C & F FINANCIAL CORP

FORM 10-K
(Annual Report)

Filed 3/8/1999 For Period Ending 12/31/1998

Address	EIGHTH & MAIN STREETS P O BOX 391
	WEST POINT, Virginia 23181
Telephone	804-843-2360
CIK	0000913341
Industry	Regional Banks
Sector	Financial
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1998 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.)
Eighth and Main Streets, West Point, VA	23181
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Common Stock $1.00 Par
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

The aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately $59,757,000 as of March 3, 1999.

The number of shares outstanding of the registrant's common stock, $1.00 par value was 3,731,888 at March 3, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-K	Incorporated Document
PART II	
Item 5 - Market for Registrants Common Equity and Related Stockholder Matters	The Company's 1998 Annual Report to Shareholders for fiscal years ended December 31, 1998, Quarterly Condensed Statements of Income-Unaudited, page 43, and Investor Information, page 45.
Item 6 - Selected Financial Data	The Company's 1998 Annual Report to Shareholders for fiscal years ended December 31, 1998, Five Year Financial Summary, page 10.
Item 7 - Management's Discussion and Analysis of Financial Conditions and Results of Operations	The Company's 1998 Annual Report to Shareholders for the fiscal years ended December 31, 1998, Management's Discussion and Analysis of Financial Condition and Results of Operations, pages 9 through 23.
Item 7a - Quantitative and Qualitative Disclosures about Market Risk	The Company's 1998 Annual Report to Shareholders for for the fiscal years ended December 31, 1998, Market Risk Management, pages 13 through 15.
Item 8 - Financial Statements and Supplementary Data	The Company's 1998 Annual Report to Shareholders for fiscal years ended December 31, 1998, Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Independent Auditors' Report, pages 24 through 44.
PART III	
Item 10 - Directors and Executive Officers of the Registrant	The Company's 1998 Proxy Statement, Election of Directors, pages 2 through 3.
Item 11 - Executive Compensation	The Company's 1999 Proxy Statement, Executive Compensation, pages 5 through 6.
Item 12 - Security Ownership of Certain	The Company's 1999 Proxy Statement, Principal Holders Beneficial Owners and Management of Capital Stock, page 2.
Item 13 - Certain Relationships and Related Transactions	The Company's 1999 Proxy Statement, Interest of Management in Certain Transactions, pages 4 through 5.

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PART I

Item 1. BUSINESS

General

C&F Financial Corporation (the "Company") is a bank holding company which was incorporated under the laws of the Commonwealth of Virginia in March, 1994. The Company owns all of the stock of its sole subsidiary, Citizens and Farmers Bank (the "Bank"), which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. The Bank has a total of nine branches including the main office. The Bank has its main office at Eighth and Main Streets, West Point, Virginia, and has branch offices in the locations of Norge, Middlesex, Providence Forge, Quinton, Tappahannock, Varina, Williamsburg and West Point (two branches). The Bank was originally opened for business under the name Farmers and Mechanics Bank on January 22, 1927.

The local community served by the Bank is defined as those portions of King William County, King and Queen County, Hanover County and Henrico County which are east of Route 360; Essex, Middlesex, New Kent, Charles City, and James City Counties; that portion of York County which is directly north of James City County; and that portion of Gloucester County surrounded by Routes 14 and 17.

The Company, through its subsidiaries, offers a wide range of banking services available to both individuals and small businesses. These services include various types of checking and savings deposit accounts, and the making of business, real estate, development, mortgage, home equity, automobile and other installment, demand and term loans. Also, the Bank offers ATMs at all locations, credit card services, trust services, travelers' checks, money orders, safe deposit rentals, collections, notary public, wire services and other customary bank services to its customers.

The Bank has three wholly-owned subsidiaries, C&F Title Agency, Inc., C&F Investment Services, Inc., and C&F Mortgage Corporation, all incorporated under the laws of the Commonwealth of Virginia. C&F Title Agency, Inc. sells title insurance to the mortgage loan customers of the Company. C&F Investment Services, Inc., organized April, 1995, is a full-service brokerage firm offering a comprehensive range of investment options including stocks, bonds, annuities and mutual funds. C&F Mortgage Corporation, organized in September, 1995, originates and sells residential mortgages. See Note 16 to the Consolidated Financial Statements for summarized financial information by business segment.

C&F Mortgage Corporation provides mortgage services through six locations in Virginia and two in Maryland. The Virginia offices are in Richmond (two locations), Williamsburg, Newport News, Charlottesville, and Chester. The Maryland offices are in Crofton and Bel Aire.

As of December 31, 1998, a total of 230 persons were employed by the Company, of whom 17 were part-time. The Company considers relations with its employees to be excellent.

Competition

The Bank is subject to competition from various financial institutions and other companies or firms that offer financial services. The Bank's principal competition in its market area consists of all the major statewide banks. The Bank also competes for deposits with savings associations, credit unions and money-market funds. In making loans, the Bank competes with consumer finance companies, credit unions, leasing companies and other lenders.

C&F Mortgage Corporation competes for mortgage loans in its market areas with other mortgage companies, commercial banks and other financial institutions.

C&F Investment Services competes with other investment companies, brokerage firms, and insurance companies to provide these services.

C&F Title Agency competes with other title companies owned by lawyers and other financial institutions.

Regulation and Supervision

The Company is subject to regulation by the Federal Reserve Bank under the Bank Holding Company Act of 1956. The Company is also under the jurisdiction of the Securities and Exchange Commission and certain state securities commissions with respect to matters relating to the offer and sale of its securities. In addition, the Bank is subject to regulation and examination by the State Corporation Commission and the Federal Deposit Insurance Corporation.

ITEM 2. PROPERTIES

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

The Company owns the headquarters located at Eighth and Main Streets in the business district of West Point, Virginia. The building, originally constructed in 1923, has three floors totaling 15,000 square feet. This building houses the Citizens and Farmers Bank main office branch and office space for the Company's administrative personnel.

The Company also owns a building located at Seventh and Main Streets in West Point, Virginia. The building provides space for Citizens and Farmers Bank operations functions and staff. The building was originally constructed prior to 1935 and remodeled by the Company in 1991. The two-story building has 20,000 square feet.

Citizens and Farmers Bank owns eight other branch locations in Virginia. Also, the Bank owns several lots in West Point, Virginia, and one other lot in New Kent County, Virginia.

C&F Mortgage Corporation has eight leased offices, six in Virginia and two in Maryland. Rental expense for these locations totaled $297,000 for the year ended December 31, 1998.

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

ITEM 3.LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which the property of the Company is subject.

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

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
The information contained on pages 43 and 45 of the 1998 Annual Report to Shareholders, which is attached hereto as Exhibit 13, under the captions, "Note 18: Quarterly Condensed Statements of Income - Unaudited" and "Investor Information" is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA
The information contained on page 10 of the 1998 Annual Report to Shareholders, which is attached hereto as Exhibit 13, under the caption, "Five Year Financial Summary" is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
The information contained on pages 9 through 23 of the 1998 Annual Report to Shareholders, which is attached hereto as Exhibit 13, under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operation", is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
The information contained on pages 13 through 15 of the 1998 Annual Report to Shareholders, which is attached hereto as Exhibit 13, under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operation," is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
The information contained on pages 24 through 44 of the 1998 Annual Report to Shareholders, which is attached hereto as Exhibit 13, under the captions, "Consolidated Financial Statements", "Notes to Consolidated Financial Statements", and "Independent Auditors' Report", is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 with respect to the Directors of the Registrant is contained on pages 2 through 3 of the 1999 Proxy Statement, which is attached hereto as Exhibit 99, under the caption, "Election of Directors", is incorporated herein by reference.

The information in the following table pertains to the executive officers of the Company.

Executive Officers of C&F Financial Corporation

Name (Age) Present Position	Business Experience During Past Five Years	Number of Shares Beneficially Owned as of March 3, 1999
Larry G. Dillon (46) Chairman, President and Chief Executive Officer	President of the Bank since 1989; Senior Vice President of the Bank prior to 1989	44,336 (1)
Gari B. Sullivan (61) Secretary	Senior Vice President of the Bank since 1990; Vice President of the Bank from 1989 to 1990; President of the Middlesex Region of First Virginia Bank prior to 1989	10,944 (1)
Brad E. Schwartz (36) Chief Operating Officer	Promoted to Senior Vice President of the Bank in December 1997. Vice President of the Bank from 1991 to December 1997; Administrative Officer of the Bank from 1989 to 1991; Senior Financial Institutions Examiner with the Bureau of Financial Institutions of the Virginia State Corporation Commission prior to 1989	13,106 (1)
Thomas F. Cherry (30) Chief Financial Officer	Promoted to Senior Vice President of the Bank in December 1998. Vice President of the Bank from December 1996 to December 1998. Manager with Price Waterhouse, LLP in Norfolk, prior to December 1996.	1,667 (1)

(1)Includes exercisable options of 16,602, 8,202, 12,202 and 1,467 held by Messrs. Dillon, Sullivan, Schwartz, and Cherry, respectively.

ITEM 11. EXECUTIVE COMPENSATION

The information contained on pages 5 through 6 of the 1999 Proxy Statement, which is attached hereto as Exhibit 99, under the caption, "Executive Compensation", is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP ON CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
The information contained on page 2 of the 1999 Proxy Statement, which is attached hereto as Exhibit 99, under the caption, "Principal Holders of Capital Stock", is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
The information contained on pages 4 through 5 of the 1999 Proxy Statement, which is attached hereto as Exhibit 99, under the caption, "Interest of Management In Certain Transactions", is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

14 (a) Exhibits

Exhibit No. 3: Articles of Incorporation and Bylaws

Articles of Incorporation and Bylaws of C&F Financial Corporation filed as Exhibit Nos. 3.1 and 3.2, respectively, to Form 10KSB filed March 29, 1996, of C&F Financial Corporation is incorporated herein by reference.

Exhibit No. 13: C&F Financial Corporation 1998 Annual Report to Shareholders

Exhibit No. 21: Subsidiaries of the Registrant

Citizens and Farmers Bank, incorporated in the Commonwealth of Virginia (100% owned)

Exhibit No. 23: Consents of experts and counsel

23.1 Consent of Yount, Hyde & Barbour, P.C.
23.2 Consent of Deloitte & Touche LLP

Exhibit No. 27: Financial Data Schedule

Exhibit No. 99: Additional Exhibits

99.1 C&F Financial Corporation 1999 Annual Meeting Proxy Statement
99.2 Independent Auditors Report of Deloitte & Touche LLP for 1996

14 (b) Reports on Form 8-K filed in the fourth quarter of 1998:
None.

14 (c) Exhibits to this Form 10-K are either filed as part of this Report or are incorporated herein by reference.

14 (d) Financial Statements Excluded from Annual Report to Shareholders pursuant to Rule 14a3(b). Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, C&F Financial Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

C&F FINANCIAL CORPORATION

/s/ Larry G. Dillon	*/s/ Thomas F. Cherry*
Larry G. Dillon *Chairman, President and Chief Executive Officer*	*Thomas F. Cherry* *Senior Vice President and* *Chief Financial Officer*
Date: March 3, 1999	*Date: March 3, 1999*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ J. P. Causey Jr. *J. P. Causey Jr., Director*	*Date: March 3, 1999*
/s/ James H. Hudson III *James H. Hudson, III, Director*	*Date: March 3, 1999*
/s/ Larry G. Dillon *Larry G. Dillon, Director*	*Date: March 3, 1999*
/s/ William E. O'Connell Jr. *William E. O'Connell, Jr., Director*	*Date: March 3, 1999*
/s/ Sture G. Olsson, *Sture G. Olsson, Director*	*Date: March 3, 1999*

[C&F LOGO]

FINANCIAL

CORPORATION

1998
ANNUAL
REPORT

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[C&F LOGO]

RETURN ON AVERAGE EQUITY		RETURN ON AVERAGE ASSETS	
1998	17.81	1998	2.03
1997	16.08	1997	1.90
1996	12.66	1996	1.65
1995	11.08	1995	1.60

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C&F FINANCIAL CORPORATION

1998 FINANCIAL HIGHLIGHTS

NET INCOME EARNINGS PER SHARE

1998	6,134,036	1998	1.56
1997	4,936,827	1997	1.25
1996	4,061,174	1996	0.92
1995	3,375,932	1995	0.76

C&F Financial Corporation (the "Corporation") is a one-bank holding company with administrative offices in West Point, Virginia. Its wholly owned subsidiary, Citizens and Farmers Bank, offers quality general banking services to individuals, professionals, and small businesses through nine branch offices serving the surrounding towns and counties. Citizens and Farmers Bank has three wholly owned subsidiaries. C&F Mortgage Corporation originates and sells residential mortgages. These mortgage services are provided through six offices in Virginia and two offices in Maryland. Brokerage services are offered through C&F Investment Services, Inc. C&F Title Agency, Inc., offers title insurance services. Trust services are provided in association with The Trust Company of Virginia.

OUR MISSION

It is the mission of the directors, officers, and staff to maximize the long-term wealth of the shareholders of C&F Financial Corporation through Citizens and Farmers Bank and its other subsidiaries.
We believe we provide a superior value when we balance long-term and short-term objectives to achieve both a competitive return on investment and a consistent increase in the market value of the Corporation's stock.
This must be achieved while maintaining adequate liquidity and safety standards for the protection of all of the Corporation's interested parties, especially its depositors and shareholders.
This mission will be accomplished by providing our customers with distinctive service and quality financial products which are responsive to their needs, fairly priced, and delivered promptly and efficiently with the highest degree of accuracy and professionalism.

LETTER FROM THE PRESIDENT

DEAR FELLOW SHAREHOLDERS

It is a great pleasure to present this report covering the financial results of C&F Financial Corporation for 1998. For the third year in a row, your Corporation's net income has increased by more than 20% over the previous year's results.

Net income reached a record $6,134,036 for the year, a 24.3% increase over the previous record of $4,936,827 earned in 1997. Earnings per share rose to $1.56, a 24.8% improvement over 1997's $1.25. Net income for 1998 resulted in a return on average assets of 2.03% and a return on average equity of 17.81% versus 1.90% and 16.08%, respectively, for 1997. As of September 30, our state banking peers showed an average of 1.34% return on average assets and a 12.40% return on average equity. Total assets increased $43 million, going from $278 million in 1997 to $321 million at year-end 1998. Deposits rose from $232 million to $252 million.

We take great pride in reporting that C&F Financial Corporation was rated as one of the top 50 community banks in the country in the July 1998 issue of U.S. Banker. This recognition was based on five financial criteria, including return on assets, return on equity, efficiency ratio, nonperforming assets ratio, and leverage ratio.

Our success in 1998 was augmented by substantial contributions from our subsidiary corporations. C&F Mortgage Corporation saw a significant jump in both loan production and net income. Loan volume increased from $286 million in 1997 to $524 million in 1998. One very positive result of this increased production at the Mortgage Corporation was that it led to increased title insurance business for C&F Title Agency, Inc. This subsidiary posted an increase in its net income of over 200%. The addition of these two subsidiaries has resulted in much higher income results for C&F Financial Corporation as well as better service and products for our customers.

Our other subsidiary, C&F Investment Services, Inc., continues to experience significant growth in both its business and profitability. Assets under management grew 29% in 1998 and now exceed $66 million. Our ability to offer this line of business, which is in high demand by our customers, encourages them to maintain more of their relationships with us on a long-term basis.

Our strong financial performance had a positive influence on C&F Financial Corporation stock during 1998. In January, the

Our Values

We believe that excellence is the standard for all we do, achieved by encouraging and nourishing: respect for others; honest, open communication; individual development and satisfaction; a sense of ownership and responsibility for the Corporation's success; participation, cooperation, and teamwork; creativity, innovation, and initiative; prudent risk taking; and recognition and rewards for achievement.
We believe that we must conduct ourselves morally and ethically at all times and in all relationships.
We believe that we have an obligation to the well-being of all the communities we serve.
We believe that our officers and staff are our most important assets, making the critical difference in how the Corporation performs and, through their work and effort, separate us from all competitors.

The Citizens & Farmers Bank Board of Directors (from back to front and left to right): Paul C. Robinson, Bryan E. McKernon, James H. Hudson III, J.P. Causey Jr., P.L. Harrell, Larry G. Dillon, William E. O'Connell, Jr., Joshua H. Lawson, Reginald H. Nelson IV, Thomas B. Whitmore Jr. (Not pictured:
Sture G. Olsson.)

stock was listed for the first time on the NASDAQ National Market and the price jumped 54% within a one-month period. During the year, your Board of Directors increased the quarterly dividend three times, taking it from $.09 per share to $.12, a 33% increase. Additionally, your Board declared a two-for-one stock split in June. The combination of these events has resulted in a higher market value for our stock as well as significantly improved cash income for our shareholders.

The year 1998 brought many changes to your Corporation, not the least of which was the retirement of past Chairman and President W. T. "Bill" Robinson from the Board of Directors. Mr. Robinson devoted over fifty years to the management of this organization and he will be sorely missed. In honor of his many years of outstanding leadership, Mr. Robinson was named Chairman of the Board Emeritus of Citizens and Farmers Bank.

The Board of Citizens and Farmers Bank was fortunate to have two new additions during the year. Bryan E. McKernon, President and CEO of C&F Mortgage Corporation, was elected in August, and in November, Reginald H. Nelson IV, a member of the Bank's Varina Advisory Board since its inception, was elected. Both of these gentlemen bring tremendous knowledge and experience to the Board and we look forward to many years of their guidance.

During 1998, a significant amount of time and resources were spent on training to improve our customer service skills. Not only did we institute the training, we commenced the implementation of monitoring the level of service we provide by using "mystery shoppers" who evaluate and grade each staff member providing service to them. In addition, we now receive a more accurate evaluation of our customer contact areas through customer surveys. Based on the scores our "shoppers" are giving us, and the increased number of compliments we are receiving from our customers, our initiatives are proving very successful.

As part of our efforts to meet the needs of our customers, the Bank began offering a new "Generations Gold" checking account for our customers during the fourth quarter of 1998. Not only does this new account provide value to our customers by giving them discounts on frequently purchased items, it also helps us increase customer retention, improve our fee income, maintain the loyalty of local merchants, and distinguish our products from those of our competition. In the short time in which this new account has been offered, it has been positively received and we look forward to its great success.

We anticipate that 1999 will be another year of positives for your Corporation. A new office in the Lynchburg area has already been approved for C&F Mortgage Corporation and Citizens and Farmers Bank has recently approved a new office in the City of Williamsburg. This office will house not only the Bank, but also the Williamsburg office of C&F Mortgage Corporation and an investment advisor for C&F Investment Services, Inc. We have waited to introduce electronic banking until the creation of a genuine demand on the part of our customers would make it financially prudent to do so. With the growing popularity of the Internet, we now believe that we have reached this point and plan to make this service available during the second half of 1999. Electronic banking will allow our customers to handle their banking transactions and inquiries from the convenience of their homes via the Internet.

Also in 1999, we will sharpen our focus on lending by increasing our volume in all lending areas while placing more

MEETING
THE YEAR 2000 CHALLENGE

For years, software programmers used just two digits to represent a specific year, failing to envision the consequences of having to distinguish dates in one century from those in another. Now that we are approaching the year 2000, this error must be corrected.

At C&F Financial Corporation, we have been particularly diligent in protecting the interests of our customers. A committee was established in 1997 to oversee and prepare for all the implications of this situation and has made excellent progress throughout 1998 to assure that the Corporation is well prepared to enter the new century smoothly.

Substantially all major testing has now been completed. The minor problem areas identified will be addressed in the next few months. As a result, we anticipate being fully prepared for the Y2K challenge, including back-up plans, well before year-end.

emphasis on the commercial and small business markets. We increased our lending staff during 1998 and anticipate the addition of several staff members during 1999.

The year 1999 will also see much time and effort spent on dealing with the potential "Y2K" year-end computer problem. A Y2K Committee was established in 1997 to oversee and prepare for all the implications of this situation and has made excellent progress throughout 1998 assuring that the Corporation is well prepared. Substantially all major testing has now been completed with results showing only minor problem areas which will be addressed in the next few months. We anticipate being fully prepared for this event, including back-up plans, well before year-end.

While we continue to make many changes to our organization, our philosophy remains the same. We are a locally owned and service-oriented organization and believe that now, more than ever, there is a real opportunity for community banks--banks where the staff knows the customers by name, where they ask, "How's your family?"; banks where customers see the same staff that was there last week, last month, etc. The friendly, personal touch is what customers want and this is what we intend to deliver.

We will deliver this friendly, personal service in a professional manner and at the same time offer all of the financial services that our customers need. C&F is now a full financial services corporation. We offer a full range of banking services, full mortgage services, full investment services, and through our affiliation with The Trust Company of Virginia, full trust services. We believe we are in the right setting with the right tools to take advantage of our financial strength and stability. We have the foundation upon which to grow, adapt to change, and still be profitable. We have adapted in the past, we will in the future, and we will always be willing to take on short-term losses to increase our long-term gains. As a result, we believe we have a very bright future.

The many successes we have experienced would not have been possible were it not for the hard work and commitment of our officers and staff. Our thanks to them for their dedicated service and to our Board of Directors for their continued guidance and support. Our thanks also to each of you for your continued confidence in C&F Financial Corporation and for your patronage and referrals of prospective customers as we strive to keep this a strong, highly profitable organization.

/s/ Larry G. Dillon
LARRY G. DILLON
CHAIRMAN, PRESIDENT, AND
CHIEF EXECUTIVE OFFICER

BANKING SERVICES

Citizens and Farmers Bank offers a wide array of general banking services to individuals, professionals, and small businesses through nine branch offices. These services include a variety of checking and savings deposit accounts, as well as business, home equity, automobile, and other installment loans. Our goal is to help our customers live better for less by offering savings accounts with competitive rates of interest and smart borrowing solutions that meet their needs.

For the convenience of our customers, the Bank offers extended drive-through hours, ATMs at all locations, credit card services, trust services, traveler's checks, money orders, safe deposit rentals, collections, notary public, and wire services. In addition, the Bank's 24-hour telephone banking service provides assistance to our customers around the clock.

MORTGAGE AND TITLE SERVICES

C&F Mortgage Corporation originates single-family residential loans from eight locations in Virginia and Maryland. C&F Mortgage offers programs designed for home purchases, the first-time home buyer, and home mortgage refinancing. By originating and selling residential mortgages, C&F Mortgage Corporation is able to offer competitive fixed- and adjustable-rate mortgages.

One of the distinctive features of C&F Mortgage Corporation is our commitment to work closely with our customers and to provide the best possible information so that they can choose the mortgage that is right for them. A mortgage loan officer is dedicated to each account, minimizing paperwork, reducing response time, and accelerating approvals. As a convenience to our mortgage customers, we provide title searches and title insurance through C&F Title Agency, Inc.

INVESTMENT COMPANY

C&F Investment Services, Inc. provides a full range of brokerage services, giving our customers a broad spectrum of financial tools to address their needs and realize their aspirations. Personal financial planners help our customers pinpoint their goals and craft a long-term plan for achieving them. They then help customers choose investment vehicles, whether they be stocks, bonds, or mutual funds, to create a portfolio that matches their objectives and tolerance for risk. Our personal financial planners follow up with customers to ensure that their portfolio allocation remains appropriate for their investment profile. On-site investment planning is available at all Citizens & Farmers Bank branch offices.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

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The following discussion provides information about the major components of the results of operations, financial condition, liquidity, and capital resources of C&F Financial Corporation and subsidiary (the "Corporation"). This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

FIVE-YEAR FINANCIAL SUMMARY

	1998	1997	1996	1995	1994
Selected Year-End Balances:					
Total assets	$320,863,629	$278,105,969	$256,671,312	$238,995,329	$189,672,758
Total capital	36,647,493	31,800,533	32,214,509	31,818,296	28,809,166
Total loans (net)	169,918,428	154,744,620	136,732,017	110,012,320	102,649,919
Total deposits	251,673,159	231,513,152	216,422,556	204,001,334	158,811,959
Summary of Operations:					
Interest income	22,617,509	19,763,048	18,332,998	15,686,897	13,649,428
Interest expense	9,558,059	8,002,301	7,667,619	6,526,880	4,861,516
Net interest income	13,059,450	11,760,747	10,665,379	9,160,017	8,787,912
Provision for loan losses	600,000	330,000	30,000	--	7,831
Net interest income after provision for loan losses	12,459,450	11,430,747	10,635,379	9,160,017	8,780,081
Other income	11,009,622	6,657,608	4,678,915	1,233,267	996,654
Operating expenses	14,981,685	11,537,565	10,294,220	6,126,722	4,867,502
Income before taxes	8,487,387	6,550,790	5,020,074	4,266,562	4,909,233
Income tax expense	2,353,351	1,613,963	958,900	890,630	1,170,839
Net income	$ 6,134,036	$ 4,936,827	$ 4,061,174	$ 3,375,932	$ 3,738,394
Per share(1)					
Earnings per common share--assuming dilution	$1.56	$1.25	$.92	$.76	$.84
Dividends	.44	.35	.31	.30	.28
Weighted average number of shares--assuming dilution	3,919,775	3,952,756	4,426,000	4,472,956	4,467,906

(1) Per share data has been restated to reflect the two-for-one stock split in July 1998.

Significant Ratios

	1998	1997	1996
Return on average assets	2.03%	1.90%	1.65%
Return on average equity	17.81	16.08	12.66
Dividend payout ratio	27.70	27.75	33.62
Average equity to average assets	11.42	11.81	13.06

Overview

Net income totaled $6.1 million in 1998, an increase of 24.3% over 1997. In 1997, net income totaled $4.9 million, a 21.6% increase over 1996. Earnings per share were $1.56, $1.25, and $.92 in 1998, 1997, and 1996, respectively. The increase in earnings per share was a result of higher net income and the repurchase of 119,803 shares of the Corporation's common stock in October of 1996 and 204,683 shares of the Corporation's common stock on April 4, 1997.

Profitability as measured by the Corporation's return on average equity (ROE) was 17.81% in 1998, up from 16.08% in 1997, and 12.66% in 1996. Another key indicator of performance, the return on average assets (ROA) for 1998 was 2.03%, compared to 1.90% and 1.65% for 1997 and 1996, respectively.

TABLE 1: AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

The following table shows the average balance sheets for each of the years ended December 31, 1998, 1997, and 1996. In addition, the amounts of interest earned on earning assets, with related yields and interest on interest-bearing liabilities, together with the rates, are shown. Loans include loans held for sale. Also, loans placed on a non-accrual status are included in the balances and were included in the computation of yields, upon which they had an immaterial effect. Interest on tax-exempt securities is on a taxable-equivalent basis, which was computed using the federal corporate income tax rate of 34% for all three years.

	1998			1997			1996		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Securities:									
Taxable	$ 33,607	$ 2,359	7.02%	$ 37,309	$ 2,737	7.34%	$ 49,102	$ 3,595	7.32%
Tax-exempt	42,606	3,590	8.43	39,554	3,388	8.57	41,015	3,629	8.85
Total securities	76,213	5,949	7.81	76,863	6,125	7.97	90,117	7,224	8.02
Loans, net	206,353	17,790	8.62	165,168	14,656	8.87	136,089	12,139	8.92
Interest-bearing deposits in other banks	1,088	69	6.34	1,251	68	5.44	3,178	172	5.41
Total earning assets	283,654	$23,808	8.39%	243,282	$20,849	8.57%	229,384	$19,535	8.52%
Reserve for loan losses	(2,451)			(2,032)			(1,915)		
Total non-earning assets	20,484			18,708			18,384		
Total assets	$ 301,687			$259,958			$ 245,853		
Liabilities and Shareholders' Equity									
Time and savings deposits:									
Interest-bearing deposits	$ 37,178	$ 901	2.42%	$ 34,594	$ 890	2.57%	$ 33,256	$ 891	2.68%
Money market deposits	21,984	718	3.27	23,416	767	3.28	20,468	671	3.28
Savings accounts	35,094	1,135	3.23	33,037	1,058	3.20	31,550	986	3.13
Certificates of deposit, $100M or more	16,670	819	4.91	14,137	466	3.30	13,774	488	3.54
Other certificates of deposit	87,938	4,616	5.25	82,655	4,493	5.44	80,412	4,418	5.49
Total time and savings deposits	198,864	8,189	4.12	187,839	7,674	4.09	179,460	7,454	4.15
Borrowings	25,169	1,369	5.44	6,441	328	5.09	4,505	214	4.75
Total interest-bearing liabilities	224,033	9,558	4.27	194,280	8,002	4.12	183,965	7,668	4.17
Demand deposits	35,987			31,449			26,741		
Other liabilities	7,221			3,533			3,046		
Total liabilities	267,241			229,262			213,752		
Shareholders' equity	34,446			30,696			32,101		
Total liabilities and shareholders' equity	$ 301,687			$ 259,958			$ 245,853		
Net interest income		$14,250			$ 12,847			$11,867	
Interest rate spread			4.12			4.45			4.35
Interest expense to average earning assets			3.37			3.29			3.34
Net interest margin			5.02%			5.28%			5.17%

Results of Operations
Net Interest Income

During 1998, net interest income, on a tax-equivalent basis, increased 10.9% to $14.3 million from $12.8 million in 1997. This was a result of a 16.6% increase in the average balance of interest-earning assets offset by a decrease in the net interest margin to 5.02% for the year ended December 31, 1998, from 5.28% for 1997. The increase in the average balance of interest-earning assets was attributed to an increase in the average balance of loans at Citizens and Farmers Bank (the "Bank") and loans held for sale at C&F Mortgage Corporation (the "Mortgage Corporation"). The decrease in the net interest margin was a result of an 18-basis-point decrease in the yield on interest-earning assets resulting from the lower interest rate environment and a 15-basis-point increase in the cost of funds mainly attributed to increased borrowings from the Federal Home Loan Bank (FHLB). Borrowings from the FHLB are used to fund loans originated and subsequently sold by the Mortgage Corporation. Loan closings at the Mortgage Corporation increased to $524,396,000 for the year ended December 31, 1998, compared to $286,419,000 for 1997.

Net interest income, on a tax-equivalent basis, increased 8% to $12.8 million for the year ended December 31, 1997, from $11.9 million in 1996. This was a result of a 6% increase in the average balance of interest-earning assets and an increase in the net interest margin to 5.28% for the year ended December 31, 1997, from 5.17% in 1996. The increase in average earning assets was due to a 21.4% increase in average outstanding loans partially offset by a 14.7% decline in securities. The decline in securities was due to securities' being called as well as management's decision to invest more funds into higher yielding loans. The increase in the net interest margin was a result of a 5-basis-point increase in the yield on earning assets and a 5-basis-point decrease in the cost of funds. The increase in the yield on earning assets was a result of an increase in the average balance of higher yielding loans and a decrease in the average balance of lower yielding investments. The decrease in the cost of funds was a result of an overall decrease in the rates paid on deposit products.

TABLE 2: RATE-VOLUME RECAP

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 analysis shows the direct causes of the year-to-year changes in the components of net interest earnings on a taxable-equivalent basis. The rate and volume variances are calculated by a formula prescribed by the Securities and Exchange Commission. Rate/volume variances, the third element in the calculation, are not shown separately, 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 non-accrual loans and loans held for sale.

	1998 from 1997			1997 from 1996		
	Increase (Decrease) Due to		Total	Increase (Decrease) Due to		Total
(Dollars in thousands)	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)
Interest income:						
Loans	$ 3,561	$ (427)	$ 3,134	$ 2,581	$ (64)	$ 2,517
Investment securities:						
Taxable	(263)	(115)	(378)	(865)	7	(858)
Tax-exempt	258	(56)	202	(127)	(114)	(241)
Total investment securities	(5)	(171)	(176)	(992)	(107)	(1,099)
Interest-bearing deposits in other banks	(10)	11	1	(105)	1	(104)
Total interest income	3,546	(587)	2,959	1,484	(170)	1,314
Interest expense:						
Time and savings deposits:						
Interest-bearing deposits	64	(53)	11	35	(36)	(1)
Money market deposit accounts	(47)	(2)	(49)	97	(1)	96
Savings accounts	66	11	77	47	25	72
Certificates of deposit, $100M or more	94	259	353	13	(35)	(22)
Other certificates of deposit	281	(158)	123	122	(47)	75
Total time and savings deposits	458	57	515	314	(94)	220
Other borrowings	1,017	24	1,041	98	16	114
Total interest expense	1,475	81	1,556	412	(78)	334
Change in net interest income	$ 2,071	$ (668)	$ 1,403	$ 1,072	$ (92)	$ 980

MARKET RISK MANAGEMENT

As the holding company for a commercial bank, the Corporation's primary component of market risk is interest rate volatility. Fluctuation in interest rates will ultimately impact the level of both income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity.Since the majority of the Corporation's interest-earning assets and all of the Corporation's interest-bearing liabilities are held by the Bank, virtually all of the Corporation's interest rate risk exposure lies at the Bank level. Therefore, all significant interest rate risk management procedures are performed by management of the Bank. Based on the nature of the Bank's operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank's loan portfolio is concentrated primarily in the Virginia counties of King William, King and Queen, Hanover, Henrico, Essex, Middlesex, New Kent, Charles City, York, and James City, and is, therefore, subject to risks associated with the local economy. As of December 31, 1998, the Corporation does not own any trading assets nor does it have any hedging transactions in place such as interest rate swaps and caps.

The Bank's interest rate management strategy is designed to stabilize net interest income and preserve capital. The Bank manages interest rate risk through the use of a simulation model which measures the sensitivity of future net interest income and the net portfolio value to changes in interest rates. In addition, the Bank monitors interest rate sensitivity through analysis, measuring the terms to maturity or next repricing date of interest-earning assets and interest-bearing liabilities. The matching of the maturities of assets and liabilities may be analyzed by examining the extent to which assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be "interest rate sensitive" within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity "gap" is defined as the difference between the amount of interest-earning assets anticipated, based on certain assumptions, to mature or reprice within a specific time period and the amount of interest-bearing liabilities anticipated, based on certain assumptions, to mature or reprice within that time period. A gap is considered negative when the amount of interest-rate-sensitive liabilities maturing or repricing within a specific time period exceeds the amount of interest-rate-sensitive assets maturing or repricing within that same time period. During a period of rising interest rates, a negative gap would tend to result in a decrease in net interest income while a positive gap would tend to result in an increase in net interest income. In a declining interest rate environment, an institution with a negative gap would generally be expected, absent the effect of other factors, to experience a greater decrease in the cost of its liabilities relative to the yield of its assets and thus an increase in the institution's net interest income, whereas an institution with a positive gap would be expected to experience the opposite result.

Certain shortcomings are inherent in any method of analysis used to estimate a financial institution's interest gap.The analysis is based at a given point in time and does not take into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, although certain assets and liabilities may have similar maturities or repricing, they may react differently to changes in market interest rates. The interest rates on certain types of assets and liabilities also may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. The interest rates on loans with call features may or may not change depending on their interest rates relative to market interest rates.

The Corporation is also subject to prepayment risk, particularly in falling interest rate environments or in environments where the slope of the yield curve is relatively flat or negative. Such changes in the interest rate environment can cause substantial changes in the level of prepayments of loans, which may also affect the Corporation's interest rate gap position.

As part of its borrowings, the Corporation may utilize, from time to time, daily and convertible advances from the FHLB-Atlanta.Convertible advances generally provide for a fixed rate of interest for a portion of the term of the advance, an ability for the FHLB-Atlanta to convert the advance from a fixed rate to an adjustable rate at some predetermined time during the remaining term of the advance (the "conversion" feature), and a concurrent opportunity for the Corporation to prepay the advance with no prepayment penalty in the event the FHLB-Atlanta elects to exercise the conversion feature. Changes in interest rates from those at December 31, 1998 may result in a change in the estimated maturity of convertible advances and, therefore, the Corporation's interest rate gap position.

Also, the methodology used estimates various rates of withdrawal (or "decay") for money market deposit, savings, and checking accounts, which may vary significantly from actual experience.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 1998 that are subject to repricing or that mature in each of the time periods shown. Additionally, loans and securities with call provisions are included in the period in which they may first be called. Except as stated above, the amount of assets and liabilities shown that reprice or mature during a par ticular period were determined in accordance with the contractual terms of the asset or liability.

TABLE 3: INTEREST SENSITIVITY ANALYSIS

(Dollars in thousands)	Within 90 Days	91-365 Days	1-5 Years	Over 5 Years	Total
	Interest-Sensitive Periods				
December 31, 1998					
Earning assets:					
Loans, net of unearned income	$128,486	$ 13,737	$ 47,224	$ 50,225	$ 239,672
Securities	10,312	6,728	15,877	28,631	61,548
Federal funds sold and other short-term investments	333	--	--	--	333
Total earning assets	139,131	20,465	63,101	78,856	301,553
Interest-bearing liabilities:					
Interest-bearing transaction accounts	6,232	18,696	16,619	--	41,547
Savings accounts	5,588	16,763	14,900	--	37,251
Money market deposit accounts	3,425	10,275	9,133	--	22,833
Certificates of deposit, $100M or more	5,024	10,798	2,746	--	18,568
Other certificates of deposit	18,830	45,838	25,898	--	90,566
Borrowings	24,661	--	--	--	24,661
Total interest-bearing liabilities	63,760	102,370	69,296	--	235,426
Period gap	75,371	(81,905)	(6,195)	78,856	
Cumulative gap	$ 75,371	$(6,534)	$(12,729)	$ 66,127	
Ratio of cumulative gap to total earning assets	24.99%	(2.17)%	(4.22)%	21.93%	

The following tables provide information about the Corporation's financial instruments that are sensitive to changes in interest rates as of December 31, 1998 and 1997, based on the information and assumptions set forth in the notes. The Corporation believes that the assumptions utilized are reasonable. The expected maturity date values for loans were calculated by adjusting the instruments' contractual maturity date for expectations of prepayments, as set forth in the notes. Similarly, expected maturity date values for interest-bearing core deposits were calculated based on estimates of the period over which the deposits would be outstanding, as set forth in the notes. From a risk-management perspective, however, the Corporation utilizes both maturity and repricing dates, as opposed to solely using expected maturity dates.

As shown in the table, there have been no significant changes in the maturities of interest-earning assets or liabilities. The large increase in loans held for sale maturing within one year is a result of increased production at the Mortgage Corporation.All loans originated at the Mortgage Corporation are usually sold within one month. The increase in borrowings is also a result of increased production at the Mortgage Corporation. Funds are borrowed from the FHLB to fund loans originated and subsequently sold by the Mortgage Corporation.

TABLE 4: MATURITY OF INTEREST-BEARING ASSETS/LIABILITIES

DOLLARS IN THOUSANDS	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total	Fair Value
	Principal Amount Maturing in:							
Earning Assets:								
Fixed rate loans(1)(2)								
December 31, 1998	$39,706	$ 9,700	$ 8,355	$ 6,344	$ 4,900	$ 16,792	$ 85,797	$ 87,051
December 31, 1997	28,233	10,478	7,614	6,283	5,161	18,282	76,051	75,882
Average interest rate								
December 31, 1998	8.92%	8.67%	8.32%	8.07%	7.97%	7.86%	8.51%	
December 31, 1997	9.28%	8.75%	8.33%	8.07%	7.92%	7.83%	8.57%	
Variable rate loans(1)(2)								
December 31, 1998	$18,459	$ 7,019	$ 6,135	$ 5,590	$ 5,448	$ 45,168	$ 87,819	$ 89,477
December 31, 1997	18,804	7,637	5,830	5,273	4,728	39,641	81,913	82,106
Average interest rate								
December 31, 1998	8.84%	8.45%	8.40%	8.37%	8.31%	8.30%	8.44%	
December 31, 1997	8.80%	8.83%	8.63%	8.61%	8.60%	8.61%	8.79%	
Loans held for sale								
December 31, 1998	$ 66,993	$ --	$ --	$ --	$ --	$ --	$ 66,993	$ 68,098
December 31, 1997	24,479	--	--	--	--	--	24,479	24,807
Average interest rate								
December 31, 1998	6.24%	--	--	--	--	--	6.24%	
December 31, 1997	6.28%	--	--	--	--	--	6.28%	
Securities(3)(4)								
December 31, 1998	$ 3,969	$ 495	$ 2,040	$ 1,384	$ 2,351	$ 51,758	$ 61,997	$ 64,459
December 31, 1997	6,300	4,167	1,950	2,039	1,378	60,652	76,486	78,541
Average interest rate								
December 31, 1998	6.92%	6.70%	7.32%	5.82%	5.99%	5.52%	5.69%	
December 31, 1997	7.95%	6.66%	6.59%	7.32%	5.82%	6.17%	6.38%	
Interest-Bearing Liabilities:								
Money market, savings, and interest-bearing transaction accounts(5)								
December 31, 1998	$60,979	$10,163	$ 10,163	$ 10,163	$ 10,163	$ --	$101,631	$ 101,604
December 31, 1997	57,063	9,511	9,511	9,510	9,510	--	95,105	95,199
Average interest rate								
December 31, 1998	2.98%	2.98%	2.98%	2.98%	2.98%	--	2.98%	
December 31, 1997	3.00%	3.01%	2.98%	2.95%	2.92%	--	2.99%	
Certificates of deposit								
December 31, 1998	$ 80,490	$21,629	$ 2,369	$ 1,272	$ 3,029	$ 345	$109,134	$ 109,714
December 31, 1997	76,767	16,552	5,689	432	1,326	347	101,113	101,275
Average interest rate								
December 31, 1998	5.02%	5.50%	5.30%	5.81%	5.67%	3.52%	5.15%	
December 31, 1997	5.09%	5.46%	6.08%	5.37%	5.81%	3.55%	5.21%	
Borrowings								
December 31, 1998	$14,661	$ --	$ 10,000	$ --	$ --	$ --	$ 24,661	$ 24,658
December 31, 1997	9,336	--	--	--	--	--	9,336	9,336
Average interest rate								
December 31, 1998	4.68%	--	4.98%	--	--	--	4.80%	
December 31, 1997	5.16%	--	--	--	--	--	5.16%	

(1) Net of undisbursed loan proceeds and does not include net deferred loan fees or the allowance for loan losses.
(2) For single-family residential loans, assumes annual prepayment rate of 12%. No prepayment assumptions were used for all other loans.
(3) Includes the Corporation's investment in Federal Home Loan Bank stock.
(4) Average interest rates are the average of stated coupon rates and have not been adjusted for taxes.
(5) For money market, savings, and interest-bearing transaction accounts, assumes an annual decay rate of 60% for year 1 and 10% for each of the years 2 through 5.

Non-Interest Income

TABLE 5: NON-INTEREST INCOME

Dollars in thousands	1998	1997	1996
	Year Ended December 31,		
Gain on sale of loans	$ 7,129	$ 4,056	$ 2,688
Service charges on deposit accounts	1,033	1,013	983
Other service charges and fees	1,867	987	665
Other income	981	602	343
	$ 11,010	$ 6,658	$ 4,679

1998 vs. 1997
Non-interest income increased by $4.4 million, or 65.4% over 1997. The majority of the increase was attributed to an approximate $3.1 million increase in the gain on the sale of loans resulting from an increase in loan production at the Mortgage Corporation. Loan closings at the Mortgage Corporation totaled $524 million in 1998 compared to $286 million in 1997 and $174 million in 1996. Other service charges and fees increased $880,000, or 89.1% over 1997. The majority of this was attributed to fees associated with loan closings at the Mortgage Corporation. Other income increased approximately $379,000, or 63% over 1997. The majority of this income is attributed to increased income at C&F Title Agency, Inc. (the "Title Agency"). The increase in income at the Title Agency is a direct result of the increased loan closings at the Mortgage Corporation.

1997 vs. 1996
Non-interest income increased by $2.0 million, or 42.3% over 1996. The majority of the increase was attributed to an approximate $1.4 million increase in gain on the sale of loans resulting from an increase in loan production at the Mortgage Corporation. Loan closings totaled $286 million in 1997 compared to $174 million in 1996 and $2.0 million in 1995. Other service charges and fees increased $322,000, or 48.4% over 1996, due to increased activity at both the Bank and the Mortgage Corporation. At the Mortgage Corporation, the increase was directly correlated to the increase in loan closings, while at the Bank the increase was attributed to, among other things, fees associated with the Bank's check and credit card programs, as well as letter of credit fees. Other income increased by $258,000, or 75% over 1996, primarily as the result of improvements at all three of the Bank's subsidiaries. At the Mortgage Corporation, the increase was again directly related to loan production; during 1997, C&F Investment Services, Inc., saw an increase in income as a result of stronger demand for its services both from current customers as well as from many new ones. In January 1997, the Bank and Mortgage Corporation joined together to form the Corporation's own title agency using its subsidiary, C&F Title Agency, Inc. Prior to this, the Title Agency owned a small portion of a jointly owned agency; however, that partial ownership interest was sold and a wholly owned agency was formed.

Non-Interest Expense

TABLE 6: NON-INTEREST EXPENSE

Dollars in thousands	1998	1997	1996
	Year Ended December 31,		
Salaries and employee benefits	$ 8,286	$ 6,332	$ 5,974
Occupancy expense	2,010	1,799	1,801
Goodwill amortization	275	275	282
Other expenses	4,411	3,132	2,237
	$ 14,982	$ 11,538	$ 10,294

1998 vs. 1997
Non-interest expense increased $3.4 million, or 29.9% over 1997. $2.0 million of this increase resulted from increased salaries and employee benefits. The majority of this increase can be attributed to increased commissions at the Mortgage Corporation, which was a result of increased loan closings. The remainder of the increase in salaries and employee benefits is a result of general pay increases along with the addition of new employees at both the Bank and the Mortgage Corporation. Other expenses increased by $1.3 million, or 43% over 1997. The majority of this increase can be associated with costs related to the increase in loan closings at the Mortgage Corporation. The remainder of the increase can be attributed to general expenses at the Bank including $100,000 in costs associated with the Year 2000 (Y2K) issue.

1997 vs. 1996
Non-interest expense increased $1.2 million, or 12.1% over 1996. Of this increase, $358,000 resulted from increased salaries and employee benefits costs. The majority of this increase can be attributed to general pay increases along with the addition of new employees. Other expenses increased

by $912,000. At the Mortgage Corporation, other expenses increased by $493,000, which was a result of increased loan closings during 1997. At the Bank, other expenses increased by approximately $245,000. This increase was a result of, among other things, increased employee training costs, costs associated with the Bank's check and credit card programs, and costs associated with technology. During the year, the Bank upgraded the majority of the personal computers used by its employees and also incurred costs associated with the Y2K issue. Other expenses also increased as a result of general corporate expenses. During 1997, the Corporation incurred expenses associated with listing on the Nasdaq National Market System and other expenses relating to increasing the awareness of the Corporation's stock.

YEAR 2000 ISSUE

The Y2K issue involves the risk that computer programs and computer systems may not be able to perform without interruption into the year 2000. If computer systems do not correctly recognize the date change from December 31, 1999 to January 1, 2000, computer applications that rely on the date field could fail or create erroneous results. Such erroneous results could affect interest payments or due dates and could cause the temporary inability to process transactions and to engage in ordinary business activities. The failure of the Corporation, its suppliers, and its borrowers to address the Y2K issue could have a material adverse effect on the Corporation's financial condition, results of operations, or liquidity.

In 1997, the Corporation initiated a review and assessment of all hardware and software to confirm that it will function properly in the year 2000. Based on this assessment, the Corporation's mainframe hardware and banking software are currently Y2K compliant. However, testing is required to confirm this. Testing began in the third quarter of 1998 and will continue through the second quarter of 1999. For certain other systems, the Corporation has determined that it will have to replace or modify certain pieces of hardware and/or software so that the systems will properly function in the year 2000. For systems that the Corporation relies on third-party vendors, these vendors have been contacted and have indicated that the hardware and/or software will be Y2K compliant.

The Corporation has also initiated formal communications with all significant loan and deposit customers to determine the extent to which the Corporation is vulnerable to those third-parties' failure to remedy their own Y2K issue. The Corporation believes that exposure to customers' not being Y2K compliant is minimal.

The Corporation plans to complete the majority of the Year 2000 project by June 30, 1999. To date, the Corporation has expensed $150,000 related to the assessment of and efforts in connection with the Year 2000 issue. Remaining expenditures are not expected to have a material effect on the Corporation's consolidated financial statements.

The Corporation continues to assess its risk from other environmental factors over which it has little direct control, such as electrical power supply, and voice and data transmission. Because of the nature of these external factors, the Corporation is not actively engaged in any repair, replacement, or testing efforts for these services. Based on its current assessments and remediation plans, which are based in part on certain representations of third-party servicers, the Corporation does not expect that it will experience a significant disruption of its operations as a result of the change to the new millennium. Although the Corporation has no reason to conclude that a failure will occur, the most likely worst-case Y2K scenario would entail a disruption or failure of the Corporation's power suppliers' or voice and data transmission suppliers' capability to provide power or data transmission services to a computer system or a facility. If such a failure were to occur, the Corporation would implement a contingency plan. While it is impossible to quantify the impact of such a scenario, the most likely worst-case scenario would entail diminishment of service levels, some customer inconvenience, and additional, as yet not understood, costs associated with the implementation of the contingency plan.

For the computer systems and facilities that it has determined to be most critical, the Corporation expects to complete development, testing, and adoption and testing of business contingency plans by June 30, 1999. These plans will conform to recently issued guidelines from the FFIEC on business contingency planning for Y2K readiness. Contingency plans will include, among other actions, manual workarounds and identification of resource requirements and alternative solutions for resuming critical business processes in the event of a Y2K-related failure. While the Corporation will have contingency plans in place to address a temporary disruption in these services, there can be no assurance that any disruption or failure will be only temporary, that the Corporation's contingency plans will function as anticipated, or that the results of operations, financial condition, or liquidity of the Corporation will not be adversely affected in the event of a prolonged disruption or failure.

Additionally, there can be no assurance that the FFIEC or other federal regulators will not issue new regulatory requirements that require additional work by the Corporation and, if issued, that new regulatory requirements will not increase the cost or delay the completion of the Corporation's Y2K project.

The costs of the project and the date on which the Corporation plans to complete the Y2K modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability of personnel trained in this area, the ability of third-party vendors to correct their software and hardware, the ability of significant customers to remedy their Year 2000 issues, and similar uncertainties.

Income Taxes

Applicable income taxes on 1998 earnings amounted to $2,353,000, resulting in an effective tax rate of 27.7% compared to $1,614,000, or 24.6%, in 1997, and $959,000, or 19.0%, in 1996. The increase in the effective tax rate is a result of the increase in earnings subject to a 34% tax rate versus earnings subject to no taxes, such as certain loans to municipalities or investments in obligations of states and political subdivisions.

TABLE 7: ALLOWANCE FOR LOAN LOSSES

	Year Ended December 31,				
(Dollars in thousands)	1998	1997	1996	1995	1994
Reserve, beginning of period	$ 2,234	$ 1,927	$ 1,914	$ 1,895	$ 1,895
Provision for loan losses	600	330	30	--	8
Loans charged off:					
Real estate--mortgage	33	12	--	--	18
Real estate--construction	--	--	--	--	--
Commercial, financial, and agricultural	--	3	4	4	7
Consumer	66	12	25	4	1
Total loans charged off	99	27	29	8	26
Recoveries of loans previously charged off:					
Real estate--mortgage	25	--	1	19	--
Real estate--construction	--	--	--	--	--
Commercial, financial, and agricultural	--	--	11	--	8
Consumer	--	4	--	8	10
Total recoveries	25	4	12	27	18
Net loans charged off	74	23	17	(19)	8
Balance, end of period	$ 2,760	$ 2,234	$ 1,927	$ 1,914	$ 1,895
Ratio of net charge-offs to average total loans outstanding during period	.04%	.01%	.01%	(.01%)	.01%

TABLE 8: ALLOCATION OF ALLOWANCE FOR POSSIBLE LOAN LOSSES

The allowance for loan losses is a general allowance applicable to all loan categories; however, management has allocated the allowance to provide an indication of the relative risk characteristics of the loan portfolio. The allocation is an estimate and should not be interpreted as an indication that charge-offs in 1999 will occur in these amounts, or that the allocation indicates future trends. The allocation of the allowance at December 31 for the years indicated and the ratio of related outstanding loan balances to total loans are as follows:

(Dollars in thousands)	1998	1997	1996	1995	1994
Allocation of allowance for possible loan losses, end of year:					
Real estate--mortgage	$ 667	$ 692	$ 873	$ 786	$ 751
Real estate--construction	108	89	69	34	26
Commercial, financial, and agricultural	1,211	926	733	352	260
Equity lines	86	71	62	60	62
Consumer	251	167	160	93	69
Unallocated	437	289	30	589	727
Balance, December 31	$ 2,760	$ 2,234	$1,927	$ 1,914	$ 1,895
Ratio of loans to total year-end loans:					
Real estate--mortgage	50%	57%	62%	70%	71%
Real estate--construction	3	3	2	2	1
Commercial, financial, and agricultural	36	31	26	19	19
Equity lines	5	4	5	5	6
Consumer	6	5	5	4	3
	100%	100%	100%	100%	100%

Asset Quality-Allowance/Provision For Loan Losses The allowance for loan losses is to provide for potential losses inherent in the loan portfolio. Among other factors, management considers the Corporation's historical loss experience, the size and composition of the loan portfolio, the value and adequacy of collateral and guarantors, non-performing credits, and current and anticipated economic conditions. There are additional risks of future loan losses which cannot be precisely quantified or attributed to particular loans or classes of loans. Since those risks include general economic trends as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. The allowance is also subject to regulatory examinations and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance in comparison to peer banks identified by regulatory agencies.

In 1998, the Corporation had $600,000 in provision for loan losses compared to $330,000 in 1997 and $30,000 in 1996. The increase in provision is a result of management's recognition of risks associated with the reduction in residential real estate loans and increasing the volume of commercial and commercial real estate loans. Loans charged off during 1998 amounted to $99,000 compared to $27,000 in 1997 and $29,000 in 1996. Recoveries amounted to $25,000, $4,000, and $12,000 in 1998, 1997, and 1996, respectively. The ratio of net charge-offs to average outstanding loans was .04% in 1998, .01% in 1997, and 0.1% in 1996. Management feels that the reserve is adequate to absorb any losses on existing loans that may become uncollectible. Table 7 presents the Corporation's loan loss and recovery experience for the past five years.

Non-Performing Assets
Total non-performing assets, which consist of the Corporation's non-accrual loans and real estate owned, was $463,000 at December 31, 1998, a decrease of $478,000 from December 31, 1997. The decrease over 1997 was primarily the result of the sale of a single-family home which was foreclosed on by the Mortgage Corporation.

The Corporation places a loan on non-accrual status when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of both principal and interest is doubtful. Corporate policy is to place loans on non-accrual status if principal or interest is past due for ninety days or more unless the debt is both well secured and in the process of being collected. For 1998, $37,000 in gross interest income would have been recorded if non-accrual loans had been current throughout the period outstanding. For the period ended December 31, 1998, interest income received on non-accrual loans was $16,000.

Table 9 summarizes non-performing assets for the past five years.

TABLE 9: NON-PERFORMING ASSET ACTIVITY

(Dollars in thousands)	1998	1997	1996	1995	1994
Non-accrual loans	$ 463	$ 497	$ 525	$ 907	$1,331
Real estate owned	--	444	--	--	--
Total non-performing assets	463	941	525	907	1,331
Principal and/or interest past due for 90 days or more	$ 958	$ 768	$ 260	$ 180	$ 412
Non-performing loans to total loans	.27%	.31%	.38%	.81%	1.27%
Allowance for loan losses to total loans	1.60	1.42	1.39	1.71	1.81
Allowance for loan losses to non-performing loans	596.11	449.30	367.05	211.03	142.37
Non-performing assets to total assets	.14%	.34%	.20%	.38%	.70%

Financial Condition

Summary

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

At the end of 1998, the Corporation had total assets of $321 million, up 15.4% over the previous year-end. In 1997, there was an increase of 8.4% in total assets over year-end 1996. Asset growth in 1998 and 1997 is attributed to increases in loans held for sale, which resulted from increased loan closings at the Mortgage Corporation and the overall expansion and growth of the Bank.

TABLE 10: SUMMARY OF TOTAL LOANS

	Year Ended December 31,				
(Dollars in thousands)	1998	1997	1996	1995	1994
Real estate--mortgage	$ 86,311	$ 88,973	$ 86,324	$ 77,924	$ 74,221
Real estate--construction	5,359	4,454	3,415	1,681	1,308
Commercial, financial, and agricultural(1)	62,885	48,737	36,385	21,719	19,379
Equity lines	8,580	7,131	6,180	5,954	6,223
Consumer	9,543	7,683	6,355	4,648	3,414
Total loans	172,678	156,978	138,659	111,926	104,545
Less allowance for possible loan losses	(2,760)	(2,233)	(1,927)	(1,914)	(1,895)
Total loans, net	$169,918	$154,745	$ 136,732	$110,012	$ 102,650

1 Includes loans secured by real estate

TABLE 11: MATURITY/REPRICING SCHEDULE OF LOANS

	December 31, 1998	
(Dollars in thousands)	Commercial, financial, and agricultural	Real estate construction
VariableRate:		
Within 1 year	$ 12,803	$ --
1 to 5 years	7,914	--
After 5 years	17,121	--
Fixed Rate:		
Within 1 year	23,079	5,359

1 to 5 years	1,360	--
After 5 years	608	--

Loan Portfolio
At December 31, 1998, loans, net of unearned income and reserve for loan losses, totaled $169.9 million, an increase of 9.8% over the 1997 total of $154.7 million. Net loans increased 13.2% and 24.3% in 1997 and 1996, respectively.

The Corporation's lending activities are its principal source of income. All loans are attributable to domestic operations. Residential real estate loans, both construction and permanent, represent the major portion of the Corporation's loan portfolio, although commercial loans continue to increase as a percentage of total loans. Tables 10 and 11 present information pertaining to the composition of loans including unearned income and the maturity/repricing of loans.

TABLE 12: MATURITY OF INVESTMENT SECURITIES

	Year Ended December 31,					
	1998		1997		1996	
(Dollars in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. government agencies and corporations:						
Maturing within 1 year	$ 999	8.46%	$ 5,500	8.06%	$ 2,000	7.20%
Maturing after 1 year, but within 5 years	500	6.21	1,998	7.43	10,585	7.64
Maturing after 5 years, but within 10 years	3,500	6.76	12,498	6.75	23,472	7.09
Maturing after 10 years	8,498	6.96	11,998	7.30	4,000	8.00
Total U.S. government agencies and corporations	13,497	6.99	31,994	7.22	40,057	7.33
U.S. Treasuries:						
Maturing within 1 year	1,999	5.94	--	--	--	--
Maturing after 1 year, but within 5 years	1,000	8.02	2,998	6.63	2,997	6.63
Total U.S. Treasuries	2,999	6.63	2,998	6.63	2,997	6.63
State and municipals:(1)						
Maturing within 1 year	971	10.18	850	10.11	1,525	9.80%
Maturing after 1 year, but within 5 years	4,770	9.46	4,188	9.85	5,544	10.08
Maturing after 5 years, but within 10 years	13,163	8.42	10,666	8.74	9,040	8.76
Maturing after 10 years	20,121	7.90	20,425	8.11	21,680	8.15
Total state and municipals	39,025	8.33	36,129	8.55	37,789	8.65
Other securities:						
Maturing within 1 year	--	--	300	8.62	--	--
Maturing after 1 year, but within 5 years	--	--	--	--	300	8.62
Total other securities	--	--	300	8.62	300	8.62
Total investment securities:(2)						
Maturing within 1 year	3,969	7.76	6,650	8.37	3,525	8.32
Maturing after 1 year, but within 5 years	6,270	8.95	9,184	8.29	19,426	8.20
Maturing after 5 years, but within 10 years	16,663	8.06	23,164	7.63	32,512	7.55
Maturing after 10 years	28,619	7.62	32,423	7.81	25,680	8.13
Total investment securities	$ 55,521	7.91%	$ 71,421	7.87%	$ 81,143	7.92%

1 Yields on tax-exempt securities have been computed on a tax-equivalent basis. 2 Total investment securities excludes preferred stock at $4,770,000, $4,004,000, and $4,531,000 amortized cost at December 31, 1998, 1997, and 1996, respectively, or $5,104,000, $4,296,000, and $4,607,000 estimated fair value at December 31, 1998, 1997, and 1996, respectively.

Investment Securities
The investment portfolio plays a primary role in the management of interest rate sensitivity of the Corporation and generates substantial interest income. In addition, the portfolio serves as a source of liquidity and is used as needed to meet collateral requirements.

The investment portfolio consists of two components, investment securities held to maturity and securities available for sale. Securities are classified as investment securities based on management's intent and the Corporation's ability, at the time of purchase, to hold such securities to maturity. These securities are carried at amortized cost. Securities which may be sold in response to changes in market interest rates, changes in the securities' prepayment risk, increases in loan demand, general liquidity needs, and other similar factors are classified as available for sale and are carried at estimated fair value.

At year-end 1998, total investment securities at amortized cost were $60.3 million, down 20.1% from $75.4 million at year-end 1997. Securities of U.S. government agencies and corporations represented 22.4% of the total securities portfolio, obligations of states and political subdivisions were 64.7%, U.S. Treasury securities were 5.0%, and preferred stocks were 7.9% at December 31, 1998. The decline in the securities portfolio is due to both maturities of securities and securities with higher yields being called because of the falling interest rate environment during 1998. It is management's intention to invest the majority of the proceeds from the maturities and calls of securities into loans; however, when excess funds are available, new securities will be purchased.

Table 12 presents information pertaining to the composition of the investment securities portfolio.

TABLE 13: AVERAGE DEPOSITS AND RATES PAID

	Year Ended December 31,					
	1998		1997		1996	
(Dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non-interest-bearing demand deposits	$ 35,987		$ 31,449		$ 26,741	
Interest-bearing transaction accounts	37,178	2.42%	34,594	2.57%	33,256	2.68%
Money market deposit accounts	21,984	3.27	23,416	3.28	20,468	3.28
Savings accounts	35,094	3.23	33,037	3.20	31,550	3.13
Certificates of deposit, $100M or more	16,670	4.91	14,137	3.30	13,774	3.54
Other certificates of deposit	87,938	5.25	82,655	5.44	80,412	5.49
Total interest-bearing deposits	198,864	4.12%	187,839	4.09%	179,460	4.15%
Total deposits	$234,851		$219,288		$ 206,201	

TABLE 14: MATURITIES OF CERTIFICATES OF DEPOSIT WITH BALANCES OF $100,000 OR MORE

(Dollars in thousands)	December 31, 1998
3 months or less	$ 5,024
3-6 months	2,330
6-12 months	8,468
Over 12 months	2,746
Total	$ 18,568

Deposits

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

Total deposits increased $20.1 million, or 8.7%, in 1998 over 1997. In 1998, the growth by deposit category was a 15.9% increase in non-interest-bearing deposits, a 6.8% increase in savings and interest-bearing demand deposits, and a 7.9% increase in time deposits. In 1997, total deposits increased $15.1 million, or 7.0% over 1996. Deposit growth in 1998 and 1997 was attributed to growth at existing branch locations. Table 13 presents the average deposit balances and average rates paid for the years 1998, 1997, and 1996. Table 14 details maturities of certificates of deposit with balances of $100,000 and over at December 31, 1998.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash and due from banks, interest-bearing deposits with banks, federal funds sold, securities available for sale, and investments and loans maturing within one year. 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 depositors' requirements and to meet customers' credit needs.

At December 31, 1998, cash, securities classified as available for sale, and federal funds sold were 10.1% of total earning assets, compared to 15.0% at December 31, 1997.

Additional sources of liquidity available to the Corporation include the Bank's capacity to borrow funds through an established line of credit with a regional correspondent bank and the Federal Home Loan Bank.

Capital Resources
The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, and changing competitive conditions and economic forces. The adequacy of the Corporation's capital is reviewed by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

On April 4, 1997, the Corporation repurchased 204,683 shares of its common stock. In addition, the Corporation repurchased a total of 119,803 shares of its common stock during 1996. These repurchases were made to reduce capital as it was high relative to the Corporation's asset size.

The Corporation's capital position continues to exceed regulatory requirements. The primary indicators relied on by bank regulators in measuring the capital position are the Tier I capital, total risk-based capital, and leverage ratios. Tier I capital consists of common and qualifying preferred shareholders' equity less goodwill. Total capital consists of Tier I capital, qualifying subordinated debt, and a portion of the allowance for loan losses. Risk-based capital ratios are calculated with reference to risk-weighted assets. The Corporation's Tier I capital ratio was 12.5% at December 31, 1998, compared to 14.1% at December 31, 1997. The total capital ratio was 13.4% at December 31, 1998, compared to 15.2% at December 31, 1997. These ratios are in excess of the mandated minimum requirement of 4.0% and 8.0%, respectively.

Shareholders' equity was $36.6 million at year-end 1998 compared to $31.8 million at year-end 1997. The leverage ratio consists of Tier I capital divided by average assets. At December 31, 1998, the Corporation's leverage ratio was 11.5%, compared to 11.4% at December 31, 1997. Each of these exceeds the required minimum leverage ratio of 3.0%. The dividend payout ratio was 27.7%, 27.8%, and 33.6%, in 1998, 1997, and 1996, respectively. During 1998, the Corporation paid dividends of $0.44 per share, up 25.7% from $0.35 per share paid in 1997.

The Corporation is not aware of any current recommendations by any regulatory authorities which, if they were implemented, would have a material effect on the Corporation's liquidity, capital resources, or results of operations.

New Accounting Pronouncements
In June 1998, FASB issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities." FAS 133 establishes accounting and reporting standards for derivative financial instruments and other similar financial instruments and for hedging activities. The standard also allows securities classified as held-to-maturity to be transferred to the available-for-sale category at the date of initial application of this standard. FAS 133 is effective for all fiscal years beginning after June 15, 1999. Management is currently reviewing this statement to determine the impact, if any, it will have since the Corporation currently has no derivative instruments.

In October 1998, the FASB issued Statement No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise, an amendment of FASB Statement No. 65." FASB Statement No. 65, as amended, requires that, after securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed security as a trading security. This statement further amends Statement No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This statement conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by a non-mortgage banking enterprise. This statement is effective beginning in 1999. This statement is not expected to have a material effect on the Corporation's financial statements.

Effects Of Inflation
The effect of changing prices on financial institutions is typically different from other industries as the Corporation's assets and liabilities are monetary in nature. Interest rates are significantly impacted by inflation, but neither the timing nor the magnitude of the changes are directly related to price-level indices. The consolidated financial statements reflect the impacts of inflation on interest rates, loan demands, and deposits.

Safe Harbor Statement Under The Private Securities Litigation Reform Act of 1995.

The statements contained in this annual report that are not historical facts may be forward looking statements. The forward looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of their dates.

CONSOLIDATED BALANCE SHEETS

	December 31, 1998	December 31, 1997
Assets		
Cash and due from banks	$ 8,139,884	$ 7,843,788
Interest-bearing deposits in other banks	333,356	1,027,023
Total cash and cash equivalents	8,473,240	8,870,811
Investment securities--available for sale at fair value, amortized cost of $21,480,714 and $29,497,833, respectively	21,888,295	29,793,498
Investment securities--held to maturity at amortized cost, fair value of $40,864,681 and $47,685,859, respectively	38,810,290	45,926,549
Loans held for sale, net	66,993,322	24,479,103
Loans, net	169,918,428	154,744,620
Federal Home Loan Bank stock	1,706,200	1,061,800
Corporate premises and equipment, net	6,465,375	6,581,568
Accrued interest receivable	2,373,783	2,195,959
Other assets	4,234,696	4,452,061
Total assets	$320,863,629	$278,105,969
Liabilities		
Deposits		
Non-interest-bearing demand deposits	$ 40,907,814	$ 35,295,210
Savings and interest-bearing demand deposits	101,631,148	95,105,425
Time deposits	109,134,197	101,112,517
Total deposits	251,673,159	231,513,152
Borrowings	24,661,078	9,335,687
Accrued interest payable	598,146	592,300
Other liabilities	7,283,753	4,864,297
Total liabilities	284,216,136	246,305,436
Commitments and contingent liabilities		
Shareholders' Equity		
Preferred stock ($1.00 par value, 3,000,000 shares authorized)	--	--
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,866,888 and 1,916,190 shares issued and outstanding at December 31, 1998 and 1997, respectively)	3,866,888	1,916,190
Additional paid-in capital	475,928	117,692
Retained earnings	31,739,483	29,236,260
Accumulated other comprehensive income, net of tax of $291,161 and $273,232, respectively	565,194	530,391
Total shareholders' equity	36,647,493	31,800,533
Total liabilities and shareholders' equity	$320,863,629	$278,105,969

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 1998	1997	1996
Interest income			
Interest and fees on loans	$ 17,789,920	$ 14,656,120	$12,138,668
Interest on money market investments			
Federal funds sold	--	--	678
Other money market investments	68,584	68,399	171, 077
Interest on securities			
U.S. Treasury securities	198,883	198,883	340,449
U.S. government agencies and corporations	2,035,832	2,422,390	3,164,782
Tax-exempt obligations of states and political subdivisions	2,097,657	2,041,372	2,111,006
Corporate bonds and other	426,633	375,884	406,338
Total interest income	22,617,509	19,763,048	18,332,998
Interest expense			
Savings and interest-bearing deposits	2,754,417	2,715,785	2,548,155
Certificates of deposit, $100M or more	818,548	465,701	487,543
Other time deposits	4,616,052	4,492,910	4,417,701
Short-term borrowings and other	1,369,042	327,905	214,220
Total interest expense	9,558,059	8,002,301	7,667,619
Net interest income	13,059,450	11,760,747	10,665,379
Provision for loan losses	600,000	330,000	30,000
Net interest income after provision for loan losses	12,459,450	11,430,747	10,635,379
Other operating income			
Gain on sale of loans	7,128,998	4,056,340	2,687,629
Service charges on deposit accounts	1,032,918	1,012,410	982,752
Other service charges and fees	1,866,763	987,232	665,390
Other income	980,943	601,626	343,144
Total other operating income	11,009,622	6,657,608	4,678,915
Other operating expenses			
Salaries and employee benefits	8,286,380	6,332,026	5,973,650
Occupancy expenses	2,009,917	1,798,561	1,800,904
Goodwill amortization	275,160	275,160	281,982
Other expenses	4,410,228	3,131,818	2,237,684
Total other operating expenses	14,981,685	11,537,565	10,294,220
Income before income taxes	8,487,387	6,550,790	5,020,074
Income tax expense	2,353,351	1,613,963	958,900
Net Income	$ 6,134,036	$ 4,936,827	$ 4,061,174
Earnings per common share--basic	$ 1.59	$ 1.26	$ .92
Earnings per common share--assuming dilution	1.56	1.25	.92

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance December 31, 1995	$2,230,744	$1,290,497		$27,805,170	$ 491,885	$31,818,296
Repurchase of common stock	(119,803)	(1,301,282)		(705,418)	--	(2,126,503)
Stock options exercised	2,100	10,785		--	--	12,885
Comprehensive income						
Net income			$4,061,174	4,061,174		4,061,174
Other comprehensive income, net of tax						
Unrealized holding gains arising during the period net of tax of $95,899[1]			(186,156)		(186,156)	(186,156)
Comprehensive income			$3,875,018			
Cash dividends ($.31 per share)	--	--		(1,365,187)	--	(1,365,187)
Balance December 31, 1996	2,113,041	--		29,795,739	305,729	32,214,509
Repurchase of common stock	(204,683)	--		(4,126,518)	--	(4,331,201)
Stock options exercised	7,832	117,692		--	--	125,524
Comprehensive income						
Net income			$4,963,827	4,936,827		4,936,827
Other comprehensive income, net of tax						
Unrealized holding gains arising during the period net of tax of $115,735[1]			224,662		224,662	224,662
Comprehensive income			$5,188,489			
Cash dividends ($.35 per share)	--	--		(1,369,788)	--	(1,369,788)
Balance December 31, 1997	1,916,190	117,692		29,236,260	530,391	31,800,533
Stock options exercised	19,004	358,236		--	--	377,240
Comprehensive income						
Net income			$6,134,036	6,134,036		6,134,036
Other comprehensive income, net of tax						
Unrealized holding gains arising during the period net of tax of $17,929[1]			34,803		34,803	34,803
Comprehensive income			$6,168,839			
Stock dividends	1,931,694	--		(1,931,694)	--	--
Cash dividends ($.44 per share)	--	--		(1,699,119)	--	(1,699,119)
Balance December 31, 1998	$3,866,888	$ 475,928		$31,739,483	$ 565,194	$36,647,493

1 THERE WERE NO RECLASSIFICATION ADJUSTMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998, 1997, AND 1996.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1998	1997	1996
Operating Activities:			
Net income	$ 6,134,036	$ 4,936,827	$ 4,061,174
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	949,451	878,433	860,290
Amortization of goodwill	275,160	275,160	281,982
Deferred income taxes	(332,645)	(320,929)	(23,885)
Provision for loan losses	600,000	330,000	30,000
Accretion of discounts and amortization of premiums on investment securities, net	(51,444)	(104,715)	(92,029)
Net realized loss (gain) on securities	--	7,180	9,427
Gain on sale of corporate premises and equipment	--	--	(17,973)
Origination of loans held for sale	(524,395,568)	(286,419,034)	(173,881,464)
Sale of loans	481,881,349	274,223,953	163,482,470
Change in other assets and liabilities:			
Accrued interest receivable	(177,824)	74,197	169,150
Other assets	271,213	(373,662)	(177,931)
Accrued interest payable	5,846	50,855	(28,684)
Other liabilities	2,405,165	2,426,770	1,031,957
Net cash used in operating activities	(32,435,261)	(4,014,965)	(4,295,516)
Investing Activities:			
Proceeds from maturities of investments held to maturity	9,674,100	25,632,350	16,355,272
Proceeds from sales and maturities of investments available for sale	22,449,745	8,576,713	9,831,237
Purchase of investment securities held to maturity	(2,572,800)	(4,867,024)	(6,097,835)
Purchase of investments available for sale	(14,425,408)	(19,055,224)	(5,219,270)
Purchase of FHLB stock	(644,400)	(205,000)	(51,400)
Net increase in customer loans	(15,773,808)	(18,342,603)	(26,749,697)
Purchase of corporate premises and equipment	(879,180)	(1,618,414)	(960,713)
Proceeds from the sale of corporate premises and equipment	45,922	170,107	27,310
Net cash used in investing activities	(2,125,829)	(9,709,095)	(12,865,096)
Financing Activities:			
Net increase in demand, interest-bearing demand and savings deposits	12,138,327	7,743,351	1,619,262
Net increase in time deposits	8,021,680	7,347,245	2,964,659
Assumption of deposit liabilities in branch acquisition, net of premium paid	--	--	7,406,802
Net increase in other borrowings	15,325,391	4,280,412	3,855,275
Repurchase of common stock	--	(4,331,201)	(2,126,503)
Proceeds from exercise of stock options	377,240	125,524	12,885
Cash dividends	(1,699,119)	(1,369,788)	(1,365,187)
Net cash provided by financing activities	34,163,519	13,795,543	12,367,193
Net increase (decrease) in cash and cash equivalents	(397,571)	71,483	(4,793,419)
Cash and cash equivalents at beginning of year	8,870,811	8,799,328	13,592,747
Cash and cash equivalents at end of year	$ 8,473,240	$ 8,870,811	$ 8,799,328
Supplemental disclosure			
Interest paid	$ 9,552,213	$ 7,951,446	$7,696,303
Income taxes paid	2,674,475	1,699,427	903,611

See notes to consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of C&F Financial Corporation and subsidiary (the "Corporation") conform to generally accepted accounting principles and to predominant practices within the banking industry.

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

The Bank has three wholly owned subsidiaries, C&F Title Agency, Inc., C&F Investment Services, Inc., and C&F Mortgage Corporation, all incorporated under the laws of the Commonwealth of Virginia. C&F Title Agency, Inc., organized in 1992, sells title insurance to the mortgage loan customers of the Bank and C&F Mortgage Corporation. C&F Investment Services, Inc., organized in April 1995, is a full-service brokerage firm offering a comprehensive range of investment services. C&F Mortgage Corporation, organized in September 1995, was formed to originate and sell residential mortgages.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of C&F Financial Corporation and its wholly owned subsidiary, Citizens and Farmers Bank. All material intercompany accounts and transactions have been eliminated in consolidation.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Investment Securities: Investments in debt and equity securities with readily determinable fair values are classified as either held to maturity, available for sale, or trading, based on management's intent. Available for sale securities are carried at estimated fair value with the corresponding unrealized gains and losses included in shareholders' equity on an after-tax basis. Securities classified as held to maturity are carried at amortized cost. The Corporation does not have any securities classified as trading securities. Gains or losses are recognized only on realization at the time of sale using the amortized cost of the specific security sold.

Federal Home Loan Bank Stock: Federal Home Loan Bank stock is stated at cost. No ready market exists for this stock, and it has no quoted market value. For presentation purposes, such stock is assumed to have market value which is equal to cost. In addition, such stock is not considered a debt or equity security in accordance with SFAS 115.

Loans: Loans are stated at face value, net of unearned discount and the allowance for loan losses. Unearned discount on certain installment loans is recognized as income over the terms of the loans by a method which approximates the effective interest method. Interest on other loans is credited to operations based on the principal amount outstanding. Loans are generally placed on non-accrual status when the collection of principal or interest is ninety days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than ninety days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans which are carried on non-accrual status, interest is recognized on the cash basis. Loan fees and origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield using the level-yield method. The Corporation is amortizing these amounts over the contractual life of the related loans.

Impaired loans are measured 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. The Corporation considers a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is expected. A valuation allowance is maintained to the extent that the measure of the impaired loan is less than the recorded investment.

Consistent with the Corporation's method for non-accrual loans, interest receipts for impaired loans are recognized on the cash basis.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or market, determined in the aggregate. Market value considers commitment agreements with investors and prevailing market prices. Substantially all loans originated by the mortgage banking operations are held for sale to outside investors.

Reserve for Loan Losses: The reserve for loan losses is established through a provision for loan losses charged to expense. The reserve represents an amount which, in management's judgment, will be adequate to absorb any losses on existing loans which may become uncollectible. Management's judgment in determining the adequacy of the reserve is based on evaluations of the collectibility of loans while taking into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions which may affect a borrower's ability to repay, overall portfolio quality, and review of specific potential losses. Loans are charged against the reserve for loan losses when management believes that the collectibility of the principal is unlikely. Actual future losses may differ from estimates as a result of unforeseen events.

Other Real Estate Owned: Foreclosed assets held for sale are carried at the lower of (a) fair value minus estimated costs to sell or (b) cost at the time of foreclosure. Such determination is made on an individual asset basis. If the fair value of the asset minus the estimated costs to sell the asset is less than the cost of the asset, the deficiency is recognized as a valuation allowance. If the fair value of the asset minus the estimated costs to sell the asset subsequently increases and the fair value of the asset minus the estimated costs to sell the asset is more than its carrying amount, the valuation allowance is reduced, but not below zero. Increases or decreases in the valuation allowance are charged or credited to income.

Recovery of the carrying value of such real estate is dependent to a great extent on economic, operating, and other conditions that may be beyond the Corporation's control.

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

Income Taxes: The Corporation uses an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Defined Benefit Plan: In 1998, the Corporation adopted Financial Accounting Standard (FAS) 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This pronouncement does not change the measurement or recognition of amounts recognized in the Corporation's financial statements applicable to its defined benefit plan. FAS 132 revises the existing disclosure requirements by standardizing the disclosure requirements for pensions, requiring certain additional information on changes in the benefit obligations and fair values of plan assets, and eliminating certain disclosures.

Segment Information: In 1998, the Corporation adopted Financial Accounting Standard (FAS) 131, "Disclosures about Segments of an Enterprise and Related Information." FAS 131 supercedes FAS 14, "Financial Reporting for Segment of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Corporation's reportable segments. The adoption of FAS 131 did not affect the results of operations or financial position but did affect the disclosure of segment information.

Comprehensive Income: In 1998, the Corporation adopted Financial Accounting Standard (FAS) 130, "Reporting Comprehensive Income." The consolidated statements of shareholders' equity have been changed to include columns for comprehensive income and accumulated other comprehensive income. Comprehensive income for the Corporation includes net income plus the change in the unrealized gain or loss on securities available for sale. Accumulated other comprehensive income includes the cumulative changes in unrealized gain or loss on securities available for sale. Adoption of this standard did not impact the Corporation's consolidated financial position, results of operations, or cash flows.

Earnings Per Share: In 1997, the Corporation adopted Financial Accounting Standard (FAS) 128, "Earnings per Share." FAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented and, where appropriate, restated to conform to the FAS 128 requirements.

Shareholders' Equity: On April 4, 1997, the Corporation repurchased 204,683 shares of its common stock at a price of $21.00 per share. During 1996 the Corporation repurchased a total of 119,803 shares of its common stock from three shareholders in three independently negotiated transactions at a price of $17.75 per share.

On June 16, 1998, the Corporation declared a 100% stock dividend in the form of a two-for-one stock split. All the financial data included in this Annual Report has been retroactively restated to reflect the effect of the stock split.

Statement of Cash Flows: For the purpose of the statement of cash flows, the Corporation considers cash equivalents to include amounts due from banks, federal funds sold, and money market investments purchased with a maturity of three months or less. Generally, federal funds are purchased and sold for one-day periods.

NOTE 2: INVESTMENT SECURITIES

Debt and equity securities are summarized as follows:

December 31, 1998				
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$1,999,696	$ 7,179	$ --	$ 2,006,875
U.S. government agencies and corporations	12,497,651	64,342	(5,744)	12,556,249
Obligations of states and political subdivisions	2,213,698	11,338	(3,575)	2,221,461
Preferred stock	4,769,669	366,326	(32,285)	5,103,710
	$21,480,714	$ 449,185	$ (41,604)	$21,888,295
Held to Maturity				
U.S. Treasury securities	$ 999,678	$ 75,009	$ --	$1,074,687
U.S. government agencies and corporations	999,296	29,141	--	1,028,437
Obligations of states and political subdivisions	36,811,316	1,950,241	--	38,761,557
	$38,810,290	$2,054,391	$ --	$40,864,681

December 31, 1997				
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$1,998,449	$ 7,177	$ --	$ 2,005,626
U.S. government agencies and corporations	23,495,722	27,715	(31,234)	23,492,203
Preferred stock	4,003,662	292,007	--	4,295,669
	$29,497,833	$ 326,899	$ (31,234)	$29,793,498
Held to Maturity				
U.S. Treasury securities	$ 999,543	$ 68,270	$ --	$1,067,813
U.S. government agencies and corporations	8,498,250	82,321	--	8,580,571
Obligations of states and political subdivisions	36,128,774	1,617,875	(11,304)	37,735,345
Corporate bonds	299,982	2,148	--	302,130
	$45,926,549	$1,770,614	$ (11,304)	$47,685,859

The amortized cost and estimated fair value of debt securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	December 31, 1998	
Available for Sale	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,999,695	$ 2,006,875
Due after one year through five years	500,000	524,050
Due after five years through ten years	3,500,000	3,517,944
Due after ten years	10,711,350	10,735,716
	16,711,045	16,784,585
Preferred Stock	4,769,669	5,103,710
	$ 21,480,714	$ 21,888,295
Held to Maturity		
Due in one year or less	$ 1,969,296	$ 2,008,195
Due after one year through five years	5,770,981	6,076,468
Due after five years through ten years	13,162,923	13,965,213
Due after ten years	17,907,090	18,814,805
	$ 38,810,290	$ 40,864,681

Proceeds from maturities and the redemption of call provisions of investment securities held to maturity in 1998 were $9,674,100. There were no realized gains or losses. Proceeds from maturities and the redemption of call provisions of investment securities available for sale were $22,449,745. There were no realized gains or losses. The amortized cost and approximate market value of securities pledged to secure public deposits amounted to $20,785,000 and $21,559,000, respectively, at December 31, 1998.

Proceeds from maturities and the redemption of call provisions of investment securities held to maturity in 1997 were $25,632,350. There were no realized gains or losses. Proceeds from maturities and the redemption of call provisions of investment securities available for sale were $8,576,713, resulting in gross realized losses of $30,480 and realized gains of $23,300. The amortized cost and approximate market value of securities pledged to secure public deposits amounted to $22,175,000 and $22,736,000, respectively, at December 31, 1997.

Proceeds from maturities and the redemption of call provisions of investment securities held to maturity in 1996 were $16,355,272, resulting in gross realized gains of $8,936. There were no gross realized losses. Proceeds from sales and maturities of investment securities available for sale were $9,831,237, resulting in gross realized losses of $18,363. There were no gross realized gains.

NOTE 3: LOANS

Major classifications of loans are summarized as follows:

	DECEMBER 31,	
	1998	1997
Real estate--mortgage	$ 87,231,351	$ 89,927,391
Real estate--construction	5,375,752	4,471,803
Commercial, financial, and agricultural	62,885,477	48,751,540
Equity lines	8,579,523	7,130,910
Consumer	9,543,608	7,682,819
	173,615,711	157,964,463
Less unearned loan fees	(937,020)	(986,484)
	172,678,691	156,977,979
Less reserve for loan losses	(2,760,263)	(2,233,359)
	$ 169,918,428	$154,744,620

Loans on non-accrual status were $463,000 and $497,000 at December 31, 1998 and 1997, respectively. If interest income had been recognized on non-performing loans at their stated rates during fiscal years 1998, 1997, and 1996, interest income would have increased by approximately $37,000, $37,000, and $56,000, respectively. The balance of impaired loans at December 31, 1998 and 1997, was $463,000 and $497,000, respectively, with no specific valuation allowance associated with these loans.

NOTE 4: RESERVE FOR LOAN LOSSES

Changes in the reserve for loan losses were as follows:

	YEAR ENDED DECEMBER 31, 1998	1997	1996
Balance at the beginning of year	$2,233,359	$1,926,775	$1,914,195
Provision charged to operations	600,000	330,000	30,000
Loans charged off	(98,699)	(27,430)	(29,658)
Recoveries of loans previously charged off	25,603	4,014	12,238
Balance at the end of year	$2,760,263	$2,233,359	$1,926,775

NOTE 5: CORPORATE PREMISES AND EQUIPMENT

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

	DECEMBER 31, 1998	1997
Land	$1,316,381	$ 1,213,073
Buildings	5,277,851	4,974,919
Equipment, furniture, and fixtures	6,881,025	6,481,373
	13,475,257	12,669,365
Less accumulated depreciation	(7,009,882)	(6,087,797)
	$6,465,375	$ 6,581,568

NOTE 6: TIME DEPOSITS

Time deposits are summarized as follows:

	DECEMBER 31, 1998	1997
Certificates of deposit, $100M or more	$ 18,567,412	$ 15,441,597
Other time deposits	90,566,785	85,670,920
	$109,134,197	$101,112,517

Remaining maturities on certificates are as follows:

YEAR ENDING DECEMBER 31,	
1999	$ 80,489,820
2000	21,628,993
2001	2,369,491
2002	1,271,610

2003	3,374,283
	$109,134,197

NOTE 7: BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings also include advances from the Federal Home Loan Bank (FHLB), which are secured by a blanket floating lien on all real estate mortgage loans secured by one- to four-family residential properties.

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

	DECEMBER 31, 1998	DECEMBER 31, 1997
Maximum balance at any month-end during the year	$43,609,000	$13,435,000
Average balance for the year	$22,237,000	$ 6,441,000
Weighted average rate for the year	5.50%	5.09%
Weighted average rate on borrowings at year-end	4.61%	5.07%
Estimated fair value	$14,661,078	$ 9,335,687

The Corporation has unused lines of credit for short-term borrowings totaling approximately $53,000,000 at December 31, 1998.

Long-term borrowings consist of convertible fixed-rate advances from the FHLB. At December 31, 1998, convertible fixed-rate advances totaled $10,000,000 with an average interest rate of 5.01%. The advances are convertible to adjustable-rate advances at the option of the FHLB in March 1999, and quarterly thereafter until the advances mature in September 2001. These advances are also secured by a blanket floating lien on all real estate mortgage loans secured by one- to four-family residential properties.

NOTE 8: EARNINGS FOR SHARE

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. All shares have been restated to reflect the effect of a two-for-one stock split in July 1998.

	DECEMBER 31, 1998	1997	1996
Weighted average number of common shares used in earnings per common share--basic	3,857,542	3,930,288	4,417,098
Effect of dilutive securities:			
Stock options	62,233	22,468	8,902
Weighted average number of common shares used in earnings per common share--assuming dilution	3,919,775	3,952,756	4,426,000

Options on approximately 20,000 and 45,600 shares were not included in computing earnings per common share--assuming dilution for the years ended December 31, 1997 and 1996, respectively, because their effects were antidilutive. All options were included in computing earnings per common share--assuming dilution for the year ended December 31, 1998.

NOTE 9: INCOME TAXES

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

YEAR ENDED DECEMBER 31,

	1998	1997	1996
Current taxes	$2,685,996	$1,934,892	$982,785
Deferred taxes	(332,645)	(320,929)	(23,885)
	$2,353,351	$ 1,613,963	$ 958,900

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

	YEAR ENDED DECEMBER 31,					
	1998	Percent of Pre-tax Income	1997	Percent of Pre-tax Income	1996	Percent of Pre-tax Income
Income tax computed at federal statutory rates	$2,885,712	34.0%	$2,227,269	34.0%	$1,706,825	34.0%
Tax effect of exclusion of interest income on obligations of states and political subdivisions	(713,203)	(8.4)	(714,061)	(10.9)	(712,075)	(14.2)
Reduction of interest expense incurred to carry tax-exempt assets	87,710	1.0	77,067	1.2	32,862	.6
State income taxes, net of federal tax benefit	122,650	1.4	22,054	.3	--	--
Tax effect of dividends-received deduction on preferred stock	(71,957)	(.8)	(66,614)	(1.0)	(75,460)	(1.5)
Other	42,439	.5	68,248	1.0	6,748	.1
	$2,353,351	27.7%	$1,613,963	24.6%	$958,900	19.0%

Other assets include deferred income taxes of $1,020,295 and $705,579 at December 31, 1998 and 1997, respectively. Other liabilities include current taxes payable of $29,166 and $312,846 at December 31, 1998 and 1997, respectively. Income tax returns subsequent to 1996 are subject to examination by taxing authorities. The tax effects of each type of significant item that gave rise to deferred taxes are:

	Year Ended December 31, 1998	1997
Deferred tax asset		
Deferred loan fees	$ 47,453	$ 71,180
Allowance for loan losses	852,515	613,371
Interest on non-accrual loans	149,406	138,568
Accrued pension	69,354	128,855
Intangible asset	105,076	68,990
Other	204,419	112,039
Deferred tax asset	1,428,223	1,133,003
Deferred tax liability		
Net unrealized gain on securities available for sale	(291,161)	(273,232)
Depreciation	(116,767)	(154,192)
Deferred tax liability	(407,928)	(427,424)
Net deferred tax asset	$1,020,295	$ 705,579

NOTE 10: EMPLOYEE BENEFIT PLANS

The Bank maintains a Defined Contribution "Profit-Sharing" Plan sponsored by the Virginia Bankers Association. The plan was amended effective January 1, 1997, to include a 401(k) savings provision which authorizes a maximum voluntary salary deferral of up to 15% of compensation (with a partial company match), subject to statutory limitations. The profit-sharing arrangement provides for an annual discretionary contribution to the account of each eligible employee based in part on the Bank's profitability for a given year and on each participant's yearly earnings. All full-time employees who have attained the age of eighteen and have at least three months of service are eligible to participate. Contributions and earnings may be invested in various investment vehicles offered through the Virginia Bankers Association. Contributions and earnings are tax-deferred. An employee is 40% vested after four years of service, 60% after five years, 80% after six years, and fully vested after seven years. The amounts charged to expense under this plan were $281,230, $244,617, and $226,938 in 1998, 1997, and 1996, respectively.

The Mortgage Corporation maintains a Defined Contribution 401(k) Savings Plan (the "Plan") which authorizes a maximum voluntary salary deferral of up to 15% of compensation, subject to statutory limitations. All full-time employees who have attained the age of eighteen are eligible to participate on the first day of the next month following employment date. The Mortgage Corporation reserves the right for an annual discretionary contribution to the account of each eligible employee based in part on the Mortgage Corporation's profitability for a given year, and on each participant's yearly earnings. An employee is vested 25% after two years of service, 50% after three years of service, 75% after four years of service, and fully vested after five years. The amount charged to expense under the Plan was $185,000 and $50,000 for 1998 and 1997, respectively. There was no contribution in 1996.

The Bank adopted a Management Incentive Bonus Plan (the "Bonus Plan") effective January 1, 1987. The Bonus Plan is offered to selected members of management. The Bonus Plan is derived from a pool of funds determined by the Bank's total performance relative to (1) prescribed growth-rates of assets and deposits, (2) return on average assets, and (3) absolute level of net income. Attainment, in whole or in part, of these goals dictates the amount set aside in the pool of funds. Evaluation of attainment and approval of the pool amount are performed by the Board. Payment of the bonus is based on individual performance and is paid in cash. Expense is accrued in the fiscal year of the specified bonus performance. Expenses under this plan were $166,150, $136,700, and $83,500 in 1998, 1997, and 1996, respectively. Additional bonuses totaling $31,148, $35,205, and $37,278 were granted to employees not covered by the Bonus Plan in 1998, 1997, and 1996, respectively.

The Bank has a non-contributory, defined benefit pension plan for full-time employees over twenty-one years of age. Benefits are generally based upon years of service and average compensation for the five highest-paid consecutive years of service. The Bank funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act. Information about the plan follows:

	Year Ended December 31, 1998	1997
Change in Benefit Obligation		
Benefit obligation, beginning	$1,314,383	$1,014,681
Service cost	141,160	125,797
Interest cost	98,446	75,968
Actuarial loss	98,633	111,842
Benefits paid	(76,170)	(13,905)
Benefit obligation, ending	$1,576,452	$1,314,383
Change in Plan Assets		
Fair value of plan assets, beginning	$1,361,274	$1,042,093
Actuarial return on plan assets	(5,523)	246,549
Employer contributions	277,539	86,537
Benefits paid	(76,170)	(13,905)
Fair value of plan assets, ending	$1,557,120	$1,361,274
Funded status	$ (19,332)	$ 46,891
Unrecognized net actual gain	(157,740)	(396,657)
Unrecognized net obligation at transition	(70,373)	(75,786)
Unrecognized prior service cost	43,463	46,567
Accrued benefit cost included in other liabilities	$ (203,982)	$ (378,985)

	Year Ended December 31, 1998	1997	1996
Components of Net Periodic Benefit Cost			
Service cost	$ 141,160	$ 125,797	$ 99,057
Interest cost	98,446	75,968	72,880
Expected return on plan assets	(122,355)	(93,629)	(87,149)
Amortization of prior service cost	3,104	3,104	3,104
Amortization of net obligation at transition	(5,413)	(5,413)	(5,413)
Recognized net actuarial gain	(12,406)	(12,569)	(13,493)
Net periodic benefit cost	$ 102,536	$ 93,258	$ 68,986
Weighted-Average Assumptions as of December 31			
Discount rate	7.5%	7.5%	8.5%
Expected return on plan assets	9.0	9.0	9.0
Rate of compensation increase	4.0	4.0	6.0

NOTE 11: RELATED PARTY TRANSACTIONS

Loans to directors and officers totaled $1,070,000 and $1,506,000 at December 31, 1998 and 1997, respectively. New advances to directors and officers totaled $311,000 and repayments totaled $747,000 in the year ended December 31, 1998.

NOTE 12: STOCK OPTIONS

Under the Incentive Stock Option Plan ("the Plan"), options to purchase common stock are granted to certain key employees of the Corporation. Options are issued to employees at a price equal to the fair market value of common stock at the date granted. One-third of the options granted become exercisable commencing one year after the grant date with an additional one-third becoming exercisable after each of the following two years. In 1983, the shareholders authorized 50,000 shares of common stock for issuance under the Plan. An additional 100,000 shares were authorized for the Plan in 1994. All options expire ten years from the grant date.

In 1998, the Board of Directors authorized 25,000 shares of common stock for issuance under the Non-Employee Director Stock Option Plan. Under this plan, options to purchase common stock are granted to non-employee directors of the Bank. Options are issued to non-employee directors at a price equal to the fair market value of common stock at the date granted. The options granted are exercisable one year after grant. All options expire ten years from the grant date.

The Corporation applies APB Opinion 25 and related Interpretations in accounting for the stock option plans. Accordingly, no compensation cost has been recognized for its plans. Had compensation cost for the plans been determined based on the fair value at the grant dates of options consistent with FASB Statement 123, the Corporation's net income and earnings per share would not have been materially different from those amounts shown on the statements of income for the years ended December 31, 1998, 1997, and 1996.

The fair value of each option granted during the years ended December 31, 1998, 1997, and 1996, was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for 1998, 1997, and 1996, respectively: risk-free rate of 4.5, 5.6, and 6.2% and volatility of 30, 20, and 15%. The dividend yield used in the pricing model was 2.6, 3.0, and 3.0% for 1998, 1997, and 1996, respectively. The expected lives used was eight years for 1998, 1997, and 1996.

Transactions under the Plan for the periods indicated, restated to reflect the effect of a two-for-one stock split in July 1998, were as follows:

	1998		1997		1996	
	Shares	Exercise Price*	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	164,936	$ 9.94	148,100	$ 9.19	124,800	$ 8.95
Granted	42,900	18.77	33,700	12.50	28,500	9.38
Exercised	(34,508)	9.05	(15,664)	7.53	(4,200)	3.07
Canceled	(3,468)	9.69	(1,200)	9.13	(1,000)	10.25
Outstanding at end of year	169,860	$ 12.36	164,936	$ 9.94	148,100	$ 9.19
*Weighted average						
Options exercisable at year-end	97,304		105,380		95,366	
Weighted-average fair value of options granted during the year	$ 5.81		$ 2.94		$ 2.10	

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 1998	Remaining Contractual Life	Exercise Price*	Number Exercisable at December 31, 1998	Exercise Price*
$8.38 to 10.63	97,460	5.6 years	$ 9.49	87,568	$ 9.51
$12.50 to 18.63	72,400	9.6 years	16.21	9,736	12.50
$8.38 to 18.63	169,860	7.3 years	$ 12.36	97,304	$ 9.81

***WEIGHTED AVERAGE**

NOTE 13: REGULATORY REQUIREMENTS AND RESTRICTIONS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the Corporation's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and the Bank's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined) less goodwill. For both the Corporation and the Bank, Tier I capital consists of shareholders' equity excluding any net unrealized gain (loss) on securities available for sale less goodwill, and total capital consists of Tier I capital and a portion of the allowance for loan losses. Risk-weighted assets for the Corporation and the Bank were $278,514,000 and $273,132,000, respectively, at December 31, 1998, and $207,698,000 and $203,065,000, respectively, at December 31, 1997. Management believes, as of December 31, 1998, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 1998, the most recent notification from the Federal Reserve Bank and the FDIC categorized the Corporation and the Bank, respectively, as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation and the Bank must maintain total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

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

(Dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
AS OF DECEMBER 31, 1998:						
Total Capital (to Risk-Weighted Assets)						
Corporation	$ 37,350	13.4%	$ 22,281	>= 8.0%	N/A	
Bank	31,781	11.6	21,851	>= 8.0	$ 27,313	>=10.0%
Tier I Capital (to Risk-Weighted Assets)						
Corporation	34,440	12.5	11,141	>= 4.0	N/A	
Bank	29,021	10.6	10,925	>= 4.0	16,388	>= 6.0
Tier I Capital (to Average Assets)						
Corporation	34,440	11.5	9,001	>= 3.0	N/A	
Bank	29,021	9.9	8,832	>= 3.0	14,720	>= 5.0
AS OF DECEMBER 31, 1997:						
Total Capital (to Risk-Weighted Assets)						
Corporation	$ 31,587	15.2%	$ 16,616	>= 8.0%	N/A	
Bank	26,916	13.3	16,245	>= 8.0	$ 20,307	>=10.0%
Tier I Capital (to Risk-Weighted Assets)						
Corporation	29,353	14.1	8,308	>= 4.0	N/A	
Bank	24,681	12.2	8,123	>= 4.0	12,184	>= 6.0
Tier I Capital (to Average Assets)						
Corporation	29,353	11.4	7,741	>= 3.0	N/A	
Bank	24,681	9.7	7,601	>= 3.0	12,668	>= 5.0

NOTE 14: COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The total contract amount of standby letters of credit, whose contract amounts represent credit risk, was $4,240,000 and $3,211,000 at December 31, 1998 and 1997, respectively.

Loan commitments are agreements to extend credit to a customer provided that there are no violations of the terms of the contract prior to funding. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The total amount of loan commitments was $29,043,000 and $23,110,000 at December 31, 1998 and 1997, respectively.

Commitments to sell loans are designed to eliminate the Mortgage Corporation's exposure to fluctuations in interest rates in connection with loans held for sale. The Mortgage Corporation sells all of the residential mortgage loans it originates to third-party investors, some of whom require the repurchase of loans in the event of early default or faulty documentation. Mortgage loans and their related servicing rights are sold under agreements that define certain eligibility criteria for the mortgage loan. Recourse periods vary from ninety days up to one year and conditions for repurchase vary with the investor. Mortgages subject to recourse are collateralized by single-family residences, have loan-to-value ratios of 80% or less, or have private mortgage insurance, or are insured or guaranteed by an agency of the U.S. government.

At December 31, 1998, the Mortgage Corporation had locked-rate commitments to originate mortgage loans amounting to approximately $32,104,000. The Mortgage Corporation has entered into mandatory commitments, on a best-effort basis, to sell loans of approximately $99,097,000. Risks arise from the possible inability of counterparties to meet the terms of their purchase contracts. The Mortgage Corporation does not expect any counterparty to fail to meet its obligations.

The Corporation is conducting a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 issue, and is developing a remediation plan to resolve the issue. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Corporation is heavily dependent on computer processing in the conduct of its business activities. Failure of these systems could have a significant impact on the Corporation's operations. Based on the review of the computer systems, management does not believe the cost of remediation will be material to the Corporation's financial statements.

As of December 31, 1998, the Corporation had $4,528,000 in deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

The Mortgage Corporation is committed under noncancelable operating leases for certain office locations. Rent expense associated with these operating leases was $297,000 and $244,000 for the years ending December 31, 1998 and 1997, respectively.

Future minimum lease payments under these leases are as follows:

Year Ending December 31,

1999	$	293,134
2000		169,961
2001		143,264
2002		147,562
2003		151,989
	$	905,910

NOTE 15: DISCLOSURES CONCERNING THE FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies. Loan commitments are conditional and subject to market pricing and, therefore, do not reflect a gain or loss of market value. The fair value of standby letters of credit is based on fees currently charged for similar agreements or on estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

Loans. The estimate of the fair value of the loan portfolio is estimated based on present values using applicable spreads to the U.S. Treasury curve.

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

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

(Dollars in thousands)	December 31, 1998 Carrying Amount	1998 Estimated Fair Value	1997 Carrying Amount	1997 Estimated Fair Value
Financial assets:				
Cash and short-term investments	$ 8,473	$ 8,473	$ 8,871	$ 8,871
Investment securities	60,699	62,753	75,720	77,479
Net loans	169,918	172,830	154,745	154,769
Loans held for sale, net	66,993	68,098	24,479	24,807
Financial liabilities:				
Demand deposits	142,539	142,512	130,401	130,494
Time deposits	109,134	109,714	101,113	101,275
Borrowings	24,661	24,658	9,336	9,336
Off-balance-sheet items:				
Letters of credit	--	4,240	--	3,211
Unused portions of lines of credit	--	29,043	--	23,110

NOTE 16: BUSINESS SEGMENTS

The Company operates in a decentralized fashion in two principal business activities, retail banking and mortgage banking. Revenues from retail banking operations consist primarily of interest earned on loans and investment securities. Mortgage banking operating revenues consist mainly of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income. The Company also has an investment company and a title company subsidiary which derive revenues from brokerage and title insurance services. The results of these subsidiaries are not significant to the Corporation as a whole and have been included in "Other." The following table presents segment information for the year ended December 31, 1998.

	Year Ended December 31, 1998 Retail Banking	Mortgage Banking	Other	Eliminations	Consolidated
Revenues:					
Interest income	$ 22,195	$ 2,805	$ --	$ (2,382)	$ 22,618
Gain on sale of loans	--	7,129	--		7,129
Other	1,721	1,458	701	--	3,880
Total operating income	23,916	11,392	701	(2,382)	33,627
Expenses:					
Interest expense	9,558	2,382	--	(2,382)	9,558
Salaries and employee benefits	4,587	3,441	258	--	8,286
Other	4,395	2,777	124	--	7,296
Total operating expenses	18,540	8,600	382	(2,382)	25,140
Income before income taxes	5,376	2,792	319	--	8,487
Total assets	316,584	66,366	26	(62,112)	320,864
Capital expenditures	$ 775	$ 104	$ --	$ --	$ 879

	Year Ended December 31, 1997				
	Retail Banking	Mortgage Banking	Other	Eliminations	Consolidated
Revenues:					
Interest income	$ 19,635	$ 1,184	$ --	$ (1,056)	$ 19,763
Gain on sale of loans	--	4,057	--		4,057
Other	1,578	621	402	--	2,601
Total operating income	21,213	5,862	402	(1,056)	26,421
Expenses:					
Interest expense	8,002	1,056	--	(1,056)	8,002
Salaries and employee benefits	3,949	2,203	180	--	6,332
Other	3,786	1,691	59	--	5,536
Total operating expenses	15,737	4,950	239	(1,056)	19,870
Income before income taxes	5,476	912	163	--	6,551
Total assets	275,618	24,348	10	(21,870)	278,106
Capital expenditures	$ 1,402	$ 216	$ --	$ --	$ 1,618

	Year Ended December 31, 1996				
	Retail Banking	Mortgage Banking	Other	Eliminations	Consolidated
Revenues:					
Interest income	$ 18,195	$ 758	$ --	$ (620)	$ 18,333
Gain on sale of loans	--	2,688	--		2,688
Other	1,374	423	194	--	1,991
Total operating income	19,569	3,869	194	(620)	23,012
Expenses:					
Interest expense	7,668	620	--	(620)	7,668
Salaries and employee benefits	3,590	2,262	121	--	5,973
Other	3,175	1,164	12	--	4,351
Total operating expenses	14,433	4,046	133	(620)	17,992
Income before income taxes	5,136	(177)	61	--	5,020
Total assets	256,260	11,742	5	(11,336)	256,671
Capital expenditures	$ 828	$ 133	$ --	$ --	$ 961

The retail banking segment provides the mortgage banking segment with the funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest at the daily FHLB advance rate plus 50 basis points. 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 and other segments.

NOTE 17: PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Financial information for the parent company is as follows:

Balance Sheet	December 31, 1998	1997
Assets		
Cash	$ 51,822	$ 112,456
Investment securities available for sale	5,103,710	4,295,669
Other assets	603,561	613,874
Investments in subsidiary	31,007,732	26,935,994
Total assets	$ 36,766,825	$31,957,993
Liabilities and shareholders' equity		
Other liabilities	$ 119,332	$ 157,460
Shareholders' equity	36,647,493	31,800,533
Total liabilities and shareholders' equity	$ 36,766,825	$31,957,993

Statement of Income	Year Ended December 31, 1998	1997	1996
Interest income on investment securities	$ 308,804	$ 295,477	$ 319,001
Interest income on loans	41,910	21,573	--
Dividends received from bank subsidiary	1,839,119	5,420,044	3,591,698
Distributions in excess of equity in net income of subsidiary	--	(672,045)	--
Equity in undistributed net income of subsidiary	4,064,679	--	195,640
Other expenses	(120,476)	(128,222)	(45,165)
Net income	$6,134,036	$ 4,936,827	$4,061,174

Statement of Cash Flows	Year Ended December 31, 1998	1997	1996
Operating activities:			
Net income	$6,134,036	$4,936,827	$4,061,174
Adjustments to reconcile net income to net cash provided by operating activities:			
Distributions in excess of equity in net income of subsidiary	--	672,045	--
Equity in undistributed earnings of subsidiary	(4,064,679)	--	(195,640)
(Increase) decrease in other assets	10,314	(494,174)	314,912
Increase (decrease) in other liabilities	(52,417)	31,767	(294,040)
Net cash provided by operating activities	2,027,254	5,146,465	3,886,406
Investing activities:			
Sale of investments	949,743	2,083,893	282,500
Purchase of investments	(1,715,752)	(1,557,413)	(739,536)
Net cash provided by (used in) investing activities	(766,009)	526,480	(457,036)
Financing activities:			
Repurchase of common stock	--	(4,331,201)	(2,126,503)
Dividends paid	(1,699,119)	(1,369,788)	(1,365,187)
Proceeds from the issuance of stock	377,240	125,524	12,885
Net cash used in financing activities	(1,321,879)	(5,575,465)	(3,478,805)
Net increase (decrease) in cash and cash equivalents	(60,634)	97,480	(49,435)
Cash at beginning of year	112,456	14,976	64,411
Cash at end of year	$ 51,822	$ 112,456	$ 14,976

NOTE 18: QUARTERLY CONDENSED STATEMENTS OF INCOME - UNAUDITED

	1998 QUARTER ENDED			
IN THOUSANDS (EXCEPT PER SHARE)	March 31	June 30	September 30	December 31
Total interest income	$ 5,314	$ 5,865	$ 5,756	$ 5,683
Net interest income after provision for loan losses	3,050	3,144	3,073	3,192
Other income	2,139	2,841	3,125	2,905
Other expenses	3,236	3,772	3,838	4,136
Income before income taxes	1,953	2,213	2,360	1,961
Net income	1,435	1,617	1,673	1,409
Earnings per common share--assuming dilution	$ .37	$ .41	$ .43	$ .36
Dividends per common share	.10	.11	.11	.12

	1997 QUARTER ENDED			
IN THOUSANDS (EXCEPT PER SHARE)	March 31	June 30	September 30	December 31
Total interest income	$ 4,750	$ 4,844	$ 5,013	$ 5,156
Net interest income after provision for loan losses	2,842	2,784	2,888	2,917
Other income	1,145	1,420	1,979	2,114
Other expenses	2,504	2,636	3,049	3,349
Income before income taxes	1,483	1,568	1,818	1,682
Net income	1,174	1,223	1,334	1,206
Earnings per common share--assuming dilution	$ .28	$ .32	$ .35	$ .32
Dividends per common share	.08	.09	.09	.09

INDEPENDENT AUDITOR'S REPORT

[LOGO OF YOUNT, HYDE & BARBOUR, P.C. APPEARS HERE]

The Board of Directors and Shareholders
C&F Financial Corporation

We have audited the accompanying consolidated balance sheets of C&F Financial Corporation and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of C&F Financial Corporation and subsidiary for the year ended December 31, 1996 were audited by other auditors whose report, dated January 15, 1997, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of C&F Financial Corporation and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years ended December 31, 1998 and 1997, in conformity with generally accepted accounting principles.

/s/ Yount, Hyde & Barbour, P.C.
January 15, 1999
Winchester, Virginia

Investor Information

Annual Meeting of Shareholders
The annual meeting of shareholders of C&F Financial Corporation will be held at 3:30 p.m. on Tuesday, April 20, 1999, at the van den Boogaard Center, 3510 King William Avenue, West Point, Virginia. All shareholders are cordially invited to attend.

Stock Price Information
Effective January 22, 1998, the Corporation's common stock is traded on the over-the-counter market and is listed for quotation on the Nasdaq National Market System under the symbol "CFFI." Prior to this date the Corporation's common stock appeared on the Nasdaq Bulletin Board Listing. As of February 22, 1999, there were approximately 1,100 shareholders of record. Following are the high and low closing prices in 1998 and 1997. The 1997 information was obtained from the Nasdaq Bulletin Board Listing. Over-the-counter market quotations reflected inter dealer prices, without retail mark up, mark down, or commission, and may not necessarily represent actual transactions. All quotations have been restated to reflect the effect of a two-for-one stock split in July 1998.

	1998		1997	
Quarter	High	Low	High	Low
First	$ 20.20	$ 13.50	$ 10.63	$ 8.75
Second	22.00	20.25	10.75	10.00
Third	22.50	19.00	11.25	10.38
Fourth	20.00	18.25	13.25	10.50

Stock Transfer Agent
American Stock Transfer & Trust Company serves as transfer agent for the Corporation. You may write them at 40 Wall Street, New York, NY 10005, or telephone them toll-free at 1-800-937-5449.

Annual Report On Form 10-K And Additional Information A copy of Form 10-K as filed with the Securities and Exchange Commission is available without charge to stockholders upon written request. Requests for this or other financial information about C&F Financial Corporation should be directed to:

Tom Cherry
Senior Vice President and Chief Financial Officer C&F Financial Corporation
P.O. Box 391
West Point, VA 23181

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Senior Vice President, Secretary &
General Counsel
Chesapeake Corporation

Larry G. Dillon*+
Chairman, President & CEO
C&F Financial Corporation
Citizens and Farmers Bank

P. L. Harrell+
President
Old Dominion Grain, Inc.

James H. Hudson III*+
Attorney-at-Law
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Colonial Acres Farm

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The College of William and Mary

STURE G. OLSSON*+
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Chesapeake Corporation

PAUL C. ROBINSON+
Owner & President
Francisco, Robinson & Associates, Realtors

THOMAS B. WHITMORE JR.+
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+ Citizens and Farmers Bank Board Member

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Owner & President
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Eric F. Nost
Vice President

Brad E. Schwartz
Treasurer

Gari B. Sullivan
Secretary

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Engineering Design Associates

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Dudley M. Patteson
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Brad E. Schwartz *
Senior Vice President & Chief Operating Officer

Gari B. Sullivan *
Senior Vice President & Secretary

Howard P. Wilkinson Jr.
Senior Vice President & Chief Lending Officer

Leslie A. Campbell
Vice President, Loan Administration

Sandra S. Fryer
Vice President, Operations

Deborah R. Nichols
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C&F Mortgage Corporation
ADMINISTRATIVE OFFICE
300 Arboretum Place, Suite 245
Richmond, Virginia 23236
(804) 330-8300

Bryan E. McKernon
PRESIDENT & CHIEF EXECUTIVE OFFICER

Mark A. Fox
EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

Michael J. Mazzola
SENIOR VICE PRESIDENT & MARYLAND AREA MANAGER

Theresa M. Dougherty
VICE PRESIDENT & SENIOR UNDERWRITER

Donna G. Jarratt
VICE PRESIDENT & PROJECT MANAGER

ANNAPOLIS, MARYLAND
Larry Roussil
VICE PRESIDENT & BRANCH MANAGER
2191 Defense Highway, Suite 200
Crofton, Maryland 21114
(410) 721-6770

CHARLOTTESVILLE
Philip N. Mahone
VICE PRESIDENT & BRANCH MANAGER

William E. Hamrick
VICE PRESIDENT & BRANCH MANAGER
114 Whitewood Road, Suite 2
Charlottesville, Virginia 22901
(804) 974-1450

CHESTER
Stephen L. Fuller
VICE PRESIDENT & BRANCH MANAGER
4517 West Hundred Road
Chester, Virginia 23831
(804) 748-2900

COLUMBIA, MARYLAND
Scott B. Segrist
VICE PRESIDENT & BRANCH MANAGER
8492 Baltimore National Pike, Suite 207
Ellicott City, Maryland 21043
(410) 461-6233

NEWPORT NEWS
Linda H. Gaskins
VICE PRESIDENT & BRANCH MANAGER
703 Thimble Shoals Boulevard, Suite C4
Newport News, Virginia 23606
(757) 873-8200

RICHMOND
Thomas A. Gill
VICE PRESIDENT & BRANCH MANAGER

Donald R. Jordan
VICE PRESIDENT & RICHMOND PRODUCTION MANAGER
300 Arboretum Place, Suite 245
Richmond, Virginia 23236
(804) 330-8300

RICHMOND WEST
Page C. Yonce
VICE PRESIDENT & BRANCH MANAGER
7231 Forest Avenue, Suite 202
Richmond, Virginia 23226
(804) 673-3453

WILLIAMSBURG
Irving E. "Ed" Jenkins
VICE PRESIDENT & BRANCH MANAGER
Delena A. Icard

VICE PRESIDENT & SENIOR LOAN OFFICER
3279 Lake Powell Road
Williamsburg, Virginia 23185
(757) 259-1200

C&F Title Agency, Inc.
Eileen A.Cherry
Vice President & Title Insurance Underwriter 300 Arboretum Place, Suite 245
Richmond, Virginia 23236
(804) 327-3810

C&F Investment Services, Inc.
Eric F. Nost
VICE PRESIDENT & MANAGER
417 Fourteenth Street
West Point, Virginia 23181
(804) 843-4584
(800) 853-3863

Douglas L. Hartz
ASSISTANT VICE PRESIDENT
2580 New Kent Highway
Quinton, Virginia 23141
(804) 932-4383

on the Cover:
upper left
C&F Financial Corporation Headquarters, West Point, Virginia. upper right
Overlooking the Mattaponi River in West Point, Virginia. middle left
Colonial Downs race track in New Kent County, Virginia. Citizens & Farmers Bank has two offices in this growing county. Photograph by Jeff Coady, Full Stride Productions, Texas. middle right
Citizens & Farmers Bank is one of the sponsors of the annual Crab Carnival held in October. Photograph by Teresa S. Bohannon.

lower left
The Governor's Palace located in Williamsburg, Virginia. Citizens & Farmers has two offices in the Williamsburg area with another on the way. Photograph by Robert Llewellyn. lower right
C&F Mortgage Corporation has offices in Annapolis and Columbia, Maryland.

agency
Fleshman Associates
creative director
Anne Matthews
design & production
Anne Matthews
text copywriter
Charlie Feigenoff
photography
Jackson Smith
printing
T&N Printing

[C&F LOGO APPEARS HERE]

C&F Financial Corporation
802 Main Street
PO Box 391
West Point, Virginia 23181
(804) 843-2360
www.cffc.com

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-88624, No. 333-67535 and No. 333-63699) and Form S-3 (No. 333-60877) and in the related Prospectuses, of our report, dated January 15, 1999, relating to the consolidated financial statements of C&F Financial Corporation and subsidiary, included in the 1998 Annual Report of Shareholders and incorporated by reference in the Annual Report on Form 10-K for the years ended December 31, 1998 and 1997.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 3, 1999

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-88624, No. 333-67535 and No. 333-63699) and Form S-3 (No. 333-60877) and in the related Prospectuses, of our report, dated January 17, 1997, relating to the consolidated financial statements of C&F Financial Corporation and subsidiary, incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1996.

/s/DELOITTE & TOUCHE LLP

Richmond, Virginia
March 5, 1999

ARTICLE 9

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
CASH	8,140
INT BEARING DEPOSITS	333
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	21,888
INVESTMENTS CARRYING	38,810
INVESTMENTS MARKET	40,865
LOANS	172,679
ALLOWANCE	2,760
TOTAL ASSETS	320,864
DEPOSITS	251,673
SHORT TERM	14,661
LIABILITIES OTHER	7,284
LONG TERM	10,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	3,867
OTHER SE	0
TOTAL LIABILITIES AND EQUITY	320,864
INTEREST LOAN	17,790
INTEREST INVEST	4,828
INTEREST OTHER	0
INTEREST TOTAL	22,618
INTEREST DEPOSIT	8,189
INTEREST EXPENSE	9,558
INTEREST INCOME NET	13,059
LOAN LOSSES	600
SECURITIES GAINS	0
EXPENSE OTHER	14,982
INCOME PRETAX	8,487
INCOME PRE EXTRAORDINARY	8,487
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,134
EPS PRIMARY	1.59
EPS DILUTED	1.56
YIELD ACTUAL	8.39
LOANS NON	463
LOANS PAST	958
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	2,234
CHARGE OFFS	99
RECOVERIES	25
ALLOWANCE CLOSE	2,760
ALLOWANCE DOMESTIC	2,760
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	0

[LOGO]

C&F Financial Corporation Eighth and Main Streets P.O. Box 391 West Point, Virginia 23181

Dear Fellow Shareholders:

You are cordially invited to attend the 1999 Annual Meeting of Shareholders of C&F Financial Corporation, the holding company for Citizens and Farmers Bank. The meeting will be held on Tuesday, April 20, 1999, at 3:30 p.m. at the Father van den Boogaard Center, 3510 King William Avenue, West Point, Virginia. The accompanying Notice and Proxy Statement describe the matters to be presented at the meeting. Enclosed is our Annual Report to Shareholders that will be reviewed at the Annual Meeting.

PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE. Whether or not you will be able to attend the Annual Meeting, it is important that your shares be represented and your vote recorded. The proxy may be revoked at any time before it is voted at the Annual Meeting.

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

Sincerely,

/s/ LARRY G. DILLON

Larry G. Dillon
PRESIDENT & CHIEF EXECUTIVE OFFICER

West Point, Virginia
March 15, 1999

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C&F FINANCIAL CORPORATION
Eighth and Main Streets
P.O. Box 391
West Point, Virginia 23181

NOTICE OF 1999 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 20, 1999

The 1999 Annual Meeting of Shareholders of C&F Financial Corporation (the "Company") will be held at the Father van den Boogaard Center, 3510 King William Avenue, West Point, Virginia, on Tuesday, April 20, 1999, at 3:30 p.m. for the following purposes:

1. To elect two Class III directors to the board of Directors of the Company to serve until the 2002 Annual Meeting of Shareholders, as described in the Proxy Statement accompanying this notice.

2. To approve the Company's Amended and Restated 1998 Non-Employee Director Stock Compensation Plan, the material terms of which are described in the Proxy Statement accompanying this notice.

3. To ratify the Board of Directors' appointment of Yount, Hyde & Barbour, P.C., as the Company's independent public accountants for 1999.

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on February 22, 1999, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors

/s/ Gari B. Sullivan

Gari B. Sullivan
SECRETARY

March 15, 1999

IMPORTANT NOTICE

PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE PAID ENVELOPE SO THAT YOUR SHARES WILL BE REPRESENTED AT THE MEETING. SHAREHOLDERS ATTENDING THE MEETING MAY PERSONALLY VOTE ON ALL MATTERS WHICH ARE CONSIDERED, IN WHICH EVENT THE SIGNED PROXIES ARE REVOKED.

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C&F FINANCIAL CORPORATION
EIGHTH AND MAIN STREETS
P.O. BOX 391
WEST POINT, VIRGINIA 23181

PROXY STATEMENT
1999 ANNUAL MEETING OF SHAREHOLDERS
APRIL 20, 1999

GENERAL

The following information is furnished in connection with the solicitation by and on behalf of the Board of Directors of the enclosed proxy to be used at the 1999 Annual Meeting of the Shareholders (the "Annual Meeting") of C&F Financial Corporation (the "Company") to be held Tuesday, April 20, 1999, at 3:30 p.m. at the Father van den Boogaard Center, 3510 King William Avenue, West Point, Virginia. The approximate mailing date of this Proxy Statement and accompanying proxy is March 15, 1999.

REVOCATION AND VOTING OF PROXIES

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any properly adjourned session of the Annual Meeting. If a shareholder specifies how the proxy is to be voted with respect to any proposals for which a choice is provided, the proxy will be voted in accordance with such specifications. If a shareholder fails to specify with respect to such proposals, the proxy will be voted FOR proposals 1, 2 and 3, as set forth in the accompanying notice and further described herein.

VOTING RIGHTS OF SHAREHOLDERS

Only those shareholders of record at the close of business on February 22, 1999 are entitled to notice of and to vote at the Annual Meeting, or any adjournments thereof. The number of shares of common stock of the Company outstanding and entitled to vote at the Annual Meeting is 3,866,888. The Company has no other class of stock outstanding. A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Each share of Company common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

With regard to the election of directors, votes may be cast in favor or withheld. If a quorum is present, the nominees receiving a plurality of the votes cast at the Annual Meeting will be elected directors; therefore, votes withheld will have no effect. The approval of the Company's Amended and Restated 1998 Non-Employee Director Stock Compensation Plan and the ratification of Yount, Hyde & Barbour, P.C. as the Company's independent public accountants require the affirmative vote of a majority of the shares cast on the matter. Thus, although abstentions and broker non-votes (shares held by customers which may not be voted on certain matters because the broker has not received specific instructions from the customers) are counted for purposes of determining the presence or absence of a quorum for the transaction of business, they are generally not counted for purposes of determining whether such proposals have been approved and therefore have no effect.

SOLICITATIONS OF PROXIES

The cost of solicitation of proxies will be borne by the Company. Solicitations will be made only by the use of the mail, except that officers and regular employees of the Company and Citizens and Farmers Bank (the "Bank") may make solicitations of proxies by telephone, telegram, special letter, or by special call, acting without compensation other than regular compensation. It is contemplated that brokerage houses and other nominees, custodians, and fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of the stock held of record by such persons, and the Company will reimburse them for their charges and expenses in this connection.

PRINCIPAL HOLDERS OF CAPITAL STOCK

The following table shows the share ownership as of February 22, 1999, of the shareholders known to the Company to be the beneficial owners of more than 5% of the Company's common stock, par value $1.00 per share, which are the only voting securities outstanding.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENT OF CLASS
Sture G. Olsson P.O. Box 311 West Point, VA 23181	285,648(2)	7.4%

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provision of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within sixty days.

(2) Includes 269,072 shares held in a trust of which Crestar Bank and Mr. Olsson are co-trustees.

As of February 22, 1999, the directors and executive officers of the Company and its subsidiary Bank beneficially owned as a group 501,783 shares (or approximately 12.9%) of Company common stock (including shares for which they hold presently exercisable stock options).

PROPOSAL ONE
ELECTION OF DIRECTORS

The Company's Board is divided into three classes (I, II, and III) of directors. The term of office for Class III directors will expire at the Annual Meeting. Two persons named below, each of whom currently serves as a director of the Company, will be nominated to serve as Class III directors. If elected, the Class III nominees will serve until the 2002 Annual Meeting of Shareholders. The persons named in the proxy will vote for the election of the nominees named below unless authority is withheld. The Company's Board believes that the nominees will be available and able to serve as directors, but if any of these persons should not be available or able to serve, the proxies may exercise discretionary authority to vote for a substitute proposed by the Company's Board.

Certain information concerning the nominees for election at the Annual Meeting as Class III directors is set forth below, as well as certain information about the other Class I and II directors, who will continue in office until the 2000 and 2001 Annual Meeting of Shareholders, respectively.

NAME (AGE)	SERVED SINCE(1)	PRINCIPAL OCCUPATION DURING PAST FIVE YEARS	NUMBER OF SHARES BENEFICIALLY OWNED AS OF FEBRUARY 22, 1999 (PERCENT OF CLASS)(2)
CLASS I DIRECTORS	(SERVING UNTIL THE 2000 ANNUAL MEETING)		
Larry G. Dillon (45)	1989	Chairman, President and Chief Executive Officer of the Company and the Bank	44,336(3) (1.1%)
James H. Hudson III (50)	1997	Attorney-at-Law Hudson & Bondurant, P.C.	1,893 *
CLASS II DIRECTORS	(SERVING UNTIL THE 2001 ANNUAL MEETING)		
Sture G. Olsson (78)	1952	Retired; previously Chairman of the Board, Chesapeake Corporation	285,648(4) (7.4%)
CLASS III DIRECTORS (NOMINEES) (SERVING UNTIL THE 2002 ANNUAL MEETING)			
J. P. Causey Jr. (55)	1984	Senior Vice President, Secretary & General Counsel of Chesapeake Corporation	34,788 *
William E. O'Connell Jr. (61)	1994	Chessie Professor of Business, The College of William and Mary	2,000 *
All Directors and Executive Officers as a group (14 persons)			501,783 (12.9%)

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

(1) Refers to the year in which the director was first elected to the Board of Directors of the Bank.
(2) See footnote 1 of table above "Principal Holders of Capital Stock" for description of how beneficial ownership has been determined for purposes of this table.
(3) Includes16,602 shares as to which Mr. Dillon holds presently exercisable options. A description of such options is set forth below in greater detail in "Employee Benefit Plans - Incentive Stock Option Plan".
(4) Includes shares held by affiliated corporations, close relatives, children, and shares held jointly with spouses or as custodians or trustees for children, as follows: Mr. Olsson, see discussion above under "Principal Holders of Capital Stock".

The Board of Directors of the Bank consists of the five members of the Company's Board listed above as well as P. L. Harrell, Joshua H. Lawson, Bryan E. McKernon, Reginald H. Nelson IV, Paul C. Robinson, and Thomas B. Whitmore Jr.

The Board of Directors is not aware of any family relationship between any director or person nominated by the Company to become director; nor is the Board of Directors aware of any involvement in legal proceedings which are material to any impairment of the ability or integrity of any director or person nominated to become a director. UNLESS AUTHORITY FOR THE NOMINEES IS WITHHELD, THE SHARES REPRESENTED BY THE ENCLOSED PROXY CARD, IF EXECUTED AND RETURNED, WILL BE VOTED FOR THE ELECTION OF THE NOMINEES PROPOSED BY THE BOARD OF DIRECTORS.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE DIRECTORS NOMINATED TO SERVE AS CLASS III DIRECTORS.

BOARD COMMITTEES AND ATTENDANCE

During 1998, there were nine meetings of the Board of Directors of the Company and thirteen meetings of the Board of Directors of the Bank. With the exception of Mr. Olsson, each director attended at least 75% of all meetings of the boards and committees on which he served. The Board of Directors of the Company has a Capital Plan and Nominating Committee and the Board of Directors of the Bank has Executive, Compensation and Audit Committees.

Members of the Capital Plan Committee are Messrs. Causey, Dillon, Hudson, and O'Connell. The Capital Plan Committee reviews capital related matters and submits proposals or recommendations to the Board of Directors. The Capital Plan Committee did not meet during 1998.

Members of the Nominating Committee are Messrs. Causey, Dillon, Hudson, and O'Connell. The Nominating Committee reviews, on an as-needed basis, the qualifications of candidates for membership to the Board. The Nominating Committee met three times during 1998.

Members of the Executive Committee are Messrs. Causey, Dillon, Hudson, O'Connell, and Olsson. The Executive Committee reviews various matters and submits proposals or recommendations to the Board of Directors. The Executive Committee met twice during 1998.

Members of the Compensation Committee are Messrs. Causey, Harrell, Hudson, and Whitmore. The Compensation Committee recommends the level of compensation of each officer of the Bank, the granting of stock options and other employee remuneration plans to the Board of Directors. The Compensation Committee met three times during 1998.

Members of the Audit Committee are Messrs. Causey, Lawson, and Robinson. The Audit Committee reviews and approves various audit functions including the year-end audit performed by the Company's independent public accountants. The Audit Committee met four times during 1998.

DIRECTORS' COMPENSATION

Each of the directors of the Company is also a director of the Bank. Non-employee members of the Board of Directors of the Bank receive an annual retainer of $2,500, payable quarterly, with a base meeting fee of $300 per day for Company or Bank meetings and a fee of $100 for each secondary meeting of the Company, Bank, or any committees thereof held on the same day as a meeting for which the base meeting fee is paid.

The Board of Directors of the Company has approved the Amended and Restated 1998 Non-Employee Directors Stock Compensation Plan subject to shareholder approval. See "Approval of Amended and Restated 1998 Non-Employee Director Stock Compensation Plan".

INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

As of December 31, 1998, the total maximum extensions of credit (including used and unused lines of credit) to policy-making officers, directors, principal shareholders and their associates amounted to $3,604,920, or 9.8%, of total year-end capital. The maximum aggregate amount of such indebtedness during 1998 was $1,786,355, or 4.8%, of total year-end capital. These loans were made in the ordinary course of the Bank's business, on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and do not involve more than the normal risks of collectibility or present other unfavorable features. The Bank expects to have in the future similar banking transactions with officers, directors, principal shareholders and their associates.

The firm of Thrift Insurance Corporation serves as the local agent for the Fidelity and Deposit Company of Maryland. Mr. Lawson, a director of the Bank, is the majority owner of Thrift Insurance Corporation. The

Bank maintains its various insurance policies including its blanket bond coverage, directors and officers liability coverage, and building and equipment coverage through Fidelity and Deposit Company of Maryland. All premiums are negotiated directly with representatives of Fidelity and Deposit Company of Maryland. During 1998, the Bank paid premiums totaling $202,919 to Thrift Insurance Corporation, as agent, for the insurance coverage maintained by the Bank ($75,061 of which represents an annualized portion of a three-year prepaid premium).

During 1998, the Company and the Bank and its subsidiaries utilized the legal services of the law firm of Hudson and Bondurant, P.C., of which James H. Hudson, III is a partner. The amount of fees paid to Hudson and Bondurant, P.C. did not exceed 5% of the firm's gross revenue.

The board of directors of the Company recently approved the repurchase of up to 250,000 shares of Company common stock in blocks of 10,000 shares or higher at a price of $20.00 per share or less. The Company believes it has agreements to buy 235,000 shares from six shareholders by March 12, 1999. Of those shares, 100,000 will be purchased from a trust of which Sture G. Olsson, a director of the Company, is co-trustee and 10,000 from Thomas B. Whitmore Jr., a director of the Bank. Sture G. Olsson was not present and did not discuss or vote on the repurchase. The shares to be purchased from the trust are subject to approval by the co-trustee and the court.

EXECUTIVE COMPENSATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATIONS. The following table shows the cash compensation paid to Mr. Dillon, President and Chief Executive Officer of the Company, and Brad E. Schwartz, Senior Vice President and Chief Operating Officer of the Company, during 1998, 1997, and 1996. During 1998, no other executive officer of the Company received compensation in excess of $100,000.

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION				LONG-TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS(1)	OTHER ANNUAL COMPENSATION(2)	OPTIONS(3)	ALL OTHER COMPENSATION(4)
Larry G. Dillon	1998	$140,000	$50,000	-	3,500	$22,842
President/Chief	1997	120,000	40,000	-	3,200	19,118
Executive Officer	1996	102,500	20,000	-	3,200	17,126
Brad E. Schwartz	1998	84,000	18,000	-	2,500	12,727
Senior Vice Pres./	1997	75,000	14,000	-	2,200	10,777
Chief Operating Officer	1996	70,000	8,000	-	2,200	10,509

(1) All bonuses were paid under the Management Incentive Bonus Plan, which is described below in "Employee Benefit Plans".
(2) The amount of compensation in the form of perquisites or other personal benefits properly categorized in this column according to the disclosure rules adopted by the Commission did not exceed the lesser of either $50,000, or 10% of the total annual salary and bonus reported in each of the three years reported for Messrs. Dillon and Schwartz, and therefore, is not required to be reported.
(3) 1998 options were granted at an exercise price of $18.625 per share; 1997 options were granted at an exercise price of $12.50 per share; 1996 options were granted at an exercise price of $9.38 per share.
(4) $8,667, $6,966, and $11,711, were paid to Mr. Dillon and $5,044, $4,140 and $7,877 were paid to Mr. Schwartz under the Bank's Profit-Sharing Plan for 1998, 1997, and 1996, respectively. $5,454, $5,383, and $5,415, were

paid to Mr. Dillon and $2,639, $2,631 and $2,632 were paid to Mr. Schwartz under the Bank's Split-Dollar Insurance Program for 1998, 1997, and 1996, respectively. $8,721 and $6,769 were paid to Mr. Dillon and $5,044 and $4,006 were paid to Mr. Schwartz under the Bank's 401(k) Plan for 1998 and 1997, respectively. All three plans are described below in "Employee Benefit Plans".

STOCK OPTIONS AND SAR. The following table shows all grants of options to Messrs. Dillon and Schwartz in 1998:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	OPTIONS GRANTED (#) (1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	5% ($)	10% ($)
Larry G. Dillon	3,500	10.0%	18.625	12/15/08	40,996	103,892
Brad E. Schwartz	2,500	7.2%	18.625	12/15/08	29,282	74,208

(1) Vesting is as follows: One-third by December 15, 1999; two-thirds by December 15, 2000; and 100% by December 15, 2001.

OPTION/SAR EXERCISES AND HOLDINGS. The following table shows stock options exercised by Messrs. Dillon and Schwartz in 1998:

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTIONS/SAR VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF UNEXERCISED OPTIONS AT DECEMBER 31, 1998 (#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998 ($) EXERCISABLE/ UNEXERCISABLE
Larry G. Dillon	2,000	41,000	16,602/ 6,698	152,181/ 23,756
Brad E. Schwartz	--	--	12,202/ 4,698	111,350/ 16,338

CHANGE IN CONTROL ARRANGEMENT

The Company has entered into a "change in control agreement" with Mr. Dillon. The agreement provides certain payments to and benefits for Mr. Dillon in the event of a termination of his employment by the Company without "cause," or by Mr. Dillon for "good reason," during the period beginning on the occurrence of a "change in control" (as defined) of the Company and ending sixty-one days after the second anniversary of the change in control date. In such event, Mr. Dillon would be entitled (i) to receive in 12 consecutive quarterly installments, or in a lump sum, two and one-half times the sum of his highest aggregate annual base salary during the 24 month period preceding the change in control date and his highest aggregate annual bonus for the three fiscal years preceding the change in control date; (ii) for a period of three years following termination, to receive continuing health insurance, life insurance, split-dollar insurance, and similar benefits under the Company's welfare benefit plans and to have the three year period credited as service towards completion of any service requirement for retiree coverage under the Company's welfare benefit plans; and (iii) if Mr. Dillon requests within one year after his termination to have the Company acquire his residence for its appraised fair market value. During the term of the agreement following a change in control, Mr. Dillon may voluntarily terminate his employment and become entitled to these payments and benefits under certain circumstances. These circumstances include, but are not limited to, a material adverse change in his position, authority, or responsibilities, or a reduction in his rate of annual base salary, benefits (including incentives, bonuses, stock compensation, and retirement and welfare plan coverage), or other perquisites as in effect immediately prior to the change in control date.

Payments and benefits provided under the agreement will be reduced, if and to the extent necessary, so that Mr. Dillon will not be subject to a federal excise tax on, and the Company will not be denied an income tax deduction on account of having made excess parachute payments.

EMPLOYEE BENEFIT PLANS

MANAGEMENT INCENTIVE BONUS PLAN. The Bank adopted a Management Incentive Bonus Plan (the "Bonus Plan") effective January 1, 1987. The Bonus Plan is offered to selected members of management. The bonus is derived from a pool of funds determined by the Bank's total performance relative to (1) prescribed growth rates of assets and deposits, (2) return on average assets, and (3) absolute level of net income. Attainment, in whole or in part, of these goals dictates the amount set aside in the pool of funds. Evaluation of attainment and approval of the pool amount is done by the Board of Directors of the Bank. Payment of the bonus is based on individual performance and paid in cash as a percentage of the respective individual's base salary. Expense is accrued in the year of the specified bonus performance.

Other than the Bonus Plan (above), the Incentive Stock Option Plan (detailed below), and the Split-Dollar Insurance Program (detailed below), there are no personal benefits provided to principal officers and directors which are not provided to all other full-time employees.

PROFIT-SHARING/401(K) PLAN. The Bank maintains a Defined Contribution "Profit-Sharing" Plan sponsored by the Virginia Bankers Association. The plan was amended effective January 1, 1997, to include a 401(k) savings provision, which authorizes a maximum voluntary salary deferral of up to 15% of compensation (with a partial company match), subject to statutory limitations. The profit-sharing arrangement provides for an annual discretionary contribution to the account of each eligible employee based in part on the Bank's profitability for a given year, and on each participant's yearly earnings. All full-time employees who have attained the age of 18 and have at least three months of service are eligible to participate. Contributions and earnings may be invested in various investment vehicles offered through the Virginia Bankers Association. Contributions and earnings are tax-deferred. An employee is 40% vested after four years of service, 60% after five years, 80% after six years, and fully vested after seven years.

RETIREMENT PLAN. The Bank has a Non-Contributory Defined Benefit Retirement Plan (the "Retirement Plan") covering substantially all employees who have reached the age of 21 and have been fully employed for at least one year. The Retirement Plan provides participants with retirement benefits related to salary and years of credited service. Employees become vested after five plan years of service, and the normal retirement date is the plan anniversary date nearest the employee's 65th birthday. The Retirement Plan does not cover directors who are not active officers. The amount expensed for the Retirement Plan during the year ended December 31, 1998, was $102,536.

The following table shows the estimated annual retirement benefits payable to employees in the average annual salary and years of service classifications set forth below assuming retirement at the normal retirement age of 65.

CONSECUTIVE FIVE-YEAR AVERAGE SALARY	YEARS OF CREDITED SERVICE 15	20	25	30	35
$ 25,000	$ 4,688	$ 6,250	$ 7,813	$ 8,750	$ 9,688
40,000	8,490	11,320	14,150	15,980	17,810
55,000	12,990	17,320	21,650	24,605	27,560
75,000	18,990	25,320	31,650	36,105	40,560
100,000	26,490	35,320	44,150	50,480	56,810
125,000	33,990	45,320	56,650	64,855	73,060
150,000	41,490	55,320	69,150	79,230	89,310
160,000	44,490	59,320	74,150	84,980	95,810

Benefits under the Retirement Plan are based on a straight life annuity assuming full benefit at age 65, no offsets, and covered compensation of $31,200 for a person age 65 in 1998. Compensation is currently limited to $160,000 by the Internal Revenue Code. The estimated annual benefit payable under the Retirement Plan upon retirement is $85,912 and $44,846 for Messrs. Dillon and Schwartz, respectively, credited with 40 years of service. Benefits are estimated on the basis that they will continue to receive, until age 65, covered salary in the same amount paid in 1998.

SPLIT-DOLLAR INSURANCE PLAN. In addition to a group life insurance plan that is available to all full-time employees, the Bank offers a Split-Dollar Insurance Program to selected members of management. The insurance benefit under this program is equal to five times an officer's annual salary in effect at the time the officer is enrolled in the program. The Bank recovers its cost from each participant at retirement or from the proceeds of the policy if the participant dies before reaching retirement age.

INCENTIVE STOCK OPTION PLAN. The company adopted the 1994 Incentive Stock Option Plan (the "Incentive Plan") effective May 1, 1994. The Incentive Plan makes available up to 200,000 shares of common stock for awards to key employees of the Company and its subsidiaries in the form of stock options, stock appreciation rights, and restricted stock (collectively, "Awards"). The purpose of the Incentive Plan is to promote the success of the Company and its subsidiaries by providing incentives to key employees that will promote the identification of their personal interests with the long-term financial success of the Company and with growth in shareholder value. The Incentive Plan is designed to provide flexibility to the Company in its ability to motivate, attract, and retain the services of key employees upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

Under the terms of the Incentive Plan, the Compensation Committee of the Board of Directors of the Bank (the "Committee") administers the plan. The Committee will have the power to determine the key employees to whom Awards shall be made.

Each Award under the Incentive Plan will be made pursuant to a written agreement between the Company and the recipient of the Award (the "Agreement"). In administering the Incentive Plan, the Committee will have the authority to determine the terms and conditions upon which Awards may be made and exercised, to determine terms and provisions of each Agreement, to construe and interpret the Incentive Plan and the Agreements, to establish, amend, or waive rules or regulations for the Incentive Plan's administration, to accelerate the exercisability of any Award, the end of any performance period, or termination of any period of restriction, and to make all other determinations and take all other actions necessary or advisable for the administration of the Incentive Plan.

The Board may terminate, amend, or modify the Incentive Plan from time to time in any respect without shareholder approval, unless the particular amendment or modification requires shareholder approval under the Internal Revenue Code of 1986, as amended (the "Code"), the rules and regulations under Section 16 of the Securities Exchange Act of 1934 or pursuant to any other applicable laws, rules, or regulations.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee (the "Committee"), which is composed of non-employee Directors of the Company and the Bank listed below, recommends to the Board of Directors of the Bank (the "Board") the annual salary levels and any bonuses to be paid to the Bank's executive officers. The Committee also makes recommendations to the Board regarding the issuance of stock options and all other compensation related matters.

Currently, the individuals serving as Chief Executive Officer and executive officers of the Company also serve in the same capacities, respectively, for the Bank. These officers are presently compensated for services rendered by them to the Bank, but not for services rendered by them to the Company.

The primary objective of the Bank's executive compensation program is to attract and retain highly skilled and motivated executive officers who will manage the Bank in a manner to promote its growth and profitability and advance the interest of the Company's stockholders. As such, the compensation program is designed to provide levels of compensation which are reflective of both the individual's and the organization's performance in achieving the organization's goals and objectives, both financial and non-financial, and in helping to build value for the Company's stockholders. Based on its evaluation of these factors, the Committee believes that the executive officers are dedicated to achieving significant improvements in long-term financial performance and that the compensation plans the Committee has implemented and administered have contributed to achieving this management focus.

The principal elements of the Bank's compensation program include base annual salary, short-term incentive compensation under the Bank's Management Incentive Bonus Plan, and long-term incentives through the grants of stock options under the 1994 Incentive Stock Option Plan.

In considering compensation for the Chief Executive Officer and the other executive officers, the Committee relied on compensation surveys and an evaluation of the officers' level of responsibility and performance. In 1998, the Committee used the following compensation surveys to assist in developing its recommendation on compensation: The SNL Executive Compensation Review; the Sheshunoff Bank Executive and Director Compensation Survey; and the Virginia Bankers Association's Salary Survey of Virginia Banks. The Committee believes that these are relevant and appropriate indicators of compensation paid by the Bank's competitors. The Committee received an evaluation by the Chief Executive Officer of the performance of the executive officers (other than the Chief Executive Officer) during 1998. The Committee evaluated the performance of the Chief Executive Officer based on the financial performance of the Company and the Bank, achievements in implementing the Bank's long-term strategy, and the personal observations of the Chief Executive Officer's performance by the members of the Committee. No particular weight was given to any particular aspects of the performance of the Chief Executive Officer, but his performance in 1998 was evaluated as outstanding, with the Company and the Bank achieving record earnings and significant progress being made on the Bank's long-term strategy.

Based on the salary surveys and the performance evaluations, the Committee generally set base annual salaries for the Chief Executive Officer and the other executive officers in the median range of salaries contained in the various surveys for comparable positions.

The Committee also reviewed each executive officer's performance and responsibility to assess the payment of short-term incentive compensation. The Committee uses the compensation surveys and takes into consideration the performance of the Bank relative to its peer group, taking into consideration profit growth, asset growth, return on equity, and return on assets. No particular weight is given to each of these elements. The cash bonuses were given based upon the role of such officers in the growth and profitability of the Bank in 1998.

Each year, the Committee also considers the desirability of granting long-term incentive awards under the Company's 1994 Incentive Stock Option Plan. The Committee believes that grants of options focus the

Bank's senior management on building profitability and shareholder value. The Committee notes in particular its view that stock option grants afford a desirable long-term compensation method because they closely ally the interest of management with shareholder value. In fixing the grants of stock options with the senior management group, other than the Chief Executive Officer, the Committee reviewed with the Chief Executive Officer recommended individual awards, taking into account the respective scope of accountability and contributions of each member of the senior management group. The award to the Chief Executive Officer was fixed separately and was based, among other things, on the review of competitive compensation data from selected peer companies and information on his total compensation as well as the Committee's perception of his past and expected future contributions to the Company's achievement of its long-term goals.

COMPENSATION COMMITTEE

J. P. Causey Jr. - Chairman
P. Loy Harrell
James H. Hudson III
Thomas B. Whitmore Jr.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 1998 and up to the present time, there were transactions between the Company's banking subsidiary and certain members of the Compensation Committee, or their associates, all consisting of extensions of credit by the Bank in the ordinary course of business. Each transaction was made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with the general public. In the opinion of management, none of the transactions involved more than the normal risk of collectibility or present other unfavorable features.

None of the members of the Compensation Committee has served as an officer or employee of the Company or any of its affiliates. No director may serve as a member of the Committee if he is eligible to participate in the Incentive Plan or was at any time within one year prior to his appointment to the Committee eligible to participate in the Incentive Plan.

PERFORMANCE GRAPH

The following graph compares the yearly cumulative total shareholder return on the Company's common stock with (1) the yearly cumulative total shareholder return on stocks included in the NASDAQ stock index and (2) the yearly cumulative total shareholder return on stocks included in the Independent Bank Index prepared by the Carson Medlin Company. The Independent Bank Index is the compilation of the total return to shareholders over the past 5 years of a group of twenty-three independent community banks located in the southeastern states of Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

There can be no assurance that the Company's stock performance will continue into the future with the same or similar trends depicted in the graph below.

[GRAPH]

C&F FINANCIAL CORPORATION
Five Year Performance Index

	1993	1994	1995	1996	1997	1998
C&F FINANCIAL CORPORATION	100	120	124	117	167	247
INDEPENDENT BANK INDEX	100	119	151	191	280	296
NASDAQ INDEX	100	98	138	170	209	293

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires directors, executive officers, and 10% beneficial owners of the Company's common stock to file reports concerning their ownership of common stock. Except as set forth below, the Company believes that its officers and directors complied with all filing requirements under Section 16(a) of the Securities Exchange Act of 1934 during 1998. The following persons inadvertently failed to file on a timely basis reports required by Section 16(a) as follows: James H. Hudson III, Sture G. Olsson, J. P. Causey Jr., and William E. O'Connell Jr. each filed one report late involving one transaction. The required reports for these individuals were filed as of December 28, 1998.

PROPOSAL TWO
APPROVAL OF THE AMENDED AND RESTATED 1998 NON-EMPLOYEE DIRECTOR STOCK COMPENSATION PLAN

The C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan (the "Plan") was adopted by the Board of Directors on August 18, 1998, to be effective on September 1, 1998. The Plan made available up to 25,000 shares of common stock for awards to non-employee directors of the Company and its wholly-owned subsidiary, Citizens and Farmers Bank (the "Bank"), in the form of stock options ("Awards"). As of February 22, 1999, 8,000 options to purchase company common stock were outstanding under the Plan.

The Board of Directors voted on February 16, 1999 to amend the Plan to increase the number of shares of common stock authorized to be issued under the Plan to 150,000 shares of common stock, subject to shareholder approval of the Plan at the 1999 Annual Meeting.

The principal features of the Plan, as amended, are summarized in the following paragraphs. This summary is subject, in all respects, to the terms of the Plan. The Company will provide promptly, upon request and without charge, a copy of the full text of the Plan to each person to whom a copy of this Proxy Statement is delivered. Requests should be directed to the Chief Financial Officer of the Company at Eighth and Main Streets, West Point, Virginia 23181.

PURPOSE. The purpose of the Plan is to promote a greater identity of interest between non-employee directors of the Company and the Bank and the Company's shareholders by increasing the participation of such directors' proprietary interest in the Company through the receipt of Awards.

ADMINISTRATION. Under the terms of the Plan, one or more persons who are employees of the Company and directors of the Board (the "Employee Directors"), and such additional employees as the Employee Directors shall designate, will be appointed to administer the Plan.

ELIGIBILITY. All non-employee directors of the Company and the Bank ("Non-Employee Directors") are eligible for Awards under the Plan. Non-Employee Directors serving on both the Board of the Company and the Bank will be entitled to receive only one Award under the Plan per year.

OPTIONS. The stock options awarded under the Plan will not constitute "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the stock options will be non-qualified stock options ("NQSOs") and will be subject to taxation under Section 83 of the Code.

Commencing on September 1, 1998 and on May 1 of each succeeding year ending in the year 2008 or until there are insufficient shares of common stock available for the grant of Awards in accordance with the terms of the Plan, each Non-Employee Director will automatically receive an Award of 1,000 stock options. At the discretion of the Board, the number of shares subject to the automatic option may be increased up to 250 shares per year per participant, on a cumulative basis, during the term of the Plan, subject to a maximum of 2,000 shares granted per year per participant.

Awards are not exercisable until April 30 in the calendar year following its date of grant. However, an Award will be immediately exercisable if the Non-Employee Director's membership on the board of directors of the Company or the Bank terminates as a result of retirement in accordance with the Company's or the Bank's policies, death, or disability (as defined in Section 22(e)(3) of the Code). An Award will be forfeited if, as of the termination of the Non-Employee Director's membership on the board of directors of the Company or the Bank, the Award is not then exercisable and such termination occurs for any reason other than the Non-Employee Director's retirement in accordance with the Company's or the Bank's policies, death, or disability (as defined above). An Award may be exercised with respect to any number of whole shares less than the full number for which the Award could be exercised.

The option exercise price will be the closing price (or, if there are not trades on the date of grant, then the next preceding date that a closing price is available) of the common stock as reported on NASDAQ (or other applicable listing service or exchanges used by the Company) on the Award's date of grant ("Fair Market Value"), or if in the judgment of the Board there is insufficient recent trading activity to warrant determination of the Fair Market Value solely on the basis of such closing prices on the listing service or exchange, then the Fair Market Value will be determined as of the date of grant in good faith by the Board.

Unless otherwise provided by the option agreement, upon the exercise of an Award, in whole or in part, optionees must tender cash or a cash equivalent to the Company in payment for the common stock purchased. In addition, all or part of the option price may be paid by surrendering shares of common stock to the Company. If common stock is used to pay all or part of the option price, the shares surrendered must have a Fair Market Value that is not less than such price or part thereof.

No stock option will be exercisable after ten years from the date of grant.

SHARES SUBJECT TO THE PLAN. Up to 150,000 shares of common stock may be issued under the Plan. Except as set forth below, shares of common stock issued in connection with the exercise of, or as other payment for an Award will be charged against the total number of shares issuable under the Plan. If any Award terminates, in whole or in part, for any reason other than as a result of being exercised, the common stock subject to such Award will be available for further Awards.

In order to reflect such events as stock dividends, stock split-ups, subdivisions or consolidations of shares of common stock, or transactions to which Section 424 of the Code applies, the Employee Directors will adjust the aggregate number of shares from which grants or awards may be made and the terms of each outstanding Award.

CHANGE IN CONTROL. In order to maintain all the participants' rights in the event of a Change in Control of the Company (as that term is defined in the Plan), the Employee Directors, as constituted before such Change in Control, may take in its sole discretion any one or more of the following actions either at the time an Award is made or any time thereafter: (i) provide for the acceleration of any time periods relating to the exercise or realization of any such Awards so that such Award may be exercised or realized in full on or before a date initially fixed by the Employee Directors; (ii) provide for the purchase or settlement of any such Award by the Company, upon the participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such participant's rights had such Award been currently exercisable or payable; (iii) make such adjustment to any such Award then outstanding as the Employee Directors deem appropriate to reflect such Change in Control; or (iv) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change in Control.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES. A participant will not recognize income on the grant of a NQSO, but generally will recognize income upon the exercise of a NQSO. The amount of income recognized upon the exercise of a NQSO will be measured by the excess, if any, of the Fair Market Value of the shares at the time of exercise over the exercise price.

In the case of ordinary income recognized by an optionee as described above in connection with the exercise of a NQSO, the Company will be entitled to a deduction in the amount of ordinary income so recognized by the optionee, provided the Company satisfies certain federal income tax withholding requirements.

AMENDMENT AND TERMINATION OF THE PLAN. The Board of Directors may amend the Plan from time to time without the consent of the shareholders or optionees. If the Board determines that shareholder approval is required and the Plan is submitted for such approval and adopted, then no subsequent amendment may become effective until shareholder approval is obtained if the amendment materially increases the total number of shares of the common stock available for grant under the Plan, materially modifies the class of eligible individuals under the Plan, or materially increases the benefits to participants under the Plan. No amendment will, without the participant's consent, adversely affect any rights of such participant under any Award outstanding at the time such amendment is made.

The Board may terminate the Plan at any time. The Plan will terminate automatically, without any action of the Board, if, on any date of grant, there are insufficient shares available for the grant of Awards in accordance with the terms of the Plan.

VOTE REQUIRED. The affirmative vote of the holders of a majority of the common stock cast at the Annual Meeting, assuming a quorum is present, is required to ratify and approve the Plan including the options previously granted thereunder.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" ADOPTION OF THE PROPOSED PLAN.

PROPOSAL THREE
RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors, subject to ratification by the shareholders, has appointed Yount, Hyde & Barbour, P.C. as independent public accountants for the current fiscal year ending December 31, 1999.

A representative of Yount, Hyde & Barbour, P.C. will be present at the Annual Meeting and will be given the opportunity to make a statement and respond to appropriate questions from the shareholders. Unless marked to the contrary, the shares represented by the enclosed proxy card, if executed and returned, will be voted FOR the ratification of the appointment of Yount, Hyde & Barbour, P.C. as the independent public accountants of the Company.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF YOUNT, HYDE & BARBOUR, P.C. AS INDEPENDENT PUBLIC ACCOUNTANTS.

OTHER BUSINESS

As of the date of this Proxy Statement, management of the Company has no knowledge of any matters to be presented for consideration at the Annual Meeting other than those referred to above. If any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy intend to vote such proxy, to the extent entitled, in accordance with their best judgment.

SHAREHOLDER PROPOSALS FOR 2000 ANNUAL MEETING

Proposals of shareholders intended to be presented at the 2000 Annual Meeting must be received by the Company no later than November 20, 1999. Under applicable law, the Board of Directors need not include an otherwise appropriate shareholder proposal (including any shareholder nominations for director candidates) in its proxy statement or form of proxy for that meeting unless the proposal is received by the Company's Secretary, at the Company's principal office in West Point, Virginia, on or before the date set forth above.

By Order of the Board of Directors

/s/ Gari B. Sullivan

Gari B. Sullivan
SECRETARY

West Point, Virginia
March 15, 1999

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K REPORT (INCLUDING EXHIBITS) AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 1998, WILL BE FURNISHED WITHOUT CHARGE TO SHAREHOLDERS UPON WRITTEN REQUEST DIRECTED TO THE COMPANY'S SECRETARY AS SET FORTH ON THE FIRST PAGE OF THIS PROXY STATEMENT.

C&F FINANCIAL CORPORATION

This Proxy is solicited on behalf of the Board of Directors

The undersigned hereby appoints Larry G. Dillon and James H. Hudson III, jointly and severally as proxies, with full power to act alone, and with full power of substitution to represent the undersigned, and to vote all shares of the Company standing in the name of the undersigned as of February 22, 1999, at the annual meeting of shareholders to be held Tuesday, April 20, 1999 - 3:30 p.m. at the Father van den Boogaard Center, 3510 King William Avenue, West Point, Virginia, or any adjournments thereof, on each of the following matters. This proxy, when properly executed, will be voted in the manner directed by the undersigned shareholder. If no direction is made, this proxy will be voted FOR each proposal and on other matters at the discretion of the proxy agents.

(Continued and to be signed on Reverse Side)

Please Detach and Mail in the Envelope Provided

A [X] Please mark your votes as in this example.

	FOR all nominees (except as marked to the contrary below.)	WITHHELD from all nominees	
1. To elect two Class III directors to serve until the 2002 Annual Meeting of Shareholders, or until their successors are elected and qualified, as instructed below.	[ ]	[ ]	Nominees: J.P. Causey Jr. William E. O'Connell Jr.

(Instruction: To withhold authority to vote for any nominee(s), write that nominee(s) name on the space provided below.)

____

	FOR	AGAINST	ABSTAIN
2. Proposal to approve the Company's Amended and Restated 1998 Non-Employee Director Stock Compensation Plan.	[ ]	[ ]	[ ]
3. Proposal to ratify the appointment of Yount, Hyde & Barbour, P.C. as independent public accountants of the Company for 1999.	[ ]	[ ]	[ ]

4. The transaction of any other business as may properly come before the Annual Meeting or any adjournment thereof. Management presently knows of no other business to be presented at the Annual Meeting.

Meeting Attendance
I plan to attend the annual meeting on Tuesday, April 20th, 1999 at the location printed on the back. I will also note the number of attendees.

Will Attend Meeting [ ]   Will not Attend Meeting [ ]

Number of Attendees

____

Signature____________________________ ________________________   Dated ______________________________, 1999

NOTE: Please sign your name(s) exactly as shown imprinted hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

EXHIBIT 99.2

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
C&F Financial Corporation

We have audited the consolidated balance sheet of C&F Financial Corporation and subsidiary as of December 31, 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of C&F Financial Corporation and subsidiary as of December 31, 1996, the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Richmond, Virginia

January 17, 1997