$ 407,660 | \$ 142,029 | \$ 265,631 |
|-------|------------|------------|------------|

We have no reason to believe these arrangements will not be renewed at maturity. Additional loans and securities are available that can be pledged as collateral for future borrowings from the Federal Reserve Bank or the FHLB above the current lendable collateral value. Our ability to maintain sufficient liquidity may be affected by numerous factors, including economic conditions nationally and in our markets. Depending on our liquidity levels, our capital position, conditions in the capital markets, our business operations and initiatives, and other factors, we may from time to time consider the issuance of debt, equity or other securities or other possible capital market transactions, the proceeds of which could provide additional liquidity for our operations.

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

Table of Contents

Capital Resources

The Corporation's and the Bank's actual regulatory capital amounts and ratios under currently applicable regulatory capital standards are presented in the following table.

| (Dollars in thousands) | Actual | | Minimum Capital Requirements | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | | |
|--|------------|-------|------------------------------|-------|--|-------|-----|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| As of September 30, 2015: | | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | | |
| Corporation | \$ 145,041 | 15.1 | % \$ 76,731 | 8.0 | % | N/A | N/A |
| C&F Bank | 145,506 | 15.2 | 76,739 | 8.0 | \$ 95,924 | 10.0 | % |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | | |
| Corporation | 132,732 | 13.8 | 57,549 | 6.0 | N/A | N/A | |
| C&F Bank | 133,175 | 13.9 | 57,555 | 6.0 | 76,739 | 8.0 | |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets) | | | | | | | |
| Corporation | 108,179 | 11.3 | 43,161 | 4.5 | N/A | N/A | |
| C&F Bank | 133,175 | 13.9 | 43,166 | 4.5 | 62,351 | 6.5 | |
| Tier 1 Capital (to Average Assets) | | | | | | | |
| Corporation | 132,732 | 9.8 | 54,061 | 4.0 | N/A | N/A | |
| C&F Bank | 133,175 | 9.8 | 54,116 | 4.0 | 67,645 | 5.0 | |
| As of December 31, 2014: | | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | | |
| Corporation | \$ 130,401 | 14.5 | % \$ 71,731 | 8.0 | % | N/A | N/A |
| C&F Bank | 129,228 | 14.5 | 71,527 | 8.0 | \$ 89,408 | 10.0 | % |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | | |
| Corporation | 118,892 | 13.3 | 35,866 | 4.0 | N/A | N/A | |
| C&F Bank | 117,753 | 13.2 | 35,763 | 4.0 | 53,645 | 6.0 | |
| Tier 1 Capital (to Average Tangible Assets) | | | | | | | |
| Corporation | 118,892 | 9.2 | 51,974 | 4.0 | N/A | N/A | |
| C&F Bank | 117,753 | 9.1 | 51,959 | 4.0 | 64,949 | 5.0 | |

Changes to the regulatory capital framework that were approved on July 9, 2013 by the federal banking agencies (the Basel III Final Rule) began applying to the Corporation and the Bank on January 1, 2015. The regulatory risk-based capital amounts presented above for September 30, 2015 include: (1) common equity tier 1 capital (CET1) which consists principally of common stock (including surplus) and retained earnings with adjustments for goodwill,

intangible assets and deferred tax assets; (2) Tier 1 capital which consists principally of CET1 plus the Corporation's "grandfathered" trust preferred securities; and (3) Tier 2 capital which consists principally of Tier 1 capital plus a limited amount of the allowance for loan losses. In addition, the Corporation has made the one-time irrevocable election to continue treating accumulated other comprehensive income (AOCI) under regulatory standards that were in place prior to the Basel III Final Rule in order to eliminate volatility of regulatory capital that can result from fluctuations in AOCI and the inclusion of AOCI in regulatory capital, as would otherwise be required under the Basel III Capital Rule. The table above also reflects the minimum regulatory and certain prompt corrective action capital levels that began applying January 1, 2015. For additional information about the Basel III Final Rules, see "Item 1. Business" under the heading "Regulation and Supervision" and Item 8, "Financial Statements and Supplementary Data," under the heading "Note 15: Regulatory Requirements and Restrictions" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

The Corporation's capital resources may be further affected by the Corporation's share repurchase program, which was reauthorized by the Corporation's Board of Directors during the second quarter of 2015. Under this program the Corporation is authorized to purchase up to \$5.0 million of its common stock. Repurchases under the program may be made through privately-negotiated transactions or open-market transactions, and shares repurchased will be returned to the status of authorized and unissued shares of common stock. The timing, number and purchase price of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of the shares, general market and economic conditions, applicable legal requirements and other conditions. The share repurchase program is authorized through May 2016. As of September 30, 2015, \$5.0 million of the Corporation's common stock may be purchased under the Corporation's share repurchase program.

Effects of Inflation and Changing Prices

The Corporation's financial statements included herein have been prepared in accordance with U.S. GAAP. U.S. GAAP presently requires the Corporation to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Corporation is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Corporation, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes from the quantitative and qualitative disclosures about market risk made in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

The Corporation's management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2015 to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is

recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Corporation's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Corporation or its subsidiary to disclose material information required to be set forth in the Corporation's periodic reports.

Management of the Corporation is also responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). There were no changes in the Corporation's internal control over financial reporting during the Corporation's third quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1A.RISK FACTORS

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

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

Issuer Purchases of Equity Securities

The Corporation's Board of Directors has authorized a share repurchase program for the Corporation's outstanding common stock (the Repurchase Program). During May 2015 the Corporation's Board of Directors reauthorized the Repurchase Program to authorize repurchases of up to \$5.0 million of the Corporation's common stock through May 2016. Repurchases under the Repurchase Program may be made through privately negotiated transactions, or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 of the Exchange Act and/or Rule 10b-18 of the Exchange Act. As of September 30, 2015, \$5.0 million of the Corporation's common stock may be purchased under the Repurchase Program.

There were no purchases of the Corporation's common stock during the three months ended September 30, 2015.

Table of Contents

ITEM 6.EXHIBITS

- 2.1 Agreement and Plan of Merger dated as of June 10, 2013 by and among C&F Financial Corporation, Special Purpose Sub, Inc. and Central Virginia Bankshares, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed June 14, 2013)
- 3.1 Articles of Incorporation of C&F Financial Corporation (incorporated by reference to Exhibit 3.1 to Form 10-KSB filed March 29, 1996)
 - 3.1.1 Amendment to Articles of Incorporation of C&F Financial Corporation (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed January 14, 2009)
- 3.2 Amended and Restated Bylaws of C&F Financial Corporation, as adopted December 16, 2014 (incorporated by reference to Exhibit 3.1 to Form 8-K filed December 22, 2014)
- 10.19.4 Fourth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of September 2, 2015
- 10.34 Change in Control Agreement dated August 5, 2015 between C&F Financial Corporation and S. Dustin Crone (incorporated by reference to Exhibit 10.34 to Form 10-Q filed August 7, 2015)
- 31.1 Certification of CEO pursuant to Rule 13a-14(a)
- 31.2 Certification of CFO pursuant to Rule 13a-14(a)
- 32 Certification of CEO/CFO pursuant to 18 U.S.C. Section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Presentation Linkbase Document

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

C&F FINANCIAL CORPORATION
(Registrant)

Date: November 6, 2015 By: /s/ Larry G. Dillon
Larry G. Dillon
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2015 /s/ Thomas F. Cherry
Thomas F. Cherry
President, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)