



Opportunity | Expansion | Growth

2020

| Annual Report



C&F Financial Corporation is a one-bank holding company providing a full range of banking services to individuals and businesses through its subsidiaries.



C&F Bank (Citizens and Farmers Bank) offers quality banking services to individuals and businesses through 31 retail banking locations in Virginia.



C&F Mortgage Corporation originates and sells residential mortgages throughout Virginia, West Virginia, Maryland, North Carolina and South Carolina. Through its subsidiary, C&F Mortgage also provides residential appraisal services.



C&F Finance Company specializes in new and used indirect auto, marine and recreational vehicle lending in select areas of the following states: Alabama, Colorado, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Minnesota, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, South Carolina, Texas, Virginia and West Virginia.



C&F Wealth Management Corporation provides a full range of securities brokerage, life and health insurance, and investment services to individuals and businesses through C&F Bank's 31 retail banking locations in Virginia.

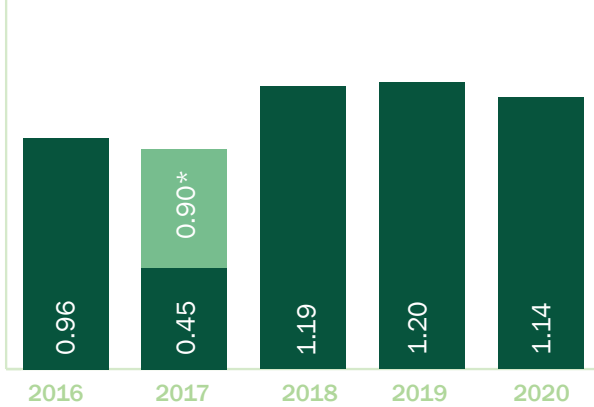


Visit cffc.com for full listing of locations.

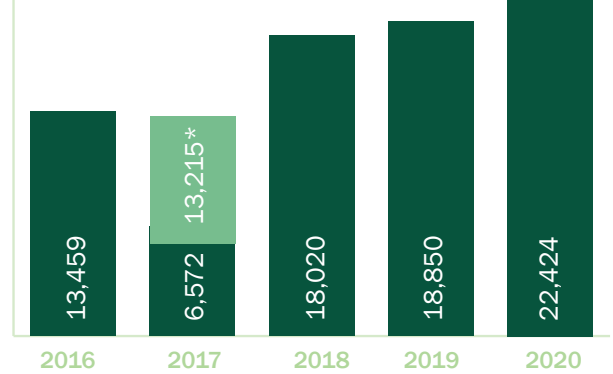


Financial Performance

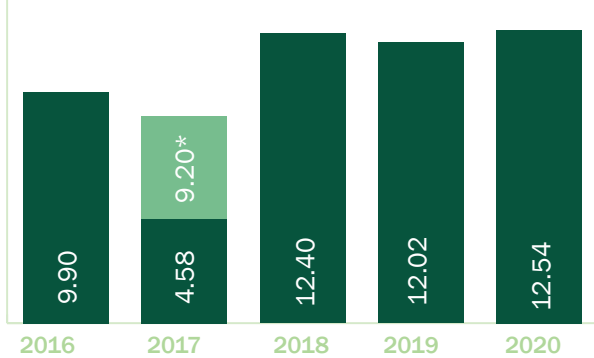
Return on average assets (%)



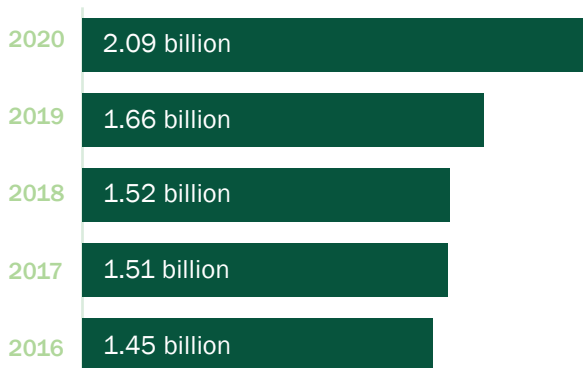
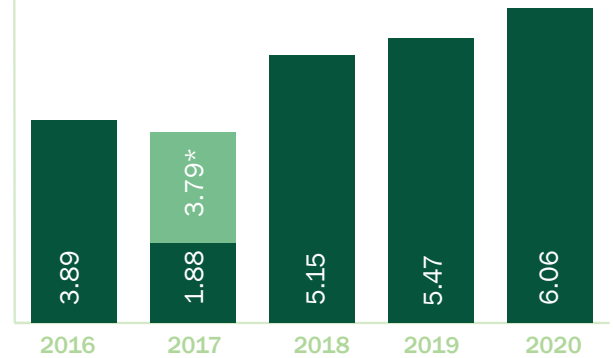
Consolidated net income (\$ in thousands)



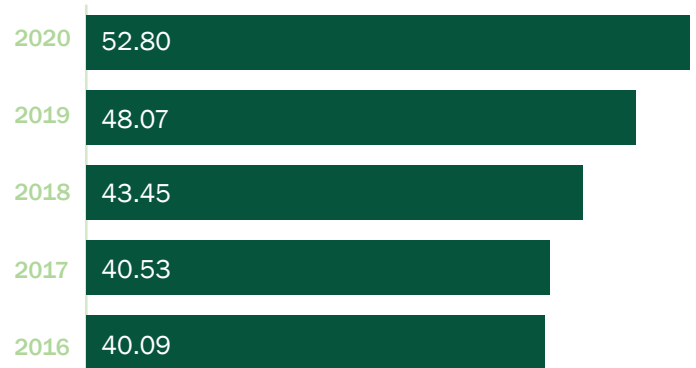
Return on average equity (%)



Earnings per share — diluted (\$)



Total assets (\$)



Book value per share (\$)

*The figures presented above include non-U.S. GAAP financial measures that reflect certain adjustments to performance measures for the year ended December 31, 2017. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Use of Certain Non-U.S. GAAP Financial Measures" included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 3, 2020, for additional information regarding the derivation of these measures.



Thomas F. Cherry
President & Chief Executive Officer



Letter to Our Shareholders

2020 may have been the most challenging year in the modern history of the United States. Yet great challenges can be the source of great performances, and we believe that's true for your Company. Clearly, our primary focus has been to ensure we are doing all we can to address the effects of COVID-19 on our three constituencies – our employees, our customers and our shareholders. The impacts of the pandemic on families and businesses, essential workers like teachers and first responders, and of course our own employees have been, and continue to be, profound; however, the dedication all have shown is truly inspiring. We are starting our letter by sharing with you some of our actions related to the pandemic and then explaining why we believe the adversity of 2020 is contributing to a stronger Company for all C&F stakeholders and a greater source for good in the communities we serve.

For our employees. Our most important concern has always been the health and wellbeing of our employees. We have taken steps both from a physical and financial standpoint to ensure they are safe and able to care for their families. We have maintained the continuity of employee pay and benefits. We have diligently followed guidance provided by our health officials and partnered with Care Team Health, the provider of the onsite clinic at our Stonehouse Operations Center, to develop and implement practices to keep our employees safe. We also worked with all employees who have health concerns related to compromised immune systems and those with underlying chronic conditions to customize alternative or remote work arrangements for them.

For our customers and communities. We continue to provide crucial financial services to families and businesses while maintaining safe and healthy practices for those who visit any of our locations. Bank lobbies were initially closed during the early months of the pandemic; however, we continued to see customers by appointment and kept our drive-thru services open. Our bank lobbies are now open, and we are confident the safety protocols we have put in place protect both our employees and visitors.

Many businesses have been severely impacted by COVID-19. To address the situation, Congress created the Paycheck Protection Program, or PPP, to encourage business owners to retain employees during the crisis by offering forgivable loans to cover two months of payroll and certain other operating costs. We are very proud of how our bank stepped up to make sure our business customers had reliable and convenient access to this program. To date, our team has processed over 1,600 PPP loan applications and distributed nearly \$124 million to local businesses, likely preserving hundreds, if not thousands, of

jobs for families in the markets we serve. Even as we write this letter, we are engaged in another round of the PPP which is allowing first time applicants to participate in the program, as well as a second forgivable loan to current PPP customers whose revenue was severely impacted by the pandemic. Our team's performance with this program has brought about an unprecedented sense of purpose in what we do at C&F.

In addition to PPP, we have also worked hard to accommodate as many customers as we could, both businesses and individuals, who needed deferrals or modifications of loan payments. Our actions affected total loan balances of over \$104 million throughout 2020, including periods of interest-only payments and intervals of complete payment deferrals. As of December 31, 2020, \$74 million of these loan balances have either resumed regular payments or been paid off, thus validating that our assistance was beneficial.

For our shareholders. We have taken steps to secure the Company's financial condition and position it to withstand the long-term economic repercussions of this pandemic. Most importantly, our capital has grown significantly because of our record earnings in 2020. We bolstered this performance by completing the issuance of \$20 million in subordinated notes structured to qualify as additional Tier 2 capital of the Company. While we believe our capital levels are more than adequate to cover any potential losses, we deemed it prudent at the time to supplement our position given the uncertainty of the circumstances and to support future initiatives.

While our asset quality remains strong, the ultimate adverse effects of the pandemic are not known and we anticipate deterioration in asset quality. Therefore, we increased our loan loss reserves throughout 2020. While this reduced net income, it effectively protects us into the future.

Finally, we understand that the dividends we pay are a very important source of income to our shareholders. We have sustained our dividends throughout the pandemic and, at this time, plan to continue paying a regular quarterly dividend. Again, we cannot predict the final impact this pandemic will have on our earnings and capital levels, but rest assured our dividend remains a very important part of our strategic and capital plans.

In summary, we are committed to serving our employees, customers and shareholders throughout these unprecedented times and beyond. We are confident the actions we have taken thus far are in the best interest of your Company.

Despite the pandemic's global impacts, we delivered record-breaking earnings and accomplished many of our strategic goals this past year. 2020 net income of \$22.4 million eclipsed our 2019 record of \$18.9 million. This represented \$6.06 per share for 2020, compared to \$5.47 per share in 2019. For 2020, return on average equity was 12.54 percent and return on average assets was 1.14 percent. Total assets now exceed \$2.0 billion, loans increased to \$1.3 billion and deposits grew to \$1.8 billion at the end of 2020. Capital increased to \$194.5 million, which is critical to the Company's safety and soundness and ability to invest in the future.

We say this often, but it bears repeating: our diversified business strategy continues to serve us well! Each of our primary business segments continued to deliver on their respective priorities to increase profitability, including growing loans and deposits at C&F Bank, increasing loan production at C&F Mortgage, continuing to improve asset quality while also growing loans at C&F Finance, and growing assets under management at C&F Wealth Management.

C&F Bank reported net income of \$5.4 million for the year ended December 31, 2020, compared to net income of \$9.9 million in 2019. Included in earnings for 2020 was a \$2.8 million gain (net) on the sale of an impaired loan portfolio offset by an early repayment charge of \$1.7 million (net) for the payoff of FHLB advances and \$1.1 million (net) of Peoples Community Bank (Peoples) merger-related expenses. The decline in bank earnings is largely a result of decreased margins resulting from the historic decline in interest rates coupled with an increase in the provision for loan losses relating to the pandemic. Despite these issues, our continued focus on commercial lending produced meaningful growth of 7.4 percent in average loans outstanding (excluding the PPP loans and the loans acquired as part of the Peoples acquisition). Additionally, branch teams, commercial relationship managers and treasury solutions representatives worked together in 2020 to increase total average deposits by 17.6 percent (excluding the deposits acquired as part of the Peoples acquisition). Our strong asset quality metrics reflect a continued commitment to risk management.



However, as we mentioned earlier, we do expect some deterioration in loan quality as a result of the pandemic; therefore, we recorded additional provisions for loan losses during the year.

The closing of the Peoples acquisition and the conversion of its systems, services and products was another positive story in 2020. As a result, we now offer five additional retail branches serving the communities of Dahlgren, Fredericksburg, King George, Montross and Warsaw on the Northern Neck of Virginia. Despite the pandemic, these branches were successfully transitioned to C&F Bank products, systems and signage in the second quarter of 2020, bringing our combined footprint to 31 locations across Eastern and Central Virginia and giving us access to the high-growth markets in Fredericksburg, as well as Stafford and King George counties.

We will continue to explore expansion opportunities in markets such as Hampton Roads, Charlottesville, Fredericksburg and Richmond because we see a promising future for a digital and local community bank with strong commercial banking capabilities like ours in these regions of the Commonwealth.

C&F Mortgage reported record net income of \$10.7 million for the year, compared to net income of \$3.8 million in 2019. A favorable interest rate environment and an extremely active housing market led to record loan production and subsequent gains on loan sales and ancillary fee income for this segment. Loan originations were \$1.8 billion for the year, compared to \$944 million in 2019.

As we have mentioned in the past, success in the mortgage business is largely driven by the retention of long-term quality loan officers. We have consistently placed a high degree of focus on this objective with positive results and will continue to do so in 2021. We also actively recruit quality, experienced loan officers and continually develop new loan officers through our loan officer school.

C&F Mortgage introduced *Lender Solutions* in 2017, a service that generates fee income by providing certain mortgage origination functions to smaller financial institutions at a more cost-effective price than if these companies performed the functions themselves. We continued to grow this service in 2020 by assisting these institutions in closing over 2,000 loans compared with only 400 in 2019. We believe we can continue to grow this service in the future.

C&F Finance reported net income of \$7.6 million for the year, compared to net income of \$6.9 million in 2019. Credit quality has consistently improved since we strengthened our underwriting standards in 2016. As a result, we have experienced a sustained decline in annual charge-offs (as a percentage of average loans), decreasing to 1.54 percent for 2020, the lowest level of annual charge-offs since we acquired the business in 2002. However, like C&F Bank, we anticipate deterioration in asset quality resulting from the pandemic and therefore added to the provision for loan losses throughout 2020.

C&F Finance also continued to grow its marine and recreational vehicle loan portfolio in 2020. It is important to note that we remain committed to the highest credit quality by only purchasing prime contracts in this segment. While pricing for these loans is lower than contracts for non-prime automotive business, lower loan losses are anticipated due to the higher credit quality of these borrowers.

Finally, we are excited about the upcoming relocation of C&F Finance's corporate headquarters to a new facility near the Richmond International Airport, replacing our current leased space which we have outgrown. Our long-term commitment to C&F Finance made building a new corporate headquarters key to our strategic initiatives for the future. Construction is underway and we plan to move into the new building in April of this year.

C&F Wealth Management produced a record year in 2020. We attribute this strong performance to several factors: an increase in assets under management, the successful transition to a recurring revenue stream business model and the addition of a new investment advisor in Richmond. We also recently added a new advisor in the Charlottesville market and are currently considering additional advisors for the Fredericksburg and Hampton Roads markets, which will give us coverage over our entire banking footprint. Further, our C&F Financial Center concept has greatly increased the joint appointments our advisors are holding with bank and mortgage teammates, helping us provide additional convenience to our customers while generating more business for each subsidiary.



C&F shareholders understand that the Company is more than just a bank. We are four companies in one that are effectively integrated in terms of what we can do for a customer and how we perform as a company. However, most of the markets we serve don't have this same awareness. That's why we've concentrated our efforts on creating a common brand message and appearance across our websites, signage and facilities. While we are very pleased with our progress, we see additional opportunity in initiatives that address products, advertising and shared target marketing strategies. We can also create better brand awareness by leveraging all subsidiaries with our community events and volunteerism.

Operating models for all retail businesses were already evolving heading into 2020 due to changes in customer preferences, and the pace of change accelerated as COVID-19 severely disrupted the business landscape with financial services being no exception. For example, transaction volume in our branches declined approximately 6 percent in each of the last three years leading up to 2020. Once the effects of the pandemic began to materialize, this decline accelerated to 25 percent as customers flocked to our digital options. The pace of this trend alone highlights the urgent need for reconfiguration of the traditional bank branch model.

Fortunately for us, we have been developing and implementing our plan for the last few years. As we mentioned in last year's "pre-COVID" letter, we developed a five-year strategic "refresh" plan for our branch network that is now the framework for a more aggressive reengineering of the C&F retail branch model as we know it. During 2020, we updated the look and feel of several branches, including our new ones on the Northern Neck from the Peoples acquisition, which gave them a fresher and more contemporary design and appeal.

We were very excited to share in last year's letter that we were in the process of building two new C&F Financial Centers, one in Charlottesville on Route 29 at Stonefield Commons and the other in downtown Richmond at the corner of 10th and Byrd Street. Both locations are open for business and doing well. A formal ribbon cutting ceremony for each was far from normal given the pandemic; however, both are impressive and provide a comprehensive customer experience. You will notice many differences in a C&F Financial Center from our traditional branches, including dynamic video content and open layouts that make meeting with our financial professionals to achieve your financial goals convenient and comfortable. However, the most important difference customers will experience is the diversified expertise available under one roof from our bank, mortgage company and wealth management advisors. We firmly believe the convenience of being able to access any of these professionals and having them work together as a team for the benefit of our customers is a competitive advantage and we look forward to replicating it across our Company.

We made the determination several years ago that it was critical for our company to significantly expand the digital services we offer customers based on trends in the market. Little did we know this investment would pay such high returns when a pandemic set in. Mobile banking features, such as check deposit, mobile wallet, bill pay, Zelle person-to-person payments and debit card control have now become indispensable to customers given current circumstances. In fact, mobile deposit volume now makes this service our busiest "branch," logging more transactions than any of our traditional bank locations. Customers of all ages, particularly pandemic-anxious senior citizens, are adopting our services at a very high rate. Similarly, online lending and deposit account opening volumes grew considerably in 2020. We are also very pleased with the number of customers that are converting to monthly electronic statements. Not only does this protect their identity and safety, it's also better for the environment and reduces printing expense. Additionally, C&F Mortgage offers a fully digital application and document collection process and is currently in a pilot program to offer an electronic closing process where most borrowers' closing documents can be executed from the comfort and safety of their own homes. These examples and many others now affirm the foresight of our investment in the C&F digital platform.

Adding to these digital services remains a top priority for 2021 and the years to come for obvious reasons. For example, we are leveraging our strong treasury solutions team, service-minded branch network and commercial relationship managers to make business owners even more aware of how mobile business services can make their day more convenient and productive. Contactless debit cards will also be introduced to customers this year, making it possible to pay for purchases without touching a



terminal. Lastly, we've experienced a strong increase in the number of customers who "visit" us virtually through video meetings as they find this a safer and more convenient option while still receiving the personal touch for which we've always been known. This is a great example of how we seek to be both digital and personal in how we serve customers and prospects.

We've always believed that continually strengthening the local community positively benefits both citizens and local businesses and is now more important than ever before. C&F Gives Back is our program to make sure we play a leading role for this purpose in our communities. In 2020, C&F Gives Back supported groups like Junior Achievement, Richmond Animal League, Rise Against Hunger, CARITAS, Natasha House and many more. This is now a corporate-wide initiative where our subsidiaries come together for events and volunteerism to make an even bigger "C&F" difference for our communities. We are also proud to say that we kept our promise to local children with our traditional Santa Tree program, despite the pandemic, and continued to support other local groups who saw their biggest fundraising events canceled this year.

Promoting locally owned businesses is another big objective of C&F Gives Back; our monthly "C&F Cash Mobs" held one Saturday each month bring publicity as well as a great sales day to local businesses. C&F Cash Mobs continue to grow in popularity, and we're excited to do more in 2021.

Succession planning for our Board of Directors is critical to the overall strategic planning for our Company. Accordingly, the Board appointed Dr. Jeffery O. Smith to serve as a director of the Company this past September. Dr. Smith has served for over 30 years in public education as an educator and administrator, including work in eight public school divisions and serving as the current superintendent of Hampton City Schools. He has also been a leader in many business, community and civic organizations, including serving on the Boards of Directors of Sentara Healthcare, Smart Beginnings of the Virginia Peninsula, the Virginia Air and Space Center and on the Board of Trustees for the Williamsburg Health Foundation. His knowledge of organizations, business practices and the communities we serve will be of great value to C&F.

We would be remiss if we did not mention the political and social events that occurred in early January and throughout 2020. They are alarming to us, given our long-standing values of showing respect for others and always conducting ourselves morally and ethically in all relationships. While we may not be able to solve problems on a national level, we know that our company is devoted to strengthening the communities we serve. That is why we steadfastly resolve to follow our values and invest in all individuals and businesses so they can achieve their goals and dreams. We strongly believe that the best is yet to come for our country as others join in this mission.

In closing, our overall outlook for 2021 and beyond remains very positive. Challenges including the pandemic and vaccine distribution, cyber security and fraud prevention, the low interest rate environment and the impacts of the changing political landscape create uncertainties that could potentially lead to a continued economic downturn, fraud losses, margin compression, asset deterioration and regulatory expansion. Our optimism, however, is driven by the investments we have made in your Company over the last several years and will continue to make in the future, along with the customers, shareholders and employees who make C&F a strong, stable, strategic and growing financial institution.

Thank you once again for your loyal support of our Company.



Thomas F. Cherry, *President & CEO*



Larry G. Dillon, *Executive Chairman*





Financial Corporation and Bank Board of Directors



Thomas F. Cherry**
President & Chief
Executive Officer
C&F Financial
Corporation, C&F Bank



Larry G. Dillon**
Executive Chairman
C&F Financial
Corporation, C&F Bank



Dr. Julie R. Agnew**
Richard C. Kraemer Term
Professor of Finance
Raymond A. Mason
School of Business
William & Mary



J.P. Causey Jr.**
Attorney-at-Law
J.P. Causey Jr.,
Attorney-at-Law



Audrey D. Holmes**
Attorney-at-Law
Audrey D. Holmes,
Attorney-at-Law



James H. Hudson III**
Attorney-at-Law
Hudson Law, PLC



Elizabeth R. Kelley**
Managing Director
Blue Heron
Management, LLC



Bryan E. McKernon+
President & Chief
Executive Officer
C&F Mortgage
Corporation



James T. Napier**
President
Napier Realtors, ERA



C. Elis Olsson**
Director of Operations
Martinair, Inc.



D. Anthony Peay**
Retired, Executive
Bank Officer



Paul C. Robinson**
Owner & President
Francisco, Robinson
& Associates, Realtors



George R. Sisson III**
Former Chairman
Peoples Bankshares,
Incorporated



Dr. Jeffery O. Smith, Ed.D.**
Superintendent
Hampton City Schools

* C&F Financial Corporation Board Member + C&F Bank Board Member



Officers and Advisory Board

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Full list of locations at cfc.com

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President & Chief Executive Officer

Larry G. Dillon*
Executive Chairman

Jason E. Long*
Executive Vice President,
Chief Financial Officer

Rodney W. Overby*
Executive Vice President &
Chief Information Officer

John A. Seaman III
Executive Vice President,
Chief Credit Officer

Matthew H. Steilberg
Executive Vice President,
Director of Retail Banking

Mark J. Eggleston
Regional President, Southeast Virginia

William V. Krebs Jr.
Regional President, Central Virginia

Deborah H. Hall
Senior Vice President,
Director of Credit Administration

Herbert E. Marth Jr.
Senior Banking Executive

Christopher A. Spillare
Senior Vice President, Treasurer

Maria R. Sullivan
Senior Vice President,
Chief Human Resources Officer

*Officers of C&F Financial Corporation

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Bryan E. McKernon
President & Chief Executive Officer

Mark A. Fox
Executive Vice President,
Chief Operating Officer

Donna G. Jarratt
Senior Vice President,
Chief of Branch Administration

Kevin A. McCann
Senior Vice President,
Chief Financial Officer

Michael J. Mazzola
Senior Vice President, Branch &
Loan Officer Training Manager

C&F Finance Company Administrative Office

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President & Chief Executive Officer

Michael K. Wilson
Executive Vice President,
Chief Operating Officer

C. Shawn Moore
Executive Vice President,
Chief Credit Officer

Thomas W. Young
Senior Vice President, Operations

Corporate Counsel

Hudson Law, PLC
West Point, Virginia

Independent Public Accountants

Yount, Hyde & Barbour, PC
Richmond, Virginia

C&F Bank Richmond Advisory Board

David H. Downs
Director of The Kornblau Institute
Virginia Commonwealth University

S. Craig Lane
President
Lane & Hamner, PC

Michael A. O'Malley
Financial Advisor
Hallberg & O'Malley Financial Group

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President
Spotts Fain, PC

Scott E. Strickler
Treasurer
Robins Insurance Agency, Inc.

Adrienne P. Whitaker
Business Development Executive
Greater Richmond ARC

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020
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
(State or other jurisdiction of incorporation or organization)

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

3600 La Grange Parkway
Toano, VA 23168
(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:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, \$1.00 par value per share | CFFI | The NASDAQ Stock Market LLC |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated Filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's second fiscal quarter, was \$114,205,770.

There were 3,684,221 shares of common stock, \$1.00 par value per share, outstanding as of February 28, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held April 20, 2021 are incorporated by reference in Part III of this report.

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Cautionary Statement Regarding Forward-Looking Statements

This report contains statements concerning the Corporation's expectations, plans, objectives or beliefs regarding future financial performance and other statements that are not historical facts. These statements may constitute "forward-looking statements" as defined by federal securities laws and may include, but are not limited to: statements regarding expected future operations and financial performance; potential effects of the COVID-19 pandemic, including on asset quality, the allowance for loan losses, provision for loan losses, interest rates, and results of operations, the anticipated benefits of the early repayment of certain borrowings, certain items that management does not expect to have an ongoing impact on consolidated net income, including a gain upon the sale of a pool of purchased credit impaired loans, impairment charges related to a branch consolidation, and certain tax benefits provided by the Coronavirus Aid, Recovery, and Economic Security Act (the CARES Act), future dividend payments, net interest margin compression and items affecting net interest margin, including future repricing of time deposits at maturity, expected impacts of the Corporation's acquisition of Peoples Bankshares, Inc. (Peoples), strategic business initiatives and the anticipated effects thereof, including new or consolidated facilities, lending under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA), margin compression, technology initiatives, asset quality, adequacy of allowances for loan losses and the level of future charge-offs, liquidity and capital levels, the effect of future market and industry trends and the effects of future interest rate levels and fluctuations. These forward-looking statements are subject to significant risks and uncertainties due to factors that could have a material adverse effect on the operations and future prospects of the Corporation including, but not limited to, changes in:

- interest rates, such as volatility in short-term interest rates or yields on U.S. Treasury bonds and increases or volatility in mortgage interest rates
- general business conditions, as well as conditions within the financial markets
- general economic conditions, including unemployment levels and slowdowns in economic growth, and particularly related to further and sustained economic impacts of the COVID-19 pandemic
- the effectiveness of the Corporation's efforts to respond to COVID-19, the severity and duration of the pandemic, the pace of vaccinations, the pace of recovery when the pandemic subsides and the heightened impact it has on many of the risks described herein
- potential claims, damages and fines related to litigation or government actions, including litigation or actions arising from the Corporation's participation in and administration of programs related to COVID-19, including, among other things, the PPP under the CARES Act, as subsequently extended
- the legislative/regulatory climate, regulatory initiatives with respect to financial institutions, products and services, the Consumer Financial Protection Bureau (the CFPB) and the regulatory and enforcement activities of the CFPB
- monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System (the Federal Reserve Board), and the effect of these policies on interest rates and business in our markets
- the value of securities held in the Corporation's investment portfolios
- demand for loan products and the impact of changes in demand on loan growth
- the quality or composition of the loan portfolios and the value of the collateral securing those loans

- the inventory level and pricing of used automobiles, including sales prices of repossessed vehicles
- the level of net charge-offs on loans and the adequacy of our allowance for loan losses
- the level of indemnification losses related to mortgage loans sold
- deposit flows
- the strength of the Corporation's counterparties
- competition from both banks and non-banks, including competition in the non-prime automobile finance markets
- demand for financial services in the Corporation's market area
- reliance on third parties for key services
- the commercial and residential real estate markets
- the demand in the secondary residential mortgage loan markets
- the Corporation's technology initiatives and other strategic initiatives
- the Corporation's branch expansions and consolidations
- cyber threats, attacks or events
- expansion of C&F Bank's product offerings
- accounting principles, policies and guidelines and elections made by the Corporation thereunder

These risks and uncertainties, and the risks discussed in more detail in Item 1A. "Risk Factors," should be considered in evaluating the forward-looking statements contained herein. Forward-looking statements generally can be identified by the use of words such as "believe," "expect," "anticipate," "estimate," "plan," "may," "will," "intend," "should," "could," or similar expressions, are not statements of historical fact, and are based on management's beliefs, assumptions and expectations regarding future events or performance as of the date of this report, taking into account all information currently available. Readers should not place undue reliance on any forward-looking statement. There can be no assurance that actual results will not differ materially from historical results or those expressed in or implied by such forward-looking statements, or that the beliefs, assumptions and expectations underlying such forward-looking statements will be proven to be accurate. Forward-looking statements are made as of the date of this report and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which the statement was made, except as otherwise required by law.

PART I

ITEM 1. BUSINESS

General

C&F Financial Corporation (the Corporation) is a bank holding company that was incorporated in March 1994 under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of Citizens and Farmers Bank (the Bank or C&F Bank), which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. C&F Bank originally opened for business under the name Farmers and Mechanics Bank on January 22, 1927. C&F Bank has the following five wholly-owned subsidiaries, all incorporated under the laws of the Commonwealth of Virginia:

- C&F Mortgage Corporation
- C&F Finance Company
- C&F Wealth Management Corporation
- C&F Insurance Services, Inc.
- CVB Title Services, Inc.

The Corporation operates in a decentralized manner in three principal business segments: (1) community banking through C&F Bank, (2) mortgage banking through C&F Mortgage Corporation (C&F Mortgage) and (3) consumer finance through C&F Finance Company (C&F Finance). For detailed information about the financial condition and results of operations of these segments, see “Note 21: Business Segments” in Item 8. “Financial Statements and Supplementary Data” in this report. C&F Wealth Management Corporation, organized in April 1995, is a full-service brokerage firm offering a comprehensive range of wealth management services and insurance products through third-party service providers. C&F Insurance Services, Inc. was organized in July 1999 for the primary purpose of owning an equity interest in an independent insurance agency that operates in Virginia and North Carolina. CVB Title Services, Inc. was organized for the primary purpose of owning an equity interest in a full service title and settlement agency. The financial position and operating results of C&F Wealth Management Corporation, C&F Insurance Services, Inc. and CVB Title Services, Inc. are not significant to the Corporation as a whole.

The Corporation also owns three non-operating subsidiaries, C&F Financial Statutory Trust II (Trust II) formed in December 2007, C&F Financial Statutory Trust I (Trust I) formed in July 2005, and Central Virginia Bankshares Statutory Trust I (CVBK Trust I) formed in December 2003. These trusts were formed for the purpose of issuing \$10.0 million each for Trust II and Trust I and \$5.0 million for CVBK Trust I of trust preferred capital securities in private placements to institutional investors. All three trusts are unconsolidated subsidiaries of the Corporation. The principal assets of these trusts are \$10.3 million each for Trust II and Trust I and \$5.2 million for CVBK Trust I of the Corporation’s junior subordinated debt securities (such securities of the Corporation referred to herein as “trust preferred capital notes”) that are reported as liabilities in the consolidated balance sheet of the Corporation.

Community Banking

We provide community banking services through C&F Bank. C&F Bank provides community banking services at its main office in West Point, Virginia, and 30 Virginia branches located one each in the counties of Albermarle, Goochland, Hanover, Middlesex, Powhatan, Stafford and York and the towns and cities of Charlottesville, Hampton, Montross, Newport News, Richmond, Warsaw and Williamsburg, two each in the counties of Cumberland, James City, King George, and New Kent, and four each in the counties of Chesterfield and Henrico. These branches provide a wide range of banking services to individuals and businesses. These services include various types of checking and savings deposit accounts, as well as business, real estate, development, mortgage, home equity and installment loans. The Bank

also offers ATMs, internet and mobile banking, peer-to-peer payment capabilities and debit and credit cards, as well as safe deposit box rentals, notary public, electronic transfer and other customary bank services to its customers. C&F Bank manages its commercial lending portfolio primarily through commercial lending offices located in Charlottesville, Chesapeake, Richmond and Williamsburg, Virginia. Revenues from community banking operations consist primarily of interest earned on loans and investment securities and fees earned on deposit accounts and debit card interchange. Community banking revenues and operations are not materially affected by seasonal factors; however, public deposits tend to increase with tax collections primarily in the fourth quarter of each year and decline with spending thereafter. The community banking segment was previously referred to as the retail banking segment. At December 31, 2020, assets of the community banking segment totaled \$2.0 billion. For the year ended December 31, 2020, net income for this segment totaled \$5.4 million.

Mortgage Banking

We conduct mortgage banking activities through C&F Mortgage, which was organized in September 1995, and its 51%-owned subsidiary, C&F Select LLC, which was organized in January 2019. C&F Mortgage provides mortgage loan origination services through 14 locations in Virginia, one in Maryland, two in North Carolina, one in South Carolina, and one in West Virginia. The Virginia offices are located one each in Charlottesville, Chesapeake, Fishersville, Fredericksburg, Glen Allen, Harrisonburg, Lynchburg, Newport News, Richmond, Waynesboro, and Williamsburg and three in Midlothian. The Maryland office is located in Waldorf. The North Carolina offices are located in Gastonia and Moyock. The South Carolina office is located in Fort Mill. The West Virginia office is located in Keyser. C&F Select LLC provides mortgage loan origination services through two locations in Richmond, Virginia. The mortgage banking segment offers a wide variety of residential mortgage loans, which are originated for sale generally to the following investors: Wells Fargo Home Mortgage; PennyMac Corporation; SunTrust Mortgage, Inc.; AmeriHome Mortgage Company, LLC; Freedom Mortgage Corporation and Planet Home Lending, LLC. The mortgage banking segment does not securitize loans. C&F Bank may also purchase mortgage loans from the mortgage banking segment. The mortgage banking segment originates conventional mortgage loans, mortgage loans insured by the Federal Housing Administration (the FHA), and mortgage loans guaranteed by the United States Department of Agriculture (the USDA) and the Veterans Administration (the VA). A majority of the conventional loans are conforming loans that qualify for purchase by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). The remainder of the conventional loans are non-conforming in that they do not meet Fannie Mae or Freddie Mac guidelines, but are eligible for sale to various other investors. The mortgage banking segment also has a division, Lender Solutions, that provides certain mortgage loan origination functions as a service to third party mortgage lenders and a subsidiary, Certified Appraisals LLC, which provides ancillary mortgage loan production services to third parties for residential appraisals. Revenues from mortgage banking operations consist principally of gains on sales of loans to investors in the secondary mortgage market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues and income from mortgage banking, which are driven primarily by the origination and sale of mortgage loans, are subject to seasonal factors, including the volume of home sales in the residential real estate market, which typically rises during spring and summer months and declines during fall and winter months. However, seasonal trends may be disrupted by cyclical and other economic factors that affect the residential real estate market. At December 31, 2020, assets of the mortgage banking segment totaled \$239.4 million. For the year ended December 31, 2020, net income for this segment totaled \$10.7 million.

Consumer Finance

We conduct consumer finance activities through C&F Finance. C&F Finance is a regional finance company purchasing automobile, marine and recreational vehicle (RV) loans throughout Virginia and in portions of Alabama, Colorado, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Minnesota, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas and West Virginia through its offices in Richmond and Hampton, Virginia. C&F Finance is an indirect lender that primarily provides automobile financing through lending programs that are designed to serve customers in the “non-prime” market who have limited access to traditional automobile financing. C&F Finance generally purchases automobile retail installment sales contracts from manufacturer-franchised dealerships with used-car operations and through selected independent dealerships. C&F Finance selects these dealers based on the types of vehicles sold. Specifically, C&F Finance prefers to finance later model, low mileage used vehicles

because the initial depreciation on new vehicles is extremely high. The typical borrowers on the automobile retail installment sales contracts purchased have experienced prior credit difficulties. Because C&F Finance serves customers who are unable to meet the credit standards imposed by most traditional automobile financing sources, C&F Finance typically charges interest at higher rates than those charged by traditional financing sources. In addition, because C&F Finance provides financing in a relatively high-risk market, it expects to experience a higher level of credit losses than traditional automobile financing sources. In addition to non-prime automobile financing, beginning in the first quarter of 2018, C&F Finance expanded its lending portfolio to include marine and RV loan contracts in the prime sector. These contracts are also purchased on an indirect basis through a referral program administered by a third party. Because these contracts are for prime loans made to individuals with higher credit scores, they are priced at rates substantially lower than the non-prime automobile portfolio. Revenues from consumer finance operations consist principally of interest earned on automobile, marine and RV loans. While the consumer finance segment's loans outstanding and interest income are not materially affected by seasonal factors, delinquencies on automobile loans are generally highest in the period from November through January, related in part to seasonal trends affecting borrowers, including consumer spending. At December 31, 2020, assets of the consumer finance segment totaled \$314.7 million. For the year ended December 31, 2020, net income for this segment totaled \$7.6 million.

Human Capital Resources

The Corporation and its subsidiaries foster a culture of respect, teamwork, ownership, responsibility, initiative, integrity, and service. We believe that our officers and employees are our most important assets. Our people are critical to the Corporation's performance and the achievement of our strategic goals, and they represent a key element of how the Corporation's businesses compete and succeed.

Acquiring and retaining strong talent is a top strategic priority for each of the Corporation's businesses. We provide a competitive compensation and benefits program to help meet the needs of our employees, including benefits that incentivize retention and reward longevity. We support the health and well-being of our employees through a comprehensive program designed to increase employee focus on wellness and prevention, including the benefit plans we offer, health incentives and dedicated healthcare resources for employees and their families provided through an onsite health center located at our corporate office and virtually. We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within our organization. We have created career paths for specific positions that are designed to encourage an employee's advancement and growth within our organization, and we aim to provide employees with the skills and opportunities they need to achieve their career goals and become leaders in our businesses.

At December 31, 2020, we employed 697 full-time equivalent employees. We consider relations with our employees to be excellent. We strive for our workforce to reflect the diversity of the customers and communities we serve. Our selection and promotion processes are without bias and include the active recruitment of minorities and women. At December 31, 2020, women represented 67 percent of our employees, and racial and ethnic minorities represented 29 percent of our employees. We also aim for our employees to develop their careers in our businesses. At December 31, 2020, 21 percent of our employees have been employed by the Corporation or its subsidiaries for at least 15 years.

Competition

Community Banking

In the Bank's market area, we compete with large national and regional financial institutions, savings associations and other independent community banks, as well as credit unions, mutual funds, brokerage firms, insurance companies and other lending and deposit platforms offered by non-bank financial technology firms, including those that only operate digitally. Increased competition has come from out-of-state banks through their acquisition of Virginia-based banks and interstate branching, and expansion of community and regional banks into our service areas.

The banking business in Virginia, and specifically in the Bank's primary service areas between Hampton Roads and Charlottesville, and in the Northern Neck region of Virginia, is highly competitive for both loans and deposits, and is

dominated by a relatively small number of large banks with many offices operating over a wide geographic area. Among the advantages such large banks have are their ability to finance wide-ranging advertising campaigns, to maximize efficiencies through economies of scale and, by virtue of their greater total capitalization, to have substantially higher lending limits than the Bank.

Factors such as interest rates offered, the number and location of branches and the types of products offered, as well as the reputation of the institution, affect competition for deposits and loans. We compete by emphasizing customer service, establishing long-term customer relationships, building customer loyalty and providing traditional and digital products and services to address the specific needs of our customers. Our relationships with customers depend on, among other things, our ability to attract and retain talented community bankers. We target individual customers, small-to-medium size business customers and acquisition, development and construction loan customers in our markets.

No material part of the Bank's business is dependent upon a single or a few customers, and the loss of any single customer would not have a materially adverse effect upon the Bank's business.

Mortgage Banking

C&F Mortgage competes with large national and regional banks, credit unions, smaller regional mortgage lenders, small local broker operations and internet lending platforms. Due to the increased regulatory and compliance burden, the industry has seen a consolidation in the number of competitors in the marketplace. The agency guidelines for sales of mortgages in the secondary market business continue to be stringent.

The competitive factors faced by C&F Mortgage continue to evolve because of regulatory reforms and initiatives, including expansion in recent years of consumer protections and related regulation of mortgage lending. While C&F Mortgage has kept pace with changes in such regulations to date, potential future legislative and regulatory initiatives have the potential to affect the operations of C&F Mortgage. Given the far-reaching effect of these regulations on mortgage finance, compliance has required and may continue to require substantial changes to mortgage lending systems and processes and other implementation efforts.

To operate profitably in this competitive and regulatory environment, mortgage companies must have a high level of operational and risk management skills and be able to attract and retain top mortgage origination talent. C&F Mortgage competes by attracting the top people in sales and operations in the industry, expanding into new markets that offer strategic growth opportunities, providing an infrastructure that manages regulatory changes efficiently and effectively, utilizing technology to improve efficiency and consistency in its operations and to mitigate compliance risk, offering products that are competitive in both loan parameters and pricing, and providing consistently high quality customer service.

No material part of C&F Mortgage's business is dependent upon a single customer and the loss of any single customer would not have a materially adverse effect upon C&F Mortgage's business. C&F Mortgage, like all residential mortgage lenders, would be affected by the inability of Fannie Mae, Freddie Mac, the FHA or the VA to purchase or guarantee loans. Although C&F Mortgage sells loans to various third-party investors, the ability of these aggregators to purchase or guarantee loans would be limited if these government-sponsored entities cease to exist or materially limit their purchases or guarantees of mortgage loans or suffer deteriorations in their financial condition.

Consumer Finance

The non-prime automobile finance business is highly competitive. The automobile finance market is highly fragmented and is served by a variety of financial entities, including the captive finance affiliates of major automotive manufacturers, banks, savings associations, credit unions and independent finance companies. Many of these competitors have substantially greater financial resources and lower costs of funds than our finance subsidiary. In addition, competitors often provide financing on terms that are more favorable to automobile purchasers or dealers than the terms C&F Finance offers. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships or their customers other forms of financing, including dealer floor plan financing and leasing, which we do not.

Over the past several years, a number of financial institutions and other lenders have increased focus on operations in the non-prime automobile finance markets resulting in intensified competition for loans and qualified personnel. In addition, certain competitors in the industry have (i) relaxed underwriting standards resulting in higher delinquencies and charge-offs for the industry and (ii) used loan pricing strategies resulting in lower loan yields. To continue to operate profitably, lenders must have a high level of operational and risk management skills and access to competitive costs of funds.

Providers of automobile financing traditionally have competed on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. To establish C&F Finance as one of the principal financing sources for the dealers it serves, we compete predominantly by providing a high level of dealer service, building strong dealer relationships, offering flexible loan terms and quickly funding loans purchased from dealers.

No material part of C&F Finance's business is dependent upon any single dealer relationship, and the loss of any single dealer relationship would not have a materially adverse effect upon C&F Finance's business.

Response to the COVID-19 Pandemic

Following the outbreak of the COVID-19 pandemic in early 2020, the business environment in which the Corporation and its subsidiaries operate has been subject to numerous changes as a result of public health measures, economic disruption, government intervention and changes in regulation. These changes have affected our businesses operationally, including how we serve our customers, as well as financially. In our workplaces, we have implemented safe and healthy practices of social distancing and enhanced cleaning to protect our employees and customers as we continue to operate and serve our communities. We also adapted our technology and processes in March 2020 to allow a substantial portion of our administrative personnel to work remotely. As of December 31, 2020, many employees have returned to our offices on a full-time or part-time basis, but a significant number continue to work remotely. Retail branch lobbies of our community banking segment were temporarily closed for several months, except by appointment, while customers were continuously able to access our products and services through our online and mobile platforms, ATMs and drive-thru facilities. Branch lobbies generally reopened in September 2020. We are making paid leave available to employees who are affected by the coronavirus and unable to work remotely. We are working proactively with borrowers affected by the pandemic through our community banking and consumer finance segments, including by offering short-term modifications, such as payment deferrals or interest only periods, to borrowers who are temporarily unable to make loan payments.

The federal government and federal regulatory agencies introduced numerous initiatives in response to the pandemic. For example, the Families First Coronavirus Relief Act, enacted on March 18, 2020, made it possible to provide emergency and extended paid leave during 2020 for employees affected by the coronavirus, including employees who became ill or who needed to care for a family member that became ill. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, included provisions that, among other things, (i) established the Paycheck Protection Program (PPP) to provide loans guaranteed by the Small Business Administration (SBA) to businesses affected by the pandemic, (ii) established the Paycheck Protection Program Lending Facility (PPPLF) to provide funding to eligible financial institutions through the Federal Reserve Board system to facilitate lending under the PPP, (iii) provided certain forms of economic stimulus, including direct payments to certain U.S. households, enhanced unemployment benefits, certain income tax benefits intended to assist businesses in surviving the economic crisis, and delayed the required implementation of certain new accounting standards for some entities, and (iv) provided limited regulatory relief to banking institutions. The federal banking agencies have eased certain bank capital requirements and reporting requirements in response to the pandemic, and have encouraged banking institutions to work prudently with borrowers affected by the pandemic by offering loan modifications that can improve borrowers' capacity to service debt, increase the potential for financially stressed residential borrowers to keep their homes, and facilitate financial institutions' ability to collect on their loans. The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, expanded on some of the benefits made available under the CARES Act, including the PPP program, and provided further economic stimulus.

The Corporation and its subsidiaries continue to adapt to the changing business environment and are committed to providing necessary support to our customers and employees to meet the challenges of these uncertain times.

Regulation and Supervision

General

Bank holding companies, banks and their affiliates are extensively regulated under both federal and state law. Consequently, the growth and earnings performance of the Corporation and the Bank can be affected not only by management's decisions and general economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities including, but not limited to, the Virginia State Corporation Commission Bureau of Financial Institutions (VBFI), the Federal Deposit Insurance Corporation (the FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve Board), the Internal Revenue Service, federal and state taxing authorities, and the Securities and Exchange Commission (the SEC).

The following summary briefly describes significant provisions of currently applicable federal and state laws and certain regulations and the potential impact of such provisions. This summary is not complete, and we refer you to the particular statutory or regulatory provisions or proposals for more information. Because regulation of financial institutions changes regularly and is the subject of constant legislative and regulatory debate, we cannot forecast how federal and state regulation and supervision of financial institutions may change in the future and affect the Corporation's and the Bank's operations. See "Risks Related to the Regulation of the Corporation" below in Item 1A of Part I of Annual Report on Form 10-K for further discussion.

Regulatory Reform

The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other events led to the adoption of numerous laws and regulations that apply to, and focus on, financial institutions. The most significant of these laws is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted on July 21, 2010 and, in part, was intended to implement significant structural reforms to the financial services industry.

The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including the Corporation and the Bank. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the EGRRCPA) was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion as well as for larger banks with assets above \$50 billion. In addition, the EGRRCPA included regulatory relief for community banks regarding regulatory examination cycles, call reports, application of the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, qualified mortgages, and risk weights for certain high-risk commercial real estate loans. However, federal banking agencies retain broad discretion to impose additional regulatory requirements on banking organizations based on safety and soundness and U.S. financial system stability considerations.

The Corporation continues to experience ongoing regulatory reform. These regulatory changes could have a significant effect on how we conduct business. The specific implications of the Dodd-Frank Act, the EGRRCPA, and other potential regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are to be adopted in the future. Certain aspects of the Dodd-Frank Act and the EGRRCPA are discussed in more detail below.

Regulation of the Corporation

As a bank holding company, the Corporation is subject to the Bank Holding Company Act of 1956 (the BHCA) and regulation and supervision by the Federal Reserve Board. Pursuant to the BHCA the Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company. The Federal Reserve Board and the FDIC have adopted guidelines and released interpretative materials that establish operational and managerial standards to promote the safe and sound operation of banks and bank holding companies. These standards relate to the institution's key operating functions, including but not limited to capital management, internal controls, internal audit systems, information systems, data and cybersecurity, loan documentation, credit underwriting, interest rate exposure and risk management, vendor management, executive management and its compensation, corporate governance, asset growth, asset quality, earnings, liquidity and risk management.

The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is closely related to banking or to managing or controlling banks, and permits interstate banking acquisitions subject to certain conditions, including national and state concentration limits. The Federal Reserve Board has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. A bank holding company must be "well capitalized" and "well managed" to engage in an interstate bank acquisition or merger, and banks may branch across state lines provided that the law of the state in which the branch is to be located would permit establishment of the branch if the bank were a state bank chartered by such state. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates, as further discussed below.

Each of the Bank's depository accounts is insured by the FDIC against loss to the depositor to the maximum extent permitted by applicable law, and federal law and regulatory policy impose a number of obligations and restrictions on the Corporation and the Bank to reduce potential loss exposure to depositors and to the FDIC Deposit Insurance Fund (DIF). For example, pursuant to the Dodd-Frank Act and Federal Reserve Board policy, a bank holding company must commit resources to support its subsidiary depository institutions, which is referred to as serving as a "source of strength." In addition, insured depository institutions under common control must reimburse the FDIC for any loss suffered or reasonably anticipated by the DIF as a result of the default of a commonly controlled insured depository institution. The FDIC may decline to enforce the provisions if it determines that a waiver is in the best interest of the DIF. An FDIC claim for damages is superior to claims of stockholders of an insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt, other than affiliates, of the commonly controlled insured depository institution.

The Federal Deposit Insurance Act (the FDIA) provides that amounts received from the liquidation or other resolution of any insured depository institution must be distributed, after payment of secured claims, to pay the deposit liabilities of the institution before payment of any other general creditor or stockholder of that institution – including that institution's parent holding company. This provision would give depositors a preference over general and subordinated creditors and stockholders if a receiver is appointed to distribute the assets of a bank.

The Corporation also is subject to regulation and supervision by the Virginia State Corporation Commission. The Corporation also must file annual, quarterly and other periodic reports with, and comply with other regulations of, the SEC.

Capital Requirements

Regulatory Capital Requirements. All financial institutions are required to maintain minimum levels of regulatory capital. The FDIC establishes risk-based and leveraged capital standards for the financial institutions they regulate. The FDIC also may impose capital requirements in excess of these standards on a case-by-case basis for various reasons, including financial condition or actual or anticipated growth.

Basel III Capital Framework. The Federal Reserve Board and the FDIC have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the Basel III Final Rules) that apply to banking institutions they supervise. For the purposes of these capital rules, (i) common equity tier 1 capital (CET1) consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stocks and trust preferred securities; and (iii) Tier 2 capital consists of other capital instruments, principally qualifying subordinated debt and preferred stock, and limited amounts of an institution's allowance for loan losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans.

The Basel III Final Rules and minimum capital ratios required to be maintained by banks were effective January 1, 2015. The Basel III Final Rules also include a requirement that banks maintain additional capital (the capital conservation buffer), which was phased in beginning January 1, 2016 and was fully phased in effective January 1, 2019. The Basel III Final Rules and fully phased in capital conservation buffer require banks to maintain:

- (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent capital conservation buffer (which is added to the minimum CET1 ratio, effectively resulting in a required ratio of CET1 to risk-weighted assets of at least 7 percent),
- (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (effectively resulting in a required Tier 1 capital ratio of 8.5 percent),
- (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (effectively resulting in a required total capital ratio of 10.5 percent) and
- (iv) a minimum leverage ratio of 4 percent, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

The Basel III Final Rules permanently include in Tier 1 capital trust preferred securities issued prior to May 19, 2010 by bank holding companies with less than \$15 billion in total assets, subject to a limit of 25 percent of Tier 1 capital. The Corporation expects that its trust preferred securities will be included in the Corporation's regulatory capital as Tier 1 capital instruments until their maturity.

As of December 31, 2020, the Bank met all capital adequacy requirements under the Basel III Final Rules, including the capital conservation buffer on a fully phased-in basis.

Community Bank Leverage Ratio. As a result of the EGRRCPA, the federal banking agencies were required to develop a Community Bank Leverage Ratio (the ratio of a bank's tangible equity capital to average total consolidated assets) for banking organizations with assets of less than \$10 billion, such as the Bank. On October 29, 2019, the federal banking agencies issued a final rule that implements the Community Bank Leverage Ratio Framework (the CBLRF). To qualify for the CBLRF, a bank must have less than \$10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. A bank that elects the CBLRF and has a leverage ratio greater than 9 percent will be considered to be in compliance with Basel III capital requirements and exempt from the complex Basel III calculations and will also be deemed "well capitalized" under Prompt Corrective

Action regulations, discussed below. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided its leverage ratio remains above 8 percent (a bank will be deemed “well capitalized” during the grace period). The CBLRF became available beginning March 31, 2020, with the flexibility for banking organizations to subsequently opt into or out of the CBLRF, as applicable. The federal banking agencies issued an interim final rule in April 2020 to implement certain provisions of the CARES Act that temporarily modified the minimum leverage ratio requirements of the CBLRF. The minimum leverage ratio requirement was reduced from 9 percent to 8 percent for the second through fourth quarters of 2020 and 8.5 percent through 2021. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided its leverage ratio remains no more than 100 basis points below the applicable minimum leverage ratio requirement. The Bank has not elected to opt into the CBLRF.

Small Bank Holding Company. The EGRRCPA also expanded the category of bank holding companies that may rely on the Federal Reserve Board’s Small Bank Holding Company Policy Statement by raising the maximum amount of assets a qualifying bank holding company may have from \$1 billion to \$3 billion. In addition to meeting the asset threshold, a bank holding company must not engage in significant nonbanking activities, not conduct significant off-balance sheet activities, and not have a material amount of debt or equity securities outstanding and registered with the SEC (subject to certain exceptions). The Federal Reserve Board may, in its discretion, exclude any bank holding company from the application of the Small Bank Holding Company Policy Statement if such action is warranted for supervisory purposes.

In August 2018, the Federal Reserve Board issued an interim final rule to apply the Small Bank Holding Company Policy Statement to bank holding companies with consolidated total assets of less than \$3 billion. The policy statement, which, among other things, exempts certain bank holding companies from minimum consolidated regulatory capital ratios that apply to other bank holding companies. As a result of the interim final rule, which was effective August 30, 2018, the Corporation expects that it will be treated as a small bank holding company and will not be subject to regulatory capital requirements. The comment period on the interim final rule closed on October 29, 2018 and, to date, the Federal Reserve Board has not issued a final rule to replace the interim final rule. The Bank remains subject to the regulatory capital requirements described above.

Limits on Dividends

The Corporation is a legal entity that is separate and distinct from the Bank. A significant portion of the revenues of the Corporation result from dividends paid to it by the Bank. Both the Corporation and C&F Bank are subject to laws and regulations that limit the payment of dividends, including limits on the sources of dividends and requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and (2) if the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition. In addition, Federal Reserve Board supervisory guidance indicates that the Federal Reserve Board may have safety and soundness concerns if a bank holding company pays dividends that exceed earnings for the period in which the dividend is being paid. Further, the FDIA prohibits insured depository institutions such as C&F Bank from making capital distributions, including paying dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute. We do not expect that any of these laws, regulations or policies will materially affect the ability of the Corporation or C&F Bank to pay dividends.

Insurance of Accounts, Assessments and Regulation by the FDIC

The Bank’s deposits are insured by the DIF of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. The basic limit on FDIC deposit insurance coverage is \$250,000 per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations as an insured institution, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes. The FDIC may also suspend deposit insurance temporarily during the hearing process.

for the permanent termination of insurance if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the Bank's deposit insurance.

Deposit Insurance Assessments. The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target "designated reserve ratio" (described in more detail below) of 2 percent for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution's weighted average CAMELS component rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits (not applicable to banks with less than \$10 billion in assets). At December 31, 2020, total base assessment rates for institutions that have been insured for at least five years range from 1.5 to 30 basis points applying to banks with less than \$10 billion in assets.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. As of December 31, 2020, the designated reserve ratio was 2.00 percent and the minimum designated reserve ratio was 1.35 percent.

At September 30, 2019, the reserve ratio was 1.41 percent. Banks with less than \$10 billion in total consolidated assets were eligible for credits to offset the portion of their assessments that helped to raise the reserve ratio to 1.35 percent. The FDIC automatically applied these credits to reduce an eligible bank's regular DIF assessment up to the entire amount of the assessment. The Bank was awarded credits of \$365,000, of which \$207,000 was used to offset its DIF assessment in the third and fourth quarters of 2019 and \$158,000 was used to offset its DIF assessment in the first and second quarters of 2020.

In June 2020, the FDIC adopted a final rule that generally removes the effect of PPP lending when calculating a bank's deposit insurance assessment by providing an offset to the bank's total assessment amount for the increase in the assessment base attributable to the bank's participation in the PPP. This final rule began applying to FDIC deposit insurance assessments during the second quarter of 2020.

Regulation of the Bank and Other Subsidiaries

The Bank is subject to supervision, regulation and examination by the VBFI and its primary federal regulator, the FDIC. The various laws and regulations issued and administered by the regulatory agencies (including the CFPB) affect corporate practices, such as the payment of dividends, the incurrence of debt and the acquisition of financial institutions and other companies, and affect business practices and operations, such as the payment of interest on deposits, the charging of interest on loans, the types of business conducted, the products and terms offered to customers and the location of offices. Prior approval of the applicable primary federal regulator and the VBFI is required for a Virginia chartered bank or bank holding company to merge with another bank or bank holding company, or purchase the assets or assume the deposits of another bank or bank holding company, or acquire control of another bank or bank holding company. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory agencies will consider, among other things, the competitive effect and public benefits of the transactions, the financial condition, managerial resources, capital position and any asset concentrations (including commercial real estate loan concentrations) of the constituent organizations and the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (CRA) and fair housing initiatives, the data security and cybersecurity infrastructure of the constituent organizations and the combined organization, the applicant's risk management programs and processes, and the applicant's compliance with and the effectiveness of the subject organizations in combating money laundering activities and complying with Bank Secrecy Act requirements.

Certain Transactions by Insured Banks with their Affiliates. There are statutory restrictions related to the extent bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in “covered transactions” with their insured depository institution (i.e., banking) subsidiaries. In general, an “affiliate” of a bank includes the bank’s parent holding company and any subsidiary thereof. However, an “affiliate” does not generally include the bank’s operating subsidiaries. A bank (and its subsidiaries) may not lend money to, or engage in other covered transactions with, its non-bank affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 10 percent of the bank’s capital stock and surplus; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 20 percent of the bank’s capital stock and surplus. “Covered transactions” are defined to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Certain covered transactions are also subject to collateral security requirements.

Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms, which means that the transaction must be conducted on terms and under circumstances that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving nonaffiliates or, in the absence of comparable transactions, that in good faith would be offered to or would apply to nonaffiliates. Moreover, certain amendments to the BHCA provide that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Community Reinvestment Act. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution’s efforts in meeting community credit needs are assessed based on specified factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility. In 2020, the Bank received a “Satisfactory” CRA rating.

Federal Home Loan Bank of Atlanta. The Bank is a member of the Federal Home Loan Bank (FHLB) of Atlanta, which is one of 11 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. At December 31, 2020, the Bank owned \$1.6 million of FHLB stock.

Consumer Protection. The CFPB is the federal regulatory agency that is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than \$10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services, and has rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth-in-Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA)).

Because the Corporation and the Bank are smaller institutions (i.e., with assets of \$10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Corporation by the Federal Reserve Board and to the Bank by the FDIC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution’s principal regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and banks, could influence how the Federal Reserve Board and FDIC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB’s consumer protection activities on the Corporation and the Bank cannot be determined with certainty.

Mortgage Banking Regulation. In connection with making mortgage loans, the Bank and C&F Mortgage are subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. The Bank's mortgage origination activities are subject to the Equal Credit Opportunity Act (ECOA), TILA, Home Mortgage Disclosure Act, RESPA, and Home Ownership Equity Protection Act, and the regulations promulgated under these acts, among other additional state and federal laws, regulations and rules.

The Bank's mortgage origination activities are also subject to Regulation Z, which implements TILA. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3 percent of the total loan amount. Under the EGRRCPA, most residential mortgage loans originated and held in portfolio by a bank with less than \$10 billion in assets will be designated as "qualified mortgages." Higher-priced qualified mortgages (e.g., sub-prime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Corporation's mortgage banking segment predominately originates mortgage loans that comply with Regulation Z's "qualified mortgage" rules.

In addition to certain regulations applicable to the Bank's mortgage origination activities, C&F Mortgage is subject to the rules and regulations of, and examination by, the Department of Housing and Urban Development (HUD), the FHA, the USDA, the VA and state regulatory authorities with respect to originating, processing and selling mortgage loans. Those rules and regulations, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers and, in some cases, restrict certain loan features and fix maximum interest rates and fees.

Consumer Financing Regulation. C&F Finance also is regulated by the VBFI and the states and jurisdictions in which it operates, and its lending operations are subject to numerous federal regulations over which the CFPB has rulemaking authority and regarding which enforcement authority is shared by the Federal Reserve Board, the FDIC, the Department of Justice and the Federal Trade Commission. The VBFI regulates and enforces laws relating to consumer lenders and sales finance agencies such as C&F Finance. Such rules and regulations generally provide for licensing of sales finance agencies; limitations on amounts, duration and charges, including interest rates, for various categories of loans; requirements as to the form and content of finance contracts and other documentation; and restrictions on collection practices and creditors' rights.

Certain federal regulatory agencies, and in particular, the CFPB, the Federal Trade Commission, and the Federal Reserve Board, have recently become more active in investigating the products, services and operations of banks and other finance companies engaged in auto finance activities. These investigations have extended to banks that engage in indirect automobile lending. As of January 1, 2021, the Corporation and C&F Finance were not subject to supervision by the CFPB.

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of any bank to accept, renew or roll over any brokered deposit unless it is "well capitalized" or, with the FDIC's approval, "adequately capitalized." However, as a result of the EGRRCPA, the FDIC undertook a comprehensive review of its regulatory approach to brokered deposits, including reciprocal deposits, and interest rate caps applicable to banks that are less than "well capitalized." On December 15, 2020, the FDIC issued final rules that amend the FDIC's methodology for calculating interest rate caps, provide a new process for banks that seek FDIC approval to offer a competitive rate on deposits when the prevailing rate in the bank's local market exceeds the national rate cap, and provides specific exemptions and

streamlined application and notice procedures for certain deposit-placement arrangements that are not subject to brokered deposit restrictions. These final rules are effective on April 1, 2021.

Other Regulations

Prompt Corrective Action. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” These terms are defined under uniform regulations issued by each of the federal banking agencies regulating these institutions. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2020, the Bank was considered “well capitalized.”

Incentive Compensation. Federal banking agencies have issued regulatory guidance (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The FDIC will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not “large, complex banking organizations.” The findings will be included in reports of examination, and deficiencies will be incorporated into the organization’s supervisory ratings. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establishes minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules has closed and a final rule has not yet been published.

Confidentiality and Required Disclosures of Customer Information. The Corporation is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution’s policies and procedures regarding the handling of customers’ nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer’s personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure. Certain exceptions may apply to the requirement to deliver an annual privacy notice based on how a financial institution limits sharing of nonpublic personal information and whether the institution’s disclosure practices or policies have changed in certain ways since the last privacy notice that was delivered.

The Corporation is also subject to various laws and regulations that attempt to combat money laundering and terrorist financing. The Bank Secrecy Act (the BSA) requires all financial institutions to, among other things, create a system of controls designed to prevent money laundering and the financing of terrorism, and imposes recordkeeping and reporting requirements. The USA PATRIOT Act added regulations to facilitate information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering, and requires financial institutions to establish anti-money laundering programs. Regulations adopted under the BSA impose on financial

institutions customer due diligence requirements, and the federal banking agencies expect that customer due diligence programs will be integrated within a financial institution's broader BSA and anti-money laundering compliance program. The Office of Foreign Assets Control (OFAC), which is a division of the U. S. Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds the name of an "enemy" of the United States on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, and report it to OFAC.

Although these laws and programs impose compliance costs and create privacy obligations and, in some cases, reporting obligations, and compliance with all of the laws, programs, and privacy and reporting obligations may require significant resources of the Corporation and the Bank, these laws and programs do not materially affect the Bank's products, services or other business activities.

Corporate Transparency Act. On January 1, 2021, as part of the 2021 National Defense Authorization Act, Congress enacted the Corporate Transparency Act (CTA), which requires The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) to issue regulations implementing reporting requirements for "reporting companies" (as defined in the CTA) to disclose beneficial ownership interests of certain U.S. and foreign entities by January 1, 2022. The CTA imposes additional reporting requirements on entities not previously subject to such beneficial ownership disclosure regulations and also contains exemptions for several different types of entities, including among others: (i) certain banks, bank holding companies, and credit unions; (ii) money transmitting businesses registered with FinCEN; and (iii) certain insurance companies. Reporting companies subject to the CTA will be required to provide specific information with respect to beneficial owner(s) (as defined in the CTA) as well as satisfy initial filing obligations (for newly-formed reporting companies) and submit on-going periodic reports. Non-compliance with FinCEN regulations promulgated under the CTA may result in civil fines as well as criminal penalties. At this time, FinCEN has yet to issue any proposed rules to implement the CTA. Accordingly, the Corporation is unable to determine what impact (if any) the CTA and related regulations will have on the Corporation and its subsidiaries, including the Bank. The Corporation will continue to monitor regulatory developments related to the CTA.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Corporation or the Bank fails to meet the expectations set forth in this regulatory guidance, the Corporation or the Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of the Corporation or the Bank. In addition, all federal and state banking agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

In October 2016, the federal banking agencies issued proposed rules on enhanced cybersecurity risk-management and resilience standards that would apply to very large financial institutions and to services provided by third parties to these institutions. The comment period for these proposed rules has closed and a final rule has not been published. Although the proposed rules would apply only to bank holding companies and banks with \$50 billion or more in total consolidated assets, these rules could influence the federal banking agencies' expectations and supervisory requirements for information security standards and cybersecurity programs of smaller financial institutions, such as the Corporation and the Bank.

Stress Testing. The federal banking agencies have implemented stress testing requirements for certain large or risky financial institutions, including bank holding companies and state-chartered banks. Although these requirements do not apply to the Corporation and the Bank, the federal banking agencies emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential effect of adverse market conditions or outcomes on the organization's financial condition. Based on existing regulatory guidance, the Corporation and the Bank will be expected

to consider the institution's interest rate risk management, commercial real estate loan concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse market conditions or outcomes.

Volcker Rule. The Dodd-Frank Act prohibits bank holding companies and their subsidiary banks from engaging in proprietary trading except in limited circumstances, and places limits on ownership of equity investments in private equity and hedge funds (the Volcker Rule). The EGRRCPA, and final rules adopted to implement the EGRRCPA, exempt all banks with less than \$10 billion in assets (including their holding companies and affiliates) from the Volcker Rule, provided that the institution has total trading assets and liabilities of 5 percent or less of total assets, subject to certain limited exceptions. The Corporation believes that its financial condition and its operations are not affected by the Volcker Rule, amendments thereto, or its implementing regulations.

Call Reports and Examination Cycle. All institutions, regardless of size, submit a quarterly call report that includes data used by federal banking agencies to monitor the condition, performance, and risk profile of individual institutions and the industry as a whole. The EGRRCPA contained provisions expanding the number of regulated institutions eligible to use streamlined call report forms. In June 2019, consistent with the provisions of the EGRRCPA, the federal banking agencies issued a final rule to permit insured depository institutions with total assets of less than \$5 billion that do not engage in certain complex or international activities to file the most streamlined version of the quarterly call report, and to reduce data reportable on certain streamlined call report submissions.

In December 2018, consistent with the provisions of the EGRRCPA, the federal banking agencies jointly adopted final rules that permit banks with up to \$3 billion in total assets, that received a composite CAMELS rating of "1" or "2," and that meet certain other criteria (including not having undergone any change in control during the previous 12-month period, and not being subject to a formal enforcement proceeding or order), to qualify for an 18-month on-site examination cycle.

COVID-19 Related Regulatory Relief. In response to the COVID-19 pandemic, federal banking agencies issued a joint statement on March 22, 2020 encouraging banking institutions to work with borrowers affected by the COVID-19 pandemic, including offering short-term loan modifications to borrowers unable to meet their contractual payment obligations. Under this interagency guidance, certain loans that have been modified are exempt from being reported as past due or as troubled debt restructurings (TDRs). Further, the CARES Act provided additional exemptions from TDR reporting for certain loans that have been modified for reasons related to the COVID-19 pandemic. Regulatory agencies also issued an interim final rule on April 7, 2020 which provides relief in bank regulatory capital requirements that allow loans originated under the PPP to be excluded from risk-weighted assets, and to be excluded from total assets for purposes of bank leverage ratio requirements if they are pledged as collateral to the PPPLF.

Congress also enacted the Consolidated Appropriations Act, 2021, on December 27, 2020, which included (i) the Economic Aid to Hard-Hit Small Businesses, Non-profits, and Venues Act, (ii) the COVID-Related Tax Relief Act of 2020, and (iii) the Taxpayer Certainty and Disability Relief Act of 2020. These laws include significant clarifications and modifications to PPP, which had terminated on August 8, 2020. In particular, Congress revived the PPP and allocated an additional \$284.45 billion in PPP funds for 2021. As a result, the SBA has modified prior guidance and promulgated new regulations and guidance to conform with and implement the new provisions during the first quarter of 2021. As a participating PPP lender, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

Effect of Governmental Monetary Policies. As with other financial institutions, the earnings of the Corporation and the Bank are affected by general economic conditions as well as by the monetary policies of the Federal Reserve Board. Such policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments. The Federal Reserve Board exerts a substantial influence on interest rates and credit conditions, primarily through establishing target rates for federal funds, open market operations in U.S. Government securities, varying the discount rate on member bank borrowings and setting cash reserve requirements against deposits. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits, and rates received on loans and investment

securities and paid on deposits. Fluctuations in the Federal Reserve Board’s monetary policies have had a significant impact on the operating results of the Corporation and the Bank and are expected to continue to do so in the future.

In response to the COVID-19 pandemic, the Federal Reserve Board’s Federal Open Market Committee (the FOMC) set the federal funds target rate – i.e., the interest rate at which depository institutions such as the Bank lend reserve balances to other depository institutions overnight on an uncollateralized basis – to an historic low. On March 16, 2020, the FOMC set the federal funds target rate at zero to 0.25 percent. Consistent with Federal Reserve Board policy, the Federal Reserve Board has committed to the use of overnight reverse repurchase agreements as a supplementary policy tool, as necessary, to help control the federal funds rate and keep it in the target range set by the FOMC.

Future Regulation

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Corporation in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Corporation cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Corporation. A change in statutes, regulations or regulatory policies applicable to the Corporation or any of its subsidiaries could have a material effect on the business of the Corporation.

Available Information

The Corporation’s SEC filings are filed electronically and are available to the public over the Internet at the SEC’s website at <http://www.sec.gov>. The Corporation’s SEC filings also are available through our website at <http://www.cffc.com> under “Investor Relations/Financial Documents/SEC Filings” as of the day they are filed with the SEC. Copies of documents also can be obtained free of charge by writing to the Corporation’s secretary at 3600 La Grange Parkway, Toano, VA 23168 or by calling 804-843-2360.

ITEM 1A. RISK FACTORS

Risk Factors Related to the COVID-19 Pandemic

The Corporation’s results of operations and financial condition have been, and will likely continue to be, adversely affected by the COVID-19 pandemic and, depending on future developments, may be materially adversely impacted by the COVID-19 pandemic.

The outbreak of the novel coronavirus and the resulting COVID-19 pandemic, the widespread government response and the impact on consumers and businesses have caused significant disruption in the United States and international economies and financial markets and have had and will likely continue to have a significant impact on consumers and businesses in our market area and the operations and financial performance of the Corporation. Governments, businesses and the public have taken unprecedented actions to try and contain the spread of COVID-19 and to mitigate its effects including quarantines, shelter-in-place orders, state of emergency declarations, travel bans, closures of businesses and schools, fiscal stimulus and legislative initiatives to deliver monetary aid and other relief. Many of these actions have adversely impacted the economy and forced temporary closures of nonessential business, and as a result, the businesses of many of our customers have been adversely impacted, which could materially affect our business, financial condition and results of operations.

Although the scope, duration and full effects of the pandemic are evolving and cannot be fully known at this time, consequences of the pandemic and efforts to contain the spread of COVID-19 and mitigate the pandemic's effects have included and may include further market volatility, lower interest rates, disrupted trade and supply chains, increased unemployment and reduced economic activity. The period of recovery from the negative economic effects of the pandemic cannot be predicted and may be protracted. If these effects continue for a prolonged period of time, the Corporation may experience significant delinquencies and credit losses due to the inability of borrowers to make timely payments on loans, net interest margin compression, lower demand for our products and services, decreased capital, which may affect the Corporation's ability to originate new loans, disruption of operational processes arising from practices of social distancing and telecommuting and potential impairment of assets, including securities available for sale and goodwill. Credit deterioration in the Corporation's loan portfolio due to the pandemic may be masked or obscured by loan payment deferral programs or government stimulus or relief efforts, such as the PPP. The COVID-19 pandemic may also exacerbate many of the risk factors identified in this Annual Report on Form 10-K, including risk related to our credit quality, collateral, capital, liquidity, operations, interest rate risk, strategic risk and technology.

Although banks have generally been permitted to continue operating during the COVID-19 outbreak, the outbreak has caused the Corporation to change its business operations, including updating branch operations to comply with governmental recommendations and increasing work from home options for our employees. These changes may have adverse impacts on the Corporation's business due to reduced effectiveness of operations, unavailability of personnel, increased cybersecurity risks related to use of remote technology, and increased costs related to these operational changes. Additionally, our business operations may be disrupted if key personnel or significant portions of our employees are unable to work effectively, including because of illness. The changes in business operations could also have a detrimental effect on the Corporation's relationships with its customers and could reduce demand for the Corporation's products and services.

Unfavorable economic conditions and elevated unemployment due to the pandemic may make it difficult for the Corporation to maintain deposit levels and loan origination volume. Such unfavorable conditions may cause the value of our investment portfolio and of the collateral securing the Corporation's loans to decline. The Federal Reserve has lowered the federal funds rate to a range of zero to 0.25 percent in part as a result of the pandemic. A prolonged period of very low interest rates could reduce the Corporation's net income and have a material adverse effect on the Corporation's cash flows.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity and impact of the COVID-19 pandemic, and the actions required to contain and mitigate it, the effectiveness of vaccines and vaccine distribution efforts, the effects of the pandemic on our customers and vendors, the remedial actions and stimulus measures adopted by local, state and federal governments, the timing and availability of government support for the economy and financial markets including indirect governmental support for various financial assets including mortgage loans, the short- and long-term health impacts of the pandemic, and how quickly and to what extent normal economic and operating conditions can resume, if at all. If the severity of the COVID-19 pandemic worsens, additional actions may be taken by federal, state, and local governments to contain COVID-19 or treat its impact, including additional shelter-in-place orders. There can be no assurance that any efforts by the Corporation to address the adverse impacts of the COVID-19 pandemic will be effective. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future, or as a result of changes in the behavior of customers, businesses and their employees. Furthermore, the financial condition of our customers and vendors may be adversely impacted, which may result in an elevated level of loan losses, a decrease in demand for our products and services, or reduced availability of services provided by third parties on which we rely. Any of these events may, in turn, have a material adverse impact our business, results of operations and financial condition.

Risk Factors Related to our Lending Activities and Economic Conditions

Our business is subject to various lending and other economic risks that could adversely affect our results of operations and financial condition.

Deterioration in economic conditions could adversely affect our business. Our business is directly affected by general economic and market conditions; broad trends in industry and finance; legislative and regulatory changes; changes in governmental monetary and fiscal policies; and inflation, all of which are beyond our control. A deterioration in economic conditions, in particular a prolonged economic slowdown within our geographic region or a broader disruption in the economy, possibly as a result of a pandemic or other widespread public health emergency, could result in the following consequences, any of which could hurt our business materially: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decline in demand for our products and services; and a deterioration in the value of collateral for loans made by our various business segments.

Adverse changes in economic conditions in our market areas or adverse conditions in an industry on which a local market in which we do business is dependent could adversely affect our results of operations and financial condition.

We provide full service banking and other financial services between Hampton Roads and Charlottesville, and in the Northern Neck region of Virginia. Our loan and deposit activities are directly affected by, and our financial success depends on, economic conditions within these markets, as well as conditions in the industries on which those markets are economically dependent. A deterioration in local economic conditions or in the condition of an industry on which a local market depends, such as the U.S. military and related defense contractors and industries, could adversely affect such factors as unemployment rates, business formations and expansions and housing market conditions. Adverse developments in any of these factors could result in among other things, a decline in loan demand, a reduction in the number of creditworthy borrowers seeking loans, an increase in delinquencies, defaults and foreclosures, an increase in classified and nonaccrual loans, a decrease in the value of loan collateral, and a decline in the financial condition of borrowers and guarantors, any of which could adversely affect our financial condition or business.

Weakness in the secondary residential mortgage loan markets or demand for mortgage loans may adversely affect income from C&F Mortgage.

Our mortgage banking segment provides a significant portion of our noninterest income. We generate gains on sales of mortgage loans primarily from sales of mortgage loans that we originate. Interest rates, housing inventory, housing demand, cash buyers, new mortgage lending regulations and other market conditions have a direct effect on loan originations across the industry. In particular, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in noninterest income. In addition, our results of operations are affected by the amount of noninterest expenses (including for personnel and systems infrastructure) associated with mortgage banking activities. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity.

If our allowance for loan losses becomes inadequate, our results of operations may be adversely affected.

Making loans is an essential element of our business. The risk of nonpayment is affected by a number of factors, including but not limited to: the duration of the credit; credit risks of a particular customer; changes in economic and industry conditions; and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans may not be repaid. We attempt to maintain an appropriate allowance for loan losses to provide for losses in our loan portfolio. Because any estimate of loan losses is necessarily subjective and the accuracy of any estimate depends on the outcome of future events that are not within our control, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional provision for loan losses will be required, which would have an adverse effect on the Corporation's net income. Although we believe our allowance for loan losses is adequate to absorb losses that are

inherent in our loan portfolio, we cannot predict the timing or severity of such losses nor give any assurance that our allowance will be adequate in the future.

The Financial Accounting Standards Board (FASB) has issued a new accounting standard that will be effective for the Corporation for the fiscal year beginning January 1, 2023. This standard, Accounting Standards Codification (ASC) Topic 326, “*Financial Instruments—Credit Losses*” (ASC 326) will require the Corporation to record an allowance for credit losses that represents expected credit losses over the lifetime of all loans in its portfolio. This represents a change from the current method of providing for an allowance for loan losses that have been incurred. We have not yet determined the impact that ASC 326 will have on our consolidated financial statements and regulatory capital. While the adoption of ASC 326 will not affect ultimate loan performance or cash flows of the Corporation from making loans, the period in which expected credit losses affect net income of the Corporation may not be similar to the recognition of loan losses under current accounting guidance. If recognition of the allowance for credit losses results in a reduction of the regulatory capital of C&F Bank, the initial reduction in regulatory capital will be phased in over three years under regulatory guidance. If the reduction in regulatory capital of C&F Bank is significant, it may adversely impact the future ability of the Corporation to pay dividends to shareholders.

An increase in mortgage loan defaults or prepayments may result in losses related to loans sold by C&F Mortgage.

Deterioration in economic conditions may cause borrowers to default on their mortgages. This may result in potential repurchase or indemnification obligations for C&F Mortgage on residential mortgage loans originated and sold into the secondary market. Such obligations may arise in the event of claims by investors of borrower misrepresentation, fraud, early-payment default, or underwriting error, as investors attempt to minimize their losses. We cannot be assured that a prolonged period of payment defaults and foreclosures will not result in an increase in requests for repurchases or indemnifications. Alternatively, during periods of low or falling interest rates, our customers may find opportunities to refinance shortly after obtaining a mortgage loan from C&F Mortgage, which may result in unexpected prepayments on loans that have been sold into the secondary market. This may result in obligations of C&F Mortgage to return a portion of the sales proceeds from such loans to investors pursuant to the terms of the sale. We attempt to maintain an appropriate reserve for indemnification losses and for prepayment obligations. Although we believe our reserves for indemnification losses and prepayment obligations are adequate, these estimates are inherently subjective and actual indemnification losses and prepayment obligations will depend on future events that are often not within our control. Therefore, we can give no assurance that established reserves will be adequate. Additional provision for indemnification losses or additional obligations arising from prepayments would have an adverse effect on the Corporation’s net income.

Our level of credit risk is higher due to the concentration of our loan portfolio in commercial loans and in consumer finance loans.

At December 31, 2020, 51.8 percent of our loan portfolio consisted of commercial, financial and agricultural loans, which include loans secured by real estate for builder lines, acquisition and development and commercial development, as well as commercial loans secured by personal property. These loans generally carry larger loan balances and involve a greater degree of financial and credit risk than home equity and residential loans. The increased financial and credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and to borrowers in similar lines of business, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans.

At December 31, 2020, 23.1 percent of our loan portfolio consisted of consumer finance loans that provide automobile financing for customers in the non-prime market. During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses may increase in this portfolio. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which we may sell repossessed vehicles or delay the timing of these sales. Because we focus on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and losses on these loans are higher than those experienced in the general automobile finance industry and could be dramatically affected by a general economic downturn. In addition, our servicing costs may increase without a corresponding increase in our finance charge income. While we manage the higher risk inherent in loans made

to non-prime borrowers through our underwriting criteria for installment sales contracts we purchase and collection methods, we cannot guarantee that these criteria or methods will ultimately provide adequate protection against these risks.

Risk Factors Related to our Industry

We are subject to interest rate risk and fluctuations in interest rates may negatively affect our financial performance.

Our profitability depends in substantial part on our net interest margin, which is the difference between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits and borrowings divided by total interest-earning assets. Changes in interest rates will affect our net interest margin in diverse ways, including the pricing of loans and deposits, the levels of prepayments and asset quality. We are unable to predict actual fluctuations of market interest rates because many factors influencing interest rates, including changes in economic conditions, are beyond our control. We believe that our current interest rate exposure is manageable and does not indicate any significant exposure to interest rate changes. In March 2020, the FOMC announced emergency rate cuts for the federal funds rate, which is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight, in response to the outbreak of COVID-19. Since March 2020, the FOMC has kept the federal funds rate near zero, and financial markets expect interest rates to remain historically low for a prolonged period as the economy recovers from the recession caused by the COVID-19 pandemic. Longer-term market interest rates, including yields on U.S. treasury bonds, have also remained low. Therefore, we are expecting continued pressure on our net interest margin due to intense competition for loans and deposits from both local and national financial institutions and the continued effect of lower interest rates on interest income. In addition, the Corporation could experience further net interest margin compression if it is unable to maintain its current level of loans outstanding by continuing to originate new loans or if it experiences a decrease in deposit balances, which would require the Corporation to seek funding from other sources at higher rates of interest.

We rely substantially on deposits obtained from customers in our target markets to provide liquidity and support growth.

Our business strategies are based on access to funding from local customer deposits. Deposit levels may be affected by a number of factors, including interest rates paid by competitors, general interest rate levels, returns available to customers on alternative investments and general economic conditions that affect savings levels and the amount of liquidity in the economy, including government stimulus efforts in response to economic crises. If our deposit levels fall, we could lose a relatively low cost source of funding and our interest expense would likely increase as we obtain alternative funding to replace lost deposits. If local customer deposits are not sufficient to fund our normal operations and growth, we will look to outside sources, such as borrowings from the FHLB, which is a secured funding source. Our ability to access borrowings from the FHLB will be dependent upon whether and the extent to which we can provide collateral to secure FHLB borrowings. We may also look to federal funds purchased and brokered deposits, although the use of brokered deposits may be limited or discouraged by our banking regulators. We may also seek to raise funds through the issuance of shares of our common stock, or other equity or equity-related securities, or debt securities including subordinated notes as additional sources of liquidity. If we are unable to access funding sufficient to support our business operations and growth strategies or are unable to access such funding on attractive terms, we may not be able to implement our business strategies which may negatively affect our financial performance.

Consumers may increasingly decide not to use banks to complete their financial transactions, which could have a material adverse impact on our financial condition and operations.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the loss of deposits as a lower cost source of funds could have a material adverse effect on our financial condition and results of operations.

Competition from other financial institutions and financial intermediaries may adversely affect our profitability.

We face substantial competition in originating loans and in attracting deposits. Our competition in originating loans and attracting deposits comes principally from other banks, mortgage banking companies, consumer finance companies, savings associations, credit unions, brokerage firms, insurance companies and other institutional lenders and purchasers of loans. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger clients. These institutions may be able to offer the same loan products and services that we offer at more competitive rates and prices. Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could adversely affect our profitability.

Accounting for past business combinations may expose us to intangible asset risk, which could affect our results of operations.

In connection with accounting for prior acquisitions, we recorded assets acquired and liabilities assumed at their fair value, which resulted in the recognition of certain intangible assets, including goodwill. Adverse conditions in our business climate, including a significant decline in future operating cash flows, changes in interest rates that may lead to net interest margin compression, changes in demand for loans or our ability to originate and hold loans, a sustained period of elevated loan losses, a significant decrease in valuations or stock prices of the Corporation or other bank holding companies, or a deviation from our expected growth rate and performance, may significantly affect the fair value of the Corporation's reporting units and may trigger impairment losses on intangible assets, which could be materially adverse to our results of operations.

Risk Factors Related to our Operations and Technology

Our risk management framework may not be effective in mitigating risk and loss.

We maintain an enterprise risk management program that is designed to identify, quantify, monitor, report and control the risks we face. These risks include, but are not limited to, interest rate, credit, liquidity, operational, reputation, legal, compliance, economic and litigation risk. Although we assess our risk management program on an ongoing basis and make identified improvements to it, we can give no assurance that this approach and risk management framework (including related controls) will effectively mitigate the risks listed above or limit losses that we may incur. If our risk management program has flaws or gaps, or if our risk management controls do not function effectively, our results of operations, financial condition or business may be adversely affected.

We are subject to security and operational risks, including cybersecurity risks and cyber attacks, relating to our use of technology that could damage our reputation and our business.

In the ordinary course of business, the Corporation collects and stores sensitive data, including proprietary business information and personally identifiable information of our customers and employees, in systems and on networks. The secure processing, maintenance and use of this information is critical to operations and the Corporation's business strategy. The Corporation has invested in information security technologies and continually reviews processes and practices that are designed to protect its networks, computers and data from damage or unauthorized access. Despite these security measures, the Corporation's computer systems and infrastructure may be vulnerable to attacks by hackers or may be breached due to employee error, malfeasance or other disruptions. Security breaches, including cyber incidents, identity theft and hacking events, have been experienced by several of the world's largest financial institutions that utilize sophisticated security tools to prevent such breaches, incidents and events. Any security breach that we experience could result in legal claims, regulatory penalties, disruption in operation, remediation expenses, costs associated with customer notification and credit monitoring services, increased insurance premiums, loss of customers and business partners and damage to the Corporation's reputation. We rely on customary security systems and procedures to provide the security and authentication necessary to effect secure collection, transmission and storage of sensitive data. These systems and procedures include but are not limited to (i) regular penetration testing of our network, (ii) regular employee training

programs on sound security practices and awareness of security threats, (iii) deployment of tools to monitor our network including intrusion prevention and detection systems, electronic mail spam filters, anti-virus, anti-malware, anti-ransomware, resource logging and patch management, (iv) multifactor authentication for customers using treasury management tools and employees who access our network from outside of our premises, and (v) enforcement of security policies and procedures for the additions and maintenance of user access and rights to resources. However, because the techniques used to obtain unauthorized access, or to disable or degrade systems change frequently and are often not recognized until launched against a target, the Corporation may be unable to anticipate these techniques or to implement adequate protective measures.

While most of our core data processing is conducted internally, certain key applications are outsourced to third party providers. If our third party providers encounter difficulties or if we have difficulty in communicating with such third parties, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations and reputation. Additionally, in recent years banking regulators have focused on the responsibilities of financial institutions to supervise vendors and other third-party service providers. We may have to dedicate significant resources to manage risks and regulatory burdens presented by our relationship with vendors and third-party service providers, including our data processing and cybersecurity service providers.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our businesses' operations such as data processing, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. While we have selected these third-party vendors carefully, we do not control their actions. Any problem caused by these third parties, such as poor performance of services, failure to provide services, disruptions in communication services provided by a vendor, or failure to handle current or higher volumes could adversely affect the Corporation's ability to deliver products and services to its customers and otherwise conduct its business, and may harm its reputation. Financial or operational difficulties of a third-party vendor could also hurt the Corporation's operations if those difficulties affect the vendor's ability to serve the Corporation. Replacing these third-party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our businesses' operations.

Our business is technology dependent, and an inability to successfully implement technological improvements may adversely affect our ability to be competitive and our results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products, systems and services, which may require substantial initial investment to be implemented, including the cost of modifying or adapting existing products, systems and services. The Corporation invests in new technology to enhance customer service, and to increase efficiency and reduce operating costs. Our future success will depend in part upon our ability to create synergies in our operations through the use of technology and to facilitate the ability of customers to engage in financial transactions in a manner that enhances the customer experience. We cannot give any assurance that technological improvements will increase operational efficiency or that we will be able to effectively implement new technology-driven products, systems and services or be successful in marketing new products and services to our customers. A failure to maintain or enhance a competitive position with respect to technology, whether because of a failure to anticipate customer expectations, substantially fewer resources to invest in technological improvements than larger competitors, or because our technological developments fail to perform as desired or are not implemented in a timely manner, could result in higher operating costs, decreased customer satisfaction, and lower market share. An inability to effectively implement new technology and realize operational efficiencies could result in the loss of initial investments in such projects and higher operating costs. Either of these outcomes could have a material adverse impact on our financial condition and results of operations.

We rely heavily on our management team and the unexpected loss of key officers may adversely affect our operations.

We believe that our growth and future success will depend in large part on the skills of our executive officers. We also depend upon the experience of the officers of our subsidiaries and on their relationships with the communities they

serve. The loss of the services of one or more of these officers could disrupt our operations and impair our ability to implement our business strategy, which could adversely affect our business, financial condition and results of operations.

The success of our business strategies depends on our ability to identify and recruit individuals with experience and relationships in our primary markets.

The successful implementation of our business strategy will require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified management personnel is competitive, which has contributed to salary and employee benefit costs that have risen and are expected to continue to rise, which may have an adverse effect on the Corporation's net income. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy is often lengthy, and we may not be able to effectively integrate these individuals into our operations. Our inability to identify, recruit and retain talented personnel to manage our operations effectively and in a timely manner could limit our growth, which could materially adversely affect our business.

Risks Related to the Regulation of the Corporation

Compliance with laws, regulations and supervisory guidance, both new and existing, may adversely affect our business, financial condition and results of operations.

We are subject to numerous laws, regulations and supervision from both federal and state agencies. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including receivership. In addition, establishing systems and processes to achieve compliance with these laws and regulations may increase our costs and/or limit our ability to pursue certain business opportunities.

Laws and regulations, and any interpretations and applications with respect thereto, generally are intended to benefit consumers, borrowers and depositors, but not stockholders. The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenues, costs, earnings, and capital levels. Our success depends on our ability to maintain compliance with both existing and new laws and regulations.

Future legislation, regulation and government policy, particularly following changes in political leadership and policymakers in the federal government, could affect the banking industry as a whole, including the Corporation's business and results of operations, in ways that are difficult to predict. In addition, the Corporation's results of operations could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

The CFPB may increase our regulatory compliance burden and could affect the consumer financial products and services that we offer.

The CFPB significantly influences consumer financial laws, regulation and policy through rulemaking related to enforcement of the Dodd-Frank Act's prohibitions against unfair, deceptive and abusive consumer finance products or practices, which are directly affecting the business operations of financial institutions offering consumer financial products or services, including the Corporation. This agency's broad rulemaking authority includes identifying practices or acts that are unfair, deceptive or abusive in connection with any consumer financial transaction, financial product or service. Although the CFPB has jurisdiction over banks with \$10 billion or greater in assets, rules, regulations and policies issued by the CFPB may also apply to the Corporation or its subsidiaries by virtue of the adoption of such policies and practices by the Federal Reserve and the FDIC. Further, the CFPB may include its own examiners in regulatory examinations by the Corporation's primary regulators. The total costs, limitations and restrictions related to the CFPB may produce significant, material effects on our business, financial condition and results of operations.

Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The policies of the Federal Reserve affect us significantly. The Federal Reserve regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold. Those policies determine to a significant extent our cost of funds for lending and investing. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay a loan, which could have an adverse effect on our financial condition and results of operations. Alternatively, an expansion of the money supply could make it easier for a borrower to obtain a loan from another financial institution at a lower interest rate, resulting in a payoff of that borrower's higher rate loan with us, and which could have an adverse effect on our financial condition and results of operations.

General Risk Factors

Our common stock price may be volatile, which could result in losses to our investors.

Our common stock price has been volatile in the past, and several factors could cause the price to fluctuate in the future. These factors include, but are not limited to, actual or anticipated variations in earnings, changes in analysts' recommendations or projections with regard to our common stock or the markets and businesses in which we operate, operations and stock performance of other companies deemed to be our peers, and reports of trends and concerns and other issues related to the financial services industry. Fluctuations in our common stock price may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Future sales of our common stock by shareholders or the perception that those sales could occur may cause our common stock price to decline.

Although our common stock is listed for trading on NASDAQ Global Select Market, the trading volume in our common stock may be lower than that of other larger financial institutions. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the potential for lower relative trading volume in our common stock, significant sales of the common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of these sales or perceptions.

Future issuances of our common stock could adversely affect the market price of our common stock and could be dilutive.

We may issue additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our common stock. Issuances of a substantial number of shares of our common stock, or the expectation that such issuances might occur, including in connection with acquisitions, could materially adversely affect the market price of the shares of our common stock and could be dilutive to shareholders. Any decision we make to issue common stock in the future will depend on market conditions and other factors, and we cannot predict or estimate the amount, timing, or nature of possible future issuances of our common stock. Accordingly, our shareholders bear the risk that future issuances of our securities will reduce the market price of the common stock and dilute their stock holdings in the Corporation.

The Corporation's dividends may not be sustained.

Although the Corporation has historically paid cash dividends to holders of its common stock, holders of common stock are not entitled to receive dividends. Financial, regulatory or economic factors may cause the Corporation's Board of Directors to consider, among other actions, the suspension or reduction of dividends paid on the Corporation's common stock. Furthermore, the Corporation is a bank holding company that conducts substantially all of its operations through its subsidiaries, including the Bank. As a result, the Corporation relies on dividends from the Bank for substantially all of its revenues. There are various regulatory restrictions on the ability of the Bank to pay dividends or make other payments to the Corporation, and the Corporation's right to participate in a distribution of assets upon the Bank's liquidation or reorganization is subject to the prior claims of the Bank's creditors. If the Bank is unable to pay dividends to the Corporation, the Corporation may not be able to service its outstanding borrowings and other debt, pay its other obligations or pay a cash dividend to the holders of the Corporation's common stock, and the Corporation's business, financial condition and results of operations may be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Corporation has no unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

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

The main office of C&F Bank is located in West Point, VA. The operations center of C&F Bank, which includes the offices of the community banking segment's loan, deposit and administrative functions, is located in Toano, Virginia. Additionally, the community banking segment operates 30 branch offices. The community banking segment also operates four regional commercial lending offices in Virginia, two of which are situated at bank branch locations. Of the 32 locations used as bank branches or commercial lending offices, 26 are owned by the community banking segment, 5 are leased from nonaffiliates and one is located in a loan production office of the mortgage banking segment.

The mortgage banking segment's main administrative office and a loan production office are located in Midlothian, Virginia, in a building owned by C&F Bank that also houses a branch of C&F Bank. In addition, the mortgage banking segment has 20 loan production offices, of which 3 in Virginia are located in C&F Bank branches and 17 are leased from nonaffiliates, including: 12 in Virginia, 1 in Maryland, 2 in North Carolina, 1 in South Carolina and 1 in West Virginia.

The consumer finance segment's headquarters and its loan and administrative functions and staff are located in Richmond, Virginia, in offices that are leased. The consumer finance segment expects to relocate its loan and administrative functions and staff into a building that it owns in Richmond, Virginia, upon completion of the building project in 2021.

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

ITEM 3. LEGAL PROCEEDINGS

The Corporation and its subsidiaries may be involved in certain litigation matters arising in the ordinary course of business. Although the ultimate outcome of these matters cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, we believe, based on current knowledge, that the resolution of any such matters arising in the ordinary course of business will not have a material adverse effect on the Corporation.

ITEM 4. MINE SAFETY DISCLOSURES

None.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

| Name (Age) Present Position | Business Experience During Past Five Years |
|---|--|
| Thomas F. Cherry (52) President and Chief Executive Officer | Chief Executive Officer of the Corporation and C&F Bank since 2019; President of the Corporation and C&F Bank since 2014; Director of the Corporation and C&F Bank since 2015; Secretary of the Corporation and C&F Bank from 2002 to 2018; Chief Financial Officer of the Corporation and C&F Bank from 2004 to 2016 |
| Larry G. Dillon (68) Executive Chairman | Chairman of the Board of Directors of the Corporation and C&F Bank since 1989; Chief Executive Officer of the Corporation and C&F Bank from 1989 to 2018; President of the Corporation and C&F Bank from 1989 to 2014 |
| Jason E. Long (41) Executive Vice President, Chief Financial Officer and Secretary | Executive Vice President and Chief Financial Officer of the Corporation and C&F Bank since 2020; Senior Vice President and Chief Financial Officer of the Corporation and C&F Bank from 2016 to 2020; Secretary of the Corporation and C&F Bank since 2019; First Vice President of C&F Bank from 2014 to 2016; Various positions, most recently Principal from April 2013 through September 2014, at the accounting firm of Yount, Hyde & Barbour, P.C. since 2002, focusing on the financial services industry |
| Bryan E. McKernon (64) President and Chief Executive Officer, C&F Mortgage | President and Chief Executive Officer of C&F Mortgage since 1995; Director of C&F Bank since 1998 |
| S. Dustin Crone (52) President and Chief Executive Officer, C&F Finance | Chief Executive Officer of C&F Finance since 2020; President of C&F Finance since 2010 |
| John A. Seaman, III (63) Executive Vice President and Chief Credit Officer, C&F Bank | Executive Vice President and Chief Credit Officer of C&F Bank since 2011 |

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is listed for trading on the NASDAQ Global Select Market of the NASDAQ Stock Market under the symbol "CFFI." As of March 2, 2021, there were approximately 3,000 shareholders of our common stock. As of that date, the closing price of our common stock on the NASDAQ Global Select Stock Market was \$42.66.

Payment of dividends is at the discretion of the Corporation's Board of Directors and is subject to various federal and state regulatory limitations. For further information regarding payment of dividends refer to Item 1. "Business," under the heading "Limits on Dividends." In making its decision on the payment of dividends on the Corporation's common

stock, the Corporation’s Board of Directors considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns, and other factors.

Issuer Purchases of Equity Securities

The Corporation’s Board of Directors authorized a program, effective November 17, 2020, to repurchase up to 365,000 shares of the Corporation’s common stock through November 30, 2021 (the Repurchase Program). Repurchases under the Repurchase Program may be made through privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and shares repurchased will be returned to the status of authorized and unissued shares of common stock. As of December 31, 2020, the Corporation has made aggregate common stock repurchases of 7,459 shares for an aggregate cost of \$275,000 under the Repurchase Program. The Corporation’s previous share repurchase program expired on May 31, 2020.

The following table summarizes repurchases of the Corporation’s common stock that occurred during the three months ended December 31, 2020.

| | <u>Total Number of Shares Purchased¹</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u> |
|--|---|---|---|---|
| October 1, 2020 - October 31, 2020 | 228 | \$ 30.30 | — | — |
| November 1, 2020 - November 30, 2020 . . | — | \$ — | — | 365,000 |
| December 1, 2020 - December 31, 2020 . . | 11,817 | \$ 36.89 | 7,459 | 357,541 |
| Total | <u>12,045</u> | <u>\$ 36.76</u> | <u>7,459</u> | |

¹ During the three months ended December 31, 2020, 4,586 shares were withheld upon the vesting of restricted shares granted to employees of the Corporation and its subsidiaries in order to satisfy tax withholding obligations.

ITEM 6. SELECTED FINANCIAL DATA

Five Year Financial Summary

| <i>(Dollars in thousands, except per share amounts)</i> | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|--------------|--------------|--------------|--------------|--------------|
| Financial Condition: | | | | | |
| Total assets ¹ | \$ 2,086,310 | \$ 1,657,432 | \$ 1,521,411 | \$ 1,509,056 | \$ 1,451,992 |
| Securities, available for sale | 286,389 | 189,733 | 214,910 | 218,976 | 210,026 |
| Loans held for sale | 214,266 | 90,500 | 41,895 | 55,384 | 52,027 |
| Loans (net of allowance for loan losses) | 1,313,250 | 1,082,318 | 1,028,097 | 992,062 | 962,674 |
| Total deposits | 1,752,173 | 1,291,250 | 1,181,661 | 1,171,429 | 1,119,921 |
| Total borrowings | 76,169 | 161,170 | 159,691 | 167,860 | 164,567 |
| Total equity | 194,471 | 165,279 | 151,958 | 141,702 | 139,214 |
| Results of Operations: | | | | | |
| Interest income | \$ 96,913 | \$ 95,010 | \$ 92,548 | \$ 89,593 | \$ 89,439 |
| Interest expense | 13,382 | 14,556 | 11,027 | 9,601 | 8,968 |
| Net interest income | 83,531 | 80,454 | 81,521 | 79,992 | 80,471 |
| Provision for loan losses | 11,080 | 8,515 | 11,006 | 16,435 | 18,040 |
| Net interest income after provision for loan losses | 72,451 | 71,939 | 70,515 | 63,557 | 62,431 |
| Noninterest income | 55,418 | 32,012 | 26,368 | 27,232 | 26,047 |
| Noninterest expenses | 98,650 | 80,019 | 74,342 | 72,823 | 70,560 |
| Income before taxes | 29,219 | 23,932 | 22,541 | 17,966 | 17,918 |
| Income tax expense ² | 6,795 | 5,082 | 4,521 | 11,394 | 4,459 |
| Net income ² | \$ 22,424 | \$ 18,850 | \$ 18,020 | \$ 6,572 | \$ 13,459 |
| Share Data: | | | | | |
| Earnings per share—basic ² | \$ 6.06 | \$ 5.47 | \$ 5.15 | \$ 1.89 | \$ 3.90 |
| Earnings per share—assuming dilution ² | 6.06 | 5.47 | 5.15 | 1.88 | 3.89 |
| Dividends per share | 1.52 | 1.49 | 1.41 | 1.33 | 1.29 |
| Weighted average number of shares—basic | 3,648,696 | 3,450,745 | 3,501,221 | 3,486,510 | 3,454,282 |
| Weighted average number of shares—assuming dilution | 3,648,696 | 3,450,745 | 3,501,221 | 3,486,589 | 3,455,883 |
| Significant Ratios: | | | | | |
| Net interest margin | 4.65 % | 5.52 % | 5.80 % | 5.99 % | 6.30 % |
| Return on average assets ² | 1.14 | 1.20 | 1.19 | 0.45 | 0.96 |
| Return on average equity ² | 12.54 | 12.02 | 12.40 | 4.58 | 9.90 |
| Dividend payout ratio ² | 25.08 | 27.24 | 27.38 | 70.37 | 33.08 |
| Average equity to average assets | 9.10 | 10.02 | 9.63 | 9.82 | 9.65 |
| Asset Quality: | | | | | |
| Allowance for loan losses (ALL) | | | | | |
| Community banking | \$ 15,035 | \$ 10,482 | \$ 10,426 | \$ 10,775 | \$ 11,115 |
| Mortgage banking | 608 | 598 | 598 | 598 | 598 |
| Consumer finance | 23,513 | 21,793 | 22,999 | 24,353 | 25,353 |
| Ratio of ALL to total loans | | | | | |
| Community banking | 1.46 % | 1.31 % | 1.37 % | 1.47 % | 1.61 % |
| Mortgage banking | 8.38 | 12.88 | 17.19 | 18.22 | 18.26 |
| Consumer finance | 7.53 | 6.96 | 7.77 | 8.34 | 8.33 |
| Ratio of ALL to total loans, excluding purchased loans and Paycheck Protection Program loans | | | | | |
| Community banking | 1.74 % | 1.36 % | 1.37 % | 1.48 % | 1.63 % |

¹ On January 1, 2019, the Corporation adopted Accounting Standards Update 2016-02, “Leases (Topic 842)” on a modified retrospective basis, which resulted in recognition of a lease liability of approximately \$3.14 million and a corresponding right-of-use asset. Periods prior to January 1, 2019 have not been restated.

² In connection with the reduction in the federal corporate income tax rate as a result of the enactment of the Tax Cuts and Jobs Act of 2017, the Corporation recognized a one-time remeasurement of its federal net deferred tax asset in 2017, which resulted in additional income tax expense and a decrease in net income of \$6.6 million.

On January 1, 2020, the Corporation completed the acquisition of Peoples and its banking subsidiary, Peoples Community Bank for an aggregate purchase price of \$22.19 million of cash and stock, which added total assets of \$190.6 million.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion supplements and provides information about the major components of the results of operations, financial condition, liquidity and capital resources of the Corporation. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements. In addition to current and historical information, the following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future business, financial condition or results of operations. For a description of certain factors that may have a significant impact on our future business, financial condition or results of operations, see “Cautionary Statement Regarding Forward-Looking Statements” prior to Item 1. “Business.”

OVERVIEW

Our primary financial goals are to maximize the Corporation’s earnings and to deploy capital in profitable growth initiatives that will enhance long-term shareholder value. We track three primary financial performance measures in order to assess the level of success in achieving these goals: (1) return on average assets (ROA), (2) return on average equity (ROE), and (3) growth in earnings. In addition to these financial performance measures, we track the performance of the Corporation’s three principal business segments: community banking, mortgage banking, and consumer finance. We also actively manage our capital through growth, dividends and share repurchases, while considering the need to maintain a strong capital position.

Financial Performance Measures

Consolidated net income for the Corporation was \$22.4 million in 2020, or \$6.06 per share assuming dilution, compared to \$18.9 million in 2019, or \$5.47 per share assuming dilution, and \$18.0 million in 2018, or \$5.15 per share assuming dilution. The Corporation’s ROE and ROA were 12.54 percent and 1.14 percent, respectively, for 2020, compared to 12.02 percent and 1.20 percent, respectively, for 2019 and 12.40 percent and 1.19 percent, respectively, for 2018.

Consolidated net income for 2020 and 2019 were affected by certain items that management does not expect to have an ongoing impact on consolidated net income, including a gain upon sale of a pool of purchased credit impaired (PCI) loans in 2020, charges related to early repayment of borrowings in 2020, merger related expenses incurred in connection with the Corporation’s acquisition of Peoples Bankshares, Incorporated (Peoples) recorded in 2020 and 2019, impairment charges related to branch consolidation in 2020, and provisions of the CARES Act, which provided income tax benefits related to prior tax years. Excluding the effects of these items, adjusted net income for 2020 was \$22.4 million, or \$6.06 per share, compared to \$19.5 million, or \$5.66 per share, for 2019 and \$18.0 million, or \$5.15 per share, for 2018. Adjusted ROE and adjusted ROA were 12.54 percent and 1.14 percent, respectively, for 2020, compared to 12.44 percent and 1.25 percent, respectively, for 2019 and 12.40 percent and 1.19 percent, respectively, for 2018. Refer to “Use of Certain Non-GAAP Financial Measures,” below, for a reconciliation of adjusted net income, adjusted earnings per share, adjusted ROE and adjusted ROA, which are non-GAAP financial measures, to the most directly comparable financial measures calculated in accordance with U.S. GAAP.

Consolidated net income and earnings per share increased 19.0 percent and 10.8 percent, respectively, for 2020, compared to 2019. Adjusted net income and adjusted earnings per share increased 15.0 percent and 7.1 percent, respectively, for 2020, compared to 2019. The increase in adjusted earnings per share for 2020 compared to 2019 is due primarily to higher mortgage banking segment net income, partially offset by higher provision for loan losses at the community banking segment, and the issuance of 209,871 shares of common stock in connection with the acquisition of Peoples.

Impact of and Response to the COVID-19 Pandemic

The COVID-19 pandemic has caused a significant disruption in economic activity worldwide, and has had a significant impact on businesses and consumers in our market areas and on our results of operations, which the Corporation expects to continue. Many businesses temporarily closed or reduced their availability at the beginning of the pandemic; and while many people have returned to work, the U.S. unemployment rate remained elevated at 6.7 percent in December 2020, after having reached 14.7 percent in April 2020. Additional unemployment issues may be obscured given the government relief programs that have been made available during late 2020 and early 2021 to assist those in need. There remains substantial uncertainty about critical factors that may affect the economy and employment, including the severity and duration of the pandemic; the availability and pace of vaccinations, the pace of economic recovery when the pandemic subsides, potential re-tightening of policies that had previously allowed businesses to open; any further government stimulus efforts, including the nature, timing and extent of such stimulus; and the timing of reopening of schools, many of which are currently being conducted virtually.

The COVID-19 pandemic presents significant risks and uncertainties to our businesses; however, at this time we cannot determine the ultimate impact of the pandemic on the results of operations of the Corporation. The federal government and state and local governments have responded to this crisis with unprecedented relief efforts and economic stimulus. We cannot predict the duration or severity of the pandemic, the extent of government intervention during and following the pandemic or the effects the pandemic will have on the Corporation. We believe that as a result of the COVID-19 pandemic, our results of operations may be impacted by elevated loan losses, net interest margin compression and falling demand for loans.

Risks to Results of Operations

Elevated loan losses. The COVID-19 pandemic has had a significant impact on businesses and consumers in our market areas. Many businesses temporarily or permanently closed or have faced declines in revenue since the beginning of the pandemic as consumers were instructed to stay at home. Even as many businesses have reopened, restrictions remain, including limited gathering sizes. This disruption has caused employers to lay off or reduce compensation of certain employees, and has caused some people not to receive steady incomes because they are not able to work due to illness or having to care for children or family members, resulting in many households facing reduced income. Commercial and consumer borrowers affected by the pandemic may not be able to make timely payments on loans, which may lead to an increase in delinquencies or defaults and may ultimately result in increases in net charge-offs and provision for loan losses. Furthermore, collateral values may decline as a result of decreased economic activity and increased uncertainty during the crisis, which may contribute to an increase in loan losses during and after the pandemic.

In 2020, the Corporation recorded additional provision for loan losses of approximately \$8.0 million as a result of asset quality deterioration that is expected to arise as a result of the COVID-19 pandemic and related economic disruption. Management continues to monitor changes in economic conditions and asset quality resulting from the COVID-19 pandemic. If conditions deteriorate further, then additional provision for loan losses may be required in future periods.

Net interest margin compression. Since December 31, 2019, the FOMC has reduced its benchmark interest rate target to near zero by announcing rate cuts of 50 basis points on March 3, 2020 and 100 basis points on March 15, 2020. Treasury yields for all maturities are also lower since the outbreak of the COVID-19 pandemic. Lower market interest rates have resulted in lower average yields on all classes of earning assets. While average costs of deposits and borrowings have also decreased, and we expect the average cost of time deposits to continue to decrease due to the repricing of time deposits at maturity, those factors may not offset the effect on net interest margin of lower yields on earning assets.

Falling demand for loans. As businesses and consumers have been affected by the pandemic, new investment and consumer spending may decline, resulting in lower demand for loans. Our recent performance and strategic planning have depended, in part, on growth in lending at the community banking segment, and we have invested in expanding our commercial lending team. While loans outstanding at the community banking segment grew during 2020 (which included loans originated under the PPP), there can be no assurance that loan growth will continue during or after the pandemic.

Lower demand for loans in our markets as a result of the COVID-19 pandemic, combined with lower interest rates on new loans, may negatively impact interest income from loans.

Impairment of securities and goodwill. A broad decrease in economic activity as a result of the COVID-19 pandemic is expected to affect tax revenues of states and political subdivisions, the pandemic has required increased health and safety expenditures by states and political subdivisions, and increased uncertainty has resulted in volatility in the market price of investments. The Corporation holds securities issued by states and political subdivisions that may experience shortfalls in general revenues or an inability to repay obligations when due as a result of the crisis. Additionally, the Corporation holds debt securities of corporate issuers whose financial condition may be adversely impacted by the economic impacts of the COVID-19 pandemic. There is a risk that these securities may become impaired, which would have a negative impact on the Corporation's results of operations. Additionally, depending on the severity and duration of the economic consequences of the COVID-19 pandemic, the Corporation's goodwill allocated to the community banking segment may become impaired, which would have a negative impact on the Corporation's results of operations.

2021 Outlook

Management's overall outlook for 2021 is relatively positive given our diversified business strategy; however, we will be affected by many challenges in 2021, including the COVID-19 pandemic and limited availability and distribution of vaccines, cyber security and fraud prevention, the low interest rate environment and the impacts of the changing social and political landscapes. These uncertainties could potentially lead to a continued economic downturn, fraud losses, further margin compression, asset quality deterioration and regulatory actions. The following additional factors could influence our financial performance in 2021:

- **Community Banking:** Growth in higher-yielding earning assets, specifically loans, will continue to be our primary focus at the Bank during 2021. Despite the issues faced during 2020, our growing lending team continued focus on commercial lending and our completion of the acquisition of Peoples contributed to growth in our loan portfolio during 2020. Growth in loans also included PPP loans, many of which may be repaid or forgiven by the SBA during 2021. While our asset quality remains strong, we do expect some deterioration in asset quality as a result of the COVID-19 pandemic. In 2021, we will continue to explore expansion opportunities and we will continue to add to our digital services platform by leveraging our treasury solutions team, branch network, and commercial relationship managers to communicate the benefits of our mobile business services to our existing and potential customers. We also intend to introduce contactless debit cards to customers during 2021, further enhancing our customers' experience.
- **Mortgage Banking:** C&F Mortgage generates significant noninterest income from the origination and sale of residential loan products into the secondary market. In 2020, a favorable interest rate environment and an extremely active housing market contributed to record loan production, subsequent gains on sales of loans and ancillary fee income at the mortgage banking segment. Revenue from mortgage lender services offered through C&F Mortgage's Lender Solutions division also reached record levels due to new customers and higher loan production volume. Loan production and revenue in 2021 are highly uncertain and will depend on economic conditions and market factors beyond our control, including the COVID-19 pandemic, interest rates, housing inventory and loan demand. In addition, during 2021, C&F Mortgage anticipates it will continue to (1) compete to retain and attract qualified loan officers, (2) invest in technology to further enhance our fully digital application and document collection process and (3) grow our Lender Solutions division.
- **Consumer Finance:** C&F Finance provides automobile financing through programs that are designed to serve customers in the non-prime sector and marine and RV financing for borrowers in the prime sector. As has been the case for the last several years, competition in the non-prime automobile loan business remains aggressive, resulting in lower interest rates and in many cases, less restrictive underwriting standards by several of our competitors. We expect organic loan growth to continue to be challenging in 2021. Credit quality has consistently improved since we strengthened our underwriting standards in 2016, and as a result we have experienced a sustained decline in annual charge offs as a percentage of average loans that continued in 2020. However, we do anticipate some deterioration in asset quality in 2021 as a result of the COVID-19 pandemic,

and particularly the potential impacts of the pandemic on nonprime automobile borrowers. We continued to grow our marine and RV loan portfolio in 2020 and remain committed to only purchasing prime contracts in this segment, which should result in lower loan losses for these higher credit quality borrowers. During the second quarter of 2021, we plan to relocate our C&F Finance corporate headquarters to a new, larger facility in Richmond, Virginia.

Principal Business Segments

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

Community Banking: The community banking segment reported net income of \$5.4 million for the year ended December 31, 2020, compared to net income of \$9.9 million for the year ended December 31, 2019. Previously, the community banking segment was referred to as the retail banking segment. There have been no changes to the composition of the community banking segment.

The decrease in community banking segment net income for the year ended December 31, 2020 compared to the year ended December 31, 2019 was due primarily to (1) lower average yields on loans; (2) higher provision for loan losses resulting from the COVID-19 pandemic and related economic disruption; (3) higher operating expenses, including the effects of (a) assuming certain operating costs of Peoples, which was acquired by the Corporation on January 1, 2020, including costs that have been eliminated following the integration of its operations into the Bank's, (b) opening two new financial centers in the third quarter of 2020 and (c) investing in technology infrastructure to support continued growth; (4) early debt repayment charges of \$2.2 million incurred in connection with the payoff of borrowings of \$44.5 million; (5) lower interest income on excess cash reserves; (6) higher merger related expenses in connection with the acquisition of Peoples; (7) higher interest expense on deposits as a result of higher average deposit balances; and (8) a \$281,000 write-down of assets in connection with the consolidation of the Bank's former main office in West Point, VA into a nearby branch office and the donation of the building to the Town of West Point; partially offset by (1) a gain of \$3.5 million on the sale of a pool of PCI loans; (2) higher average loans outstanding, which contributed to higher interest income on loans; (3) higher interchange income; and (4) income tax benefits of \$326,000 related to prior tax years of Peoples as a result of favorable net operating loss carryback treatment under the CARES Act.

Average loans increased \$216.5 million, or 27.8 percent, for the year ended December 31, 2020, compared to the year ended December 31, 2019. These increases included \$99.1 million for the year ended December 31, 2020 of average balances of loans acquired in the acquisition of Peoples, and \$59.7 million of average balances of loans originated under the PPP. In addition to increases resulting from the acquisition of Peoples and the PPP, the increase in average loans outstanding for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted from growth in the commercial real estate and commercial business lending segments of the loan portfolio. Average loan yields were lower for 2020 compared to 2019 due to repricing of variable rate loans and lower average yields on new lending, including PPP loans. The recognition of interest income on PCI loans is based on management's expectation of future payments of principal and interest, which is inherently uncertain. Earlier than expected repayments of certain PCI loans resulted in the recognition of additional interest income during 2020 and 2019. Interest income recognized on PCI loans was \$3.0 million and \$3.4 million for the years ended December 31, 2020 and 2019, respectively.

C&F Bank's total nonperforming assets were \$3.9 million at December 31, 2020, compared to \$2.6 million at December 31, 2019. Nonperforming assets at December 31, 2020 included \$3.0 million in nonaccrual loans, compared to \$1.5 million at December 31, 2019 and included \$907,000 in other real estate owned, compared to \$1.1 million at December 31, 2019. The increase in nonaccrual loans compared to December 31, 2019 is due primarily to the downgrading of one commercial relationship in the fourth quarter of 2020, partially offset by payoffs. Nonaccrual loans were comprised primarily of one commercial relationship at December 31, 2020 and were comprised primarily of residential mortgages and equity lines at December 31, 2019. The community banking segment recorded provision for loan losses of \$4.6 million for the year ended December 31, 2020, compared to \$360,000, for the year ended December 31, 2019. During the year ended December 31, 2020, the allowance for loan losses increased primarily as a result of reserves based on qualitative adjustments related to the COVID-19 pandemic and due to loan growth. As of December 31, 2020, compared to December

31, 2019, there have not been significant changes in the overall credit quality of the loan portfolio, although management believes the effects of PPP loans, payment deferrals and government stimulus may be delaying signs of credit deterioration. Management believes that the level of the allowance for loan losses is sufficient to absorb losses inherent in the portfolio. However, if there is further deterioration in economic conditions, additional provision may be required in future periods.

Mortgage Banking: The mortgage banking segment reported net income of \$10.7 million for the year ended December 31, 2020, compared to net income of \$3.8 million for the year ended December 31, 2019.

The increase in net income of the mortgage banking segment for the year ended December 31, 2020 compared to the year ended December 31, 2019 was due primarily to higher gains on sales of loans and mortgage banking fee income, resulting from higher margins and record loan production, higher mortgage lender services income for providing mortgage origination functions to third parties, and higher net interest income due to higher balances of loans held for sale. Partially offsetting these factors were higher expenses tied to loan production, including compensation expense, loan processing expense and data processing expense. Mortgage loan originations for the mortgage banking segment were \$1.8 billion and \$944.1 million for the years ended December 31, 2020 and 2019, respectively. Loan production for the year ended December 31, 2020 was the highest reported by the mortgage banking segment for any calendar year in the Corporation's history. Lower interest rates on mortgage loans have contributed to an increase in volume in the broader mortgage industry in the year ended December 31, 2020 compared to the same period in the prior year. Mortgage loan originations for the mortgage banking segment during the year ended December 31, 2020 for refinancings and home purchases were \$917.5 million and \$854.5 million, respectively, compared to \$224.9 million and \$719.2 million, respectively, during the year ended December 31, 2019.

Consumer Finance: The consumer finance segment reported net income of \$7.6 million for the year ended December 31, 2020, compared to net income of \$6.9 million for the year ended December 31, 2019.

The increase in net income of the consumer finance segment for the year ended December 31, 2020 compared to the year ended December 31, 2019 was due primarily to lower provision for loan losses as a result of lower net charge-offs and a decrease in interest expense due to lower average cost of borrowings, partially offset by lower interest income due to lower average yields on loans. The average yield on loans for the year ended December 31, 2020 was lower compared to the year ended December 31, 2019 due to continued competition in the non-prime automobile loan business, including the effect of a lower interest rate environment, and the consumer finance segment's pursuing growth in higher quality, lower yielding loans, which include prime marine and recreational vehicle (RV) loans.

The net charge-off ratio for 2020 decreased to 1.54 percent from 3.05 percent for 2019. The decline reflects a lower number of charge-offs during 2020, due to improvement in loan performance, and lower losses per loan charged off as a result of a strong used car market. Improvement in loan performance has resulted from C&F Finance Company continuing to purchase higher quality loans as well as borrowers benefitting from the government's stimulus measures in response to the COVID-19 pandemic during 2020. C&F Finance Company offers payment deferrals at times to non-prime automobile borrowers as a management technique to achieve higher ultimate cash collections. C&F Finance Company offered a higher number of payment deferrals during the first and second quarters of 2020 to borrowers impacted by the COVID-19 pandemic, and as of December 31, 2020, most borrowers who received a deferral had resumed making payments and were current. The average amount deferred on a monthly basis during the fourth quarter of 2020 and the year ended December 31, 2020 was 1.56 percent and 2.93 percent of non-prime automobile loans outstanding, compared to 1.87 percent and 1.90 percent during the same periods in 2019. At December 31, 2020, total delinquent loans, which does not include loans that have been granted a payment deferral, as a percentage of total loans was 3.08 percent, compared to 2.48 percent at September 30, 2020 and 4.17 percent at December 31, 2019. The allowance for loan losses was \$23.5 million, or 7.53 percent of total loans at December 31, 2020, compared to \$21.8 million, or 6.96 percent of total loans at December 31, 2019. The increase in the level of the allowance for loan losses as a percentage of total loans is a result of reserves based on qualitative adjustments to reflect losses that management believes are probable as a result of the economic impacts of the COVID-19 pandemic. Management believes that the level of the allowance for loan losses is sufficient to absorb losses inherent in the portfolio. However, if there is further deterioration in economic conditions, additional provision may be required in future periods.

Other: The remaining components included in the consolidated results of operations of the Corporation are comprised primarily of net losses associated with holding company expenses of the Corporation, partially offset by the net income of C&F Wealth Management. These components reported aggregate net losses of \$1.4 million and \$1.7 million for the years ended December 31, 2020 and 2019, respectively. The lower net loss during 2020, compared to 2019, was primarily due to higher net wealth management services income and lower merger related expenses recorded at the holding company during 2020.

Acquisition of Peoples Bankshares, Incorporated: On January 1, 2020, the Corporation completed the acquisition of Peoples and its banking subsidiary, Peoples Community Bank for an aggregate purchase price of \$22.2 million of cash and stock. For the year ended December 31, 2020, the Corporation recorded merger related expenses of \$1.4 million (\$1.1 million after income taxes), of which \$1.3 million (1.0 million after income taxes) was allocated to the community banking segment and \$100,000 (\$100,000 after income taxes) was recorded as a holding company expense. For the year ended December 31, 2019, the Corporation recorded merger related expenses of \$709,000 (\$653,000 after income taxes), of which \$236,000 (\$196,000 after income taxes) was allocated to the community banking segment and the remainder was recorded as a holding company expense. In the aggregate, in connection with the acquisition of Peoples, the Corporation recorded merger related expenses of \$2.1 million (\$1.8 million after income taxes).

Capital Management and Dividends

Total equity was \$194.5 million at December 31, 2020, compared to \$165.3 million at December 31, 2019. Capital growth resulted primarily from earnings for the year ended December 31, 2020 and the issuance of \$11.6 million of common equity in connection with the acquisition of Peoples on January 1, 2020, which was partially offset by cash dividends during 2020. On September 29, 2020, the Corporation completed the issuance of \$20.0 million in aggregate principal amount of subordinated notes due in 2030, which are included in Tier 2 capital of the Corporation for regulatory purposes. The subordinated notes will initially bear interest at a fixed rate of 4.875% for five years and at the three month SOFR plus 475.5 basis points thereafter. The Corporation assumed \$4.0 million in outstanding principal of subordinated notes in connection with the acquisition of Peoples, which are also included in Tier 2 capital of the Corporation for regulatory purposes.

The Corporation's Board of Directors continued its historical practice of paying dividends in 2020. For the year ended December 31, 2020, the Corporation declared dividends of \$1.52 per share. Annual dividends per share increased 2.0 percent over dividends of \$1.49 per share declared in 2019. The Board of Directors of the Corporation continually reviews the amount of cash dividends per share and the resulting dividend payout ratio in light of changes in economic conditions, current and future capital levels and requirements and expected future earnings. In making its decision on the payment of dividends on the Corporation's common stock, the Corporation's Board of Directors considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns, and other factors.

On November 17, 2020, the Board of Directors of the Corporation authorized a program, effective November 17, 2020, to repurchase up to 365,000 shares of the Corporation's common stock (the Repurchase Program) through November 30, 2021. Repurchases under the program may be made through privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and shares repurchased will be returned to the status of authorized and unissued shares of common stock. The Corporation's previous share repurchase program expired on May 31, 2020 and the Corporation had made aggregate common stock repurchases of \$2.1 million under the previous repurchase program. As of December 31, 2020, the Corporation has made aggregate common stock repurchases of 7,459 shares for an aggregate cost of \$275,000 under the Repurchase Program. At December 31, 2020, the book value per share of the Corporation's common stock was \$52.80, and tangible book value per share was \$45.32, compared to \$48.07 and \$43.61, respectively, at December 31, 2019.

CRITICAL ACCOUNTING POLICIES

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

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

Impairment of Loans: We consider a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimate collection of all amounts due. We measure impairment on a loan-by-loan basis based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment in the loan. All troubled debt restructurings (TDRs) are also considered impaired loans and are evaluated individually. A TDR occurs when we agree to significantly modify the original terms of a loan by granting a concession due to the deterioration in the financial condition of the borrower. For more information see the section titled "Asset Quality" within Item 7.

Loans Acquired in a Business Combination: Acquired loans are classified as either (i) PCI loans or (ii) purchased performing loans and are recorded at fair value on the date of acquisition.

PCI loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments. When determining fair value, PCI loans are aggregated into pools of loans based on common risk characteristics as of the date of acquisition such as loan type, date of origination, and evidence of credit quality deterioration such as internal risk grades and past due and nonaccrual status. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the "nonaccretable difference." Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the "accretable yield" and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

On a quarterly basis, we evaluate our estimate of cash flows expected to be collected on PCI loans. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. Subsequent significant increases in cash flows may result in a reversal of post-acquisition provision for loan losses or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan, or pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

PCI loans are not classified as nonperforming by the Corporation at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at quarterly re-estimation periods, we believe we will fully collect the new carrying value of

the pools of loans.

The Corporation accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required for any deterioration in these loans in future periods.

Goodwill: The Corporation's goodwill was recognized in connection with past business combinations and is reported at the community banking segment and the consumer finance segment. The Corporation reviews the carrying value of goodwill at least annually or more frequently if certain impairment indicators exist. In testing goodwill for impairment, the Corporation may first consider qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then no further testing is required and the goodwill of the reporting unit is not impaired. If the Corporation elects to bypass the qualitative assessment or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the fair value of the reporting unit is compared with its carrying value to determine whether an impairment exists.

In the fourth quarter of 2020, the Corporation elected to bypass the qualitative assessment and performed a test of goodwill for impairment at the community banking segment and the consumer finance segment by measuring the fair value of each reporting unit at the testing date and comparing to their respective carrying values. Management concluded that no impairment existed as of December 31, 2020 and that the fair value of the consumer finance segment substantially exceeded its carrying value. The fair value of the community banking segment exceeded its carrying value by \$8.8 million or approximately 6 percent. Management measured the fair value of the community banking segment based on correlated indications of value using an income approach (discounted cash flows) and market approach (capitalized forward earnings, capitalized tangible book value and observed transaction multiples of tangible book value). The measurement of fair value was dependent upon management's expectation of future earnings of the community banking segment, which have been impacted by the COVID-19 pandemic and related economic disruption, as well as management's understanding and expectations regarding pricing of bank mergers and acquisitions during and after the pandemic. The impacts on the earnings of the community banking segment of the pandemic include recognition of higher provisions for loan losses and a decrease in net interest margin. Management's estimate of the fair value of the community banking segment may be negatively impacted if adverse effects of the pandemic on loan losses and net interest margin are greater than management expects them to be in future periods.

Income Taxes: Determining the Corporation's effective tax rate requires judgment. The Corporation's net deferred tax asset is determined annually based on temporary 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. In addition, there may be transactions and calculations for which the ultimate tax outcomes are uncertain and the Corporation's tax returns are subject to audit by various tax authorities. Although we believe that estimates related to income taxes are reasonable, no assurance can be given that the final tax outcome will not be materially different than that which is reflected in the consolidated financial statements.

For further information concerning accounting policies, refer to Item 8. "Financial Statements and Supplementary Data" under the heading "Note 1: Summary of Significant Accounting Policies."

RESULTS OF OPERATIONS

NET INTEREST INCOME

The following table shows the average balance sheets, the amounts of interest earned on earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates, for each of the years ended December 31,

2020, 2019 and 2018. Loans include loans held for sale. Loans placed on a nonaccrual status are included in the balances and are included in the computation of yields, but had no material effect. Accretion and amortization of fair value purchase adjustments related to business combinations are included in the computation of yields on loans and investments and on the costs of deposits and borrowings. The accretion contributed approximately 34 basis points and 23 basis points to the yields on community banking segment loans and total loans, respectively, and 18 basis points to both the yield on interest earning assets and net interest margin for the year ended December 31, 2020, compared to approximately 44 basis points and 29 basis points to the yields on community banking segment loans and total loans, respectively, and 23 basis points to both the yield on interest earning assets and net interest margin for the year ended December 31, 2019, and approximately 41 basis points and 28 basis points to the yields on community banking segment loans and total loans, respectively, and 21 basis points to both the yield on interest earning assets and the net interest margin for the year ended December 31, 2018. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield as if income taxes were paid) using the federal corporate income tax rate of 21 percent that was applicable for all periods presented.

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

| <i>(Dollars in thousands)</i> | 2020 | | | 2019 | | | 2018 | | |
|--|---------------------|------------------|---------------|---------------------|------------------|---------------|---------------------|------------------|---------------|
| | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate |
| Assets | | | | | | | | | |
| Securities: | | | | | | | | | |
| Taxable | \$ 160,974 | \$ 3,224 | 2.00 % | \$ 131,778 | \$ 3,202 | 2.43 % | \$ 138,053 | \$ 3,197 | 2.32 % |
| Tax-exempt | 81,154 | 2,511 | 3.09 | 71,531 | 2,671 | 3.73 | 86,436 | 3,451 | 3.99 |
| Total securities | <u>242,128</u> | <u>5,735</u> | <u>2.37</u> | <u>203,309</u> | <u>5,873</u> | <u>2.89</u> | <u>224,489</u> | <u>6,648</u> | <u>2.96</u> |
| Loans: | | | | | | | | | |
| Community banking segment | 995,726 | 47,251 | 4.75 | 779,207 | 43,472 | 5.58 | 734,661 | 39,747 | 5.41 |
| Mortgage banking segment | 171,017 | 4,954 | 2.90 | 68,297 | 2,699 | 3.95 | 43,946 | 2,018 | 4.59 |
| Consumer finance segment | 307,991 | 38,949 | 12.65 | 307,141 | 41,390 | 13.48 | 296,227 | 42,789 | 14.44 |
| Total loans | <u>1,474,734</u> | <u>91,154</u> | <u>6.18</u> | <u>1,154,645</u> | <u>87,561</u> | <u>7.58</u> | <u>1,074,834</u> | <u>84,554</u> | <u>7.87</u> |
| Interest-bearing deposits in | | | | | | | | | |
| other banks | 92,973 | 713 | 0.77 | 110,638 | 2,179 | 1.97 | 118,176 | 2,097 | 1.77 |
| Total earning assets | <u>1,809,835</u> | <u>97,602</u> | <u>5.39</u> | <u>1,468,592</u> | <u>95,613</u> | <u>6.51</u> | <u>1,417,499</u> | <u>93,299</u> | <u>6.58</u> |
| Allowance for loan losses | (35,983) | | | (33,733) | | | (35,409) | | |
| Total non-earning assets | <u>192,447</u> | | | <u>130,569</u> | | | <u>126,814</u> | | |
| Total assets | <u>\$ 1,966,299</u> | | | <u>\$ 1,565,428</u> | | | <u>\$ 1,508,904</u> | | |
| Liabilities and Equity | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Interest-bearing demand deposits | \$ 260,478 | 551 | 0.21 | \$ 218,394 | 1,168 | 0.53 | \$ 221,750 | 799 | 0.36 |
| Money market deposit accounts | 260,342 | 952 | 0.37 | 199,840 | 1,020 | 0.51 | 215,662 | 699 | 0.32 |
| Savings accounts | 163,763 | 111 | 0.07 | 120,644 | 110 | 0.09 | 116,896 | 103 | 0.09 |
| Certificates of deposit, \$100 or more. | 266,236 | 4,692 | 1.76 | 207,931 | 3,876 | 1.86 | 172,616 | 2,206 | 1.28 |
| Other certificates of deposit | 224,065 | 3,328 | 1.49 | 184,613 | 2,920 | 1.58 | 177,279 | 1,879 | 1.06 |
| Total interest-bearing deposits | <u>1,174,884</u> | <u>9,634</u> | <u>0.82</u> | <u>931,422</u> | <u>9,094</u> | <u>0.98</u> | <u>904,203</u> | <u>5,686</u> | <u>0.63</u> |
| Borrowings | 129,358 | 3,748 | 2.90 | 160,327 | 5,462 | 3.41 | 165,290 | 5,341 | 3.23 |
| Total interest-bearing liabilities | <u>1,304,242</u> | <u>13,382</u> | <u>1.03</u> | <u>1,091,749</u> | <u>14,556</u> | <u>1.33</u> | <u>1,069,493</u> | <u>11,027</u> | <u>1.03</u> |
| Noninterest-bearing demand | | | | | | | | | |
| deposits | 431,789 | | | 283,505 | | | 266,415 | | |
| Other liabilities | 51,406 | | | 33,364 | | | 27,678 | | |
| Total liabilities | <u>1,787,437</u> | | | <u>1,408,618</u> | | | <u>1,363,586</u> | | |
| Equity | 178,862 | | | 156,810 | | | 145,318 | | |
| Total liabilities and equity | <u>\$ 1,966,299</u> | | | <u>\$ 1,565,428</u> | | | <u>\$ 1,508,904</u> | | |
| Net interest income | | <u>\$ 84,220</u> | | | <u>\$ 81,057</u> | | | <u>\$ 82,272</u> | |
| Interest rate spread | | | <u>4.36 %</u> | | | <u>5.18 %</u> | | | <u>5.55 %</u> |
| Interest expense to average earning assets | | | <u>0.74 %</u> | | | <u>0.99 %</u> | | | <u>0.78 %</u> |
| Net interest margin | | | <u>4.65 %</u> | | | <u>5.52 %</u> | | | <u>5.80 %</u> |

Interest income and expense are affected by fluctuations in interest rates, by changes in the volume of earning assets and interest-bearing liabilities, and by the interaction of rate and volume factors. The following table shows the direct causes of the year-to-year changes in the components of net interest income on a taxable-equivalent basis. The Corporation calculates the rate and volume variances using a formula prescribed by the SEC. Rate/volume variances, the third element in the calculation, are not shown separately in the table, but are allocated to the rate and volume variances in proportion to the absolute dollar amounts of each.

TABLE 2: Rate-Volume Recap

| <i>(Dollars in thousands)</i> | 2020 from 2019 | | | 2019 from 2018 | | |
|--|-------------------------------|------------------|---------------------------------|-------------------------------|-----------------|---------------------------------|
| | Increase (Decrease) Due to | | Total Increase (Decrease) | Increase (Decrease) Due to | | Total Increase (Decrease) |
| | Rate | Volume | | Rate | Volume | |
| Interest income: | | | | | | |
| Loans: | | | | | | |
| Community banking segment | \$ (7,107) | \$ 10,886 | \$ 3,779 | \$ 1,272 | \$ 2,453 | \$ 3,725 |
| Mortgage banking segment | (880) | 3,135 | 2,255 | (312) | 993 | 681 |
| Consumer finance segment | (2,556) | 115 | (2,441) | (2,928) | 1,529 | (1,399) |
| Securities: | | | | | | |
| Taxable | (620) | 642 | 22 | 151 | (146) | 5 |
| Tax-exempt | (492) | 332 | (160) | (214) | (566) | (780) |
| Interest-bearing deposits in other banks | (1,162) | (304) | (1,466) | 223 | (141) | 82 |
| Total interest income | <u>(12,817)</u> | <u>14,806</u> | <u>1,989</u> | <u>(1,808)</u> | <u>4,122</u> | <u>2,314</u> |
| Interest expense: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Interest-bearing demand deposits | (806) | 189 | (617) | 381 | (12) | 369 |
| Money market deposit accounts | (326) | 258 | (68) | 376 | (55) | 321 |
| Savings accounts | (29) | 30 | 1 | — | 7 | 7 |
| Certificates of deposit, \$100 or more | (218) | 1,034 | 816 | 1,150 | 520 | 1,670 |
| Other certificates of deposit | (176) | 584 | 408 | 960 | 81 | 1,041 |
| Total interest-bearing deposits | <u>(1,555)</u> | <u>2,095</u> | <u>540</u> | <u>2,867</u> | <u>541</u> | <u>3,408</u> |
| Borrowings | (748) | (966) | (1,714) | 287 | (166) | 121 |
| Total interest expense | <u>(2,303)</u> | <u>1,129</u> | <u>(1,174)</u> | <u>3,154</u> | <u>375</u> | <u>3,529</u> |
| Change in net interest income | <u>\$ (10,514)</u> | <u>\$ 13,677</u> | <u>\$ 3,163</u> | <u>\$ (4,962)</u> | <u>\$ 3,747</u> | <u>\$ (1,215)</u> |

Net interest income, on a taxable-equivalent basis, for 2020 increased to \$84.2 million, compared to \$81.1 million for 2019, primarily as a result of the growth in average earning assets, partially offset by lower net interest margin. Average earning assets grew \$341.2 million, or 23.2 percent, in 2020 compared to 2019, and net interest margin decreased 87 basis points to 4.65 percent in 2020, compared to 5.52 percent in 2019. The net interest margin decline for 2020 as compared to 2019 was due primarily to lower average yields on loans and other earning assets, partially offset by (1) using lower-yielding excess cash to fund growth in loans and securities and repay borrowings and (2) growth in low cost deposits, including noninterest-bearing demand deposits. The yield on interest-earning assets and cost of interest-bearing liabilities decreased by 112 basis points and 30 basis points, respectively, for 2020, compared to 2019. Average earning assets grew by \$341.2 million for 2020, compared to 2019, primarily due to growth in loans (including PPP loans) and securities funded by deposit growth as well as the acquisition of Peoples on January 1, 2020.

Average loans, which includes both loans held for investment and loans held for sale, increased \$320.1 million to \$1.5 billion for the year ended December 31, 2020, compared to 2019. Average loans held for investment at the community banking segment increased \$216.5 million, or 27.8 percent, for 2020, compared to 2019. This increase included during 2020 \$99.1 million of average balances of loans acquired in the acquisition of Peoples, and \$59.7 million of average balances of loans originated under the PPP. The remaining increase in average loans outstanding at the community banking segment for 2020 compared to 2019 was due primarily to growth in the commercial real estate and commercial business lending segments of the loan portfolio. Average loans held for investment at the consumer finance segment increased \$850,000, or 0.2 percent, for 2020, compared to 2019 as average marine and RV loans increased due to the continued expansion of the consumer finance segment's purchases of those loan contracts, which was partially offset by a decrease in average automobile loans due to continuing competition for loan contracts. Average loans held at the mortgage banking segment, which consist primarily of loans held for sale, increased \$102.7 million, or 150.4 percent, for 2020, compared to 2019, as a result of higher loan production and a longer average holding period between origination and the time that loans

were sold in the secondary market, which were due in part to higher mortgage industry volume during a time of historically low interest rates.

The overall yield on loans decreased 140 basis points to 6.18 percent for 2020, compared to 2019, due to changes in the composition of the loan portfolio and lower average yields at each operating segment. The community banking segment average loan yield decreased 83 basis points to 4.75 percent for 2020, compared to 2019, due primarily to lower market interest rates and lower interest income on PCI loans. The average loan yield for the community banking segment includes, with respect to PPP loans, interest at a note rate of one percent as well as net deferred fees that were amortized based on the contractual maturity of the related loan or accelerated into interest income upon repayment of the loan. Net PPP loan fees recognized in 2020 were \$1.6 million, and there were unrecognized net deferred PPP fees at December 31, 2020 of \$2.2 million, which are expected to be recognized primarily in 2021. The consumer finance segment average loan yield decreased 83 basis points to 12.65 percent for 2020, compared to 2019, due to continued competition in the non-prime automobile loan business, including the effect of a lower interest rate environment, and the consumer finance segment continuing to pursue growth in higher quality, lower yielding loans, which includes prime marine and RV loans. The mortgage banking segment average loan yield decreased 105 basis points to 2.90 percent due to lower market interest rates for mortgage loans.

Average securities available for sale increased \$38.8 million for 2020, compared to 2019, due primarily to higher purchases of securities and the acquisition of Peoples. The average yield on the securities portfolio on a taxable-equivalent basis decreased 52 basis points for 2020, compared to 2019, due to purchases of securities in 2020 at lower average yields relative to the average yield of the portfolio as a whole and increased calls of securities that were issued during periods of higher market interest rates.

Average interest-bearing deposits in other banks, consisting primarily of excess cash reserves maintained at the Federal Reserve Bank, decreased \$17.7 million during 2020, compared to 2019, as the Corporation utilized excess cash to fund growth in loans and securities and repay borrowings. The average yield on these overnight funds decreased 120 basis points for 2020, compared to 2019, due to lower average rates on excess cash reserves, partially offset by an increase in purchased time deposits, which had higher yields during 2020. The Federal Reserve Bank decreased the interest rate on excess cash reserve balances from 1.55 percent at the end of 2019 to 0.10 percent by the end of 2020 in response to the COVID-19 pandemic.

Average money market, savings and interest-bearing demand deposits increased \$145.7 million for 2020, compared to 2019, and average time deposits increased \$97.8 million for 2020, compared to 2019. The increase in average money market, savings and interest bearing-demand deposits included \$58.7 million for 2020, and the increase in average time deposits included \$76.8 million for 2020 related to the acquisition of Peoples. Average noninterest-bearing demand deposits increased \$148.3 million for 2020, compared to 2019, including \$42.9 million related to the acquisition of Peoples. Higher average deposit balances are due primarily to deposit growth during 2020 and the acquisition of Peoples. Deposit growth was also impacted by the effect of PPP loans and direct government payments received by depositors. The average cost of interest-bearing deposits decreased 16 basis points for 2020, compared to 2019, due primarily to lower rates on money market, savings and interest-bearing demand deposits, which take effect immediately upon a change in offered rates. Offered rates on time deposits were also lower during 2020, compared to 2019. Changes in the average cost of time deposits lag changes in pricing based on the repricing of time deposits at maturity.

Average borrowings decreased \$31.0 million for 2020, compared to 2019, due primarily to the repayment of long-term borrowings in 2020, partially offset by the issuance of \$20.0 million of subordinated notes by the Corporation, subordinated notes that were assumed during the acquisition of Peoples and new finance leases. Repayment of long-term borrowings included paying off a revolving bank line of credit balance of \$75.0 million and paying off aggregate convertible FHLB advances of \$44.5 million using excess cash. The average cost of borrowings decreased 51 basis points during 2020 compared to 2019, due primarily to the payoff of the revolving bank line of credit and lower short-term interest rates. Aggregate repayments in December 2020 of convertible FHLB advances of \$37.0 million are expected to result in annualized interest cost savings of \$783,000, and such savings are expected to benefit net interest margin in 2021, compared to 2020.

The Corporation believes that its net interest margin may be affected in future periods by several factors that are difficult to predict, including: (1) changes in interest rates, which may depend on the severity of adverse economic conditions, the timing and extent of any economic recovery, and the extent of government stimulus measures, which are inherently uncertain, (2) possible changes in the composition of earning assets which may result from decreased loan demand as a result of the current economic environment (3) accretion of purchase discounts on loans related to acquisitions, which is included in yields on loans and may fluctuate based on the timing of repayment, (4) the repricing of higher-rate time deposits and borrowings as they mature to lower rates, which may occur at a slower rate than the repricing of interest earning assets and (5) the recognition of net deferred fees on PPP loans, which is subject to the timing of repayment or forgiveness.

Discussion of net interest income for the year ended December 31, 2018 has been omitted as such discussion was provided in Part II, Item 7. “Management’s Discussion and Analysis,” under the heading “Net Interest Income” in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 3, 2020.

NONINTEREST INCOME

TABLE 3: Noninterest Income

| <i>(Dollars in thousands)</i> | Year Ended December 31, 2020 | | | | Total |
|---|------------------------------|------------------|------------------|------------------------|------------------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| Gains on sales of loans | \$ 3,489 | \$ 25,792 | \$ — | \$ (57) | \$ 29,224 |
| Mortgage banking fee income | — | 7,743 | — | (30) | 7,713 |
| Interchange income | 4,768 | — | — | — | 4,768 |
| Service charges on deposit accounts | 3,357 | — | — | — | 3,357 |
| Wealth management services income, net | 1 | — | — | 2,617 | 2,618 |
| Mortgage lender services income | — | 2,176 | — | — | 2,176 |
| Other service charges and fees | 1,549 | — | 2 | — | 1,551 |
| Net gains on sales, maturities and calls of available for sale securities | 38 | — | — | — | 38 |
| Other income (loss), net | 1,130 | 66 | 490 | 2,287 | 3,973 |
| Total noninterest income | <u>\$ 14,332</u> | <u>\$ 35,777</u> | <u>\$ 492</u> | <u>\$ 4,817</u> | <u>\$ 55,418</u> |

| <i>(Dollars in thousands)</i> | Year Ended December 31, 2019 | | | | Total |
|---|------------------------------|------------------|------------------|------------------------|------------------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| Gains on sales of loans | \$ — | \$ 10,603 | \$ — | \$ — | \$ 10,603 |
| Mortgage banking fee income | — | 4,700 | — | — | 4,700 |
| Interchange income | 4,203 | — | — | — | 4,203 |
| Service charges on deposit accounts | 3,923 | — | — | — | 3,923 |
| Wealth management services income, net | — | — | — | 2,029 | 2,029 |
| Mortgage lender services income | — | 390 | — | — | 390 |
| Other service charges and fees | 1,492 | — | 4 | — | 1,496 |
| Net gains on sales, maturities and calls of available for sale securities | 10 | — | — | — | 10 |
| Other income (loss), net | 1,764 | 13 | 561 | 2,320 | 4,658 |
| Total noninterest income | <u>\$ 11,392</u> | <u>\$ 15,706</u> | <u>\$ 565</u> | <u>\$ 4,349</u> | <u>\$ 32,012</u> |

| <i>(Dollars in thousands)</i> | Year Ended December 31, 2018 | | | | |
|---|------------------------------|------------------|------------------|------------------------|------------------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Gains on sales of loans | \$ — | \$ 7,841 | \$ — | \$ — | \$ 7,841 |
| Mortgage banking fee income | — | 3,686 | — | — | 3,686 |
| Interchange income | 3,882 | — | — | — | 3,882 |
| Service charges on deposit accounts | 4,213 | — | — | — | 4,213 |
| Wealth management services income, net | — | — | — | 1,860 | 1,860 |
| Mortgage lender services income | — | 329 | — | — | 329 |
| Other service charges and fees | 1,379 | — | 7 | — | 1,386 |
| Net gains on calls of available for sale securities | 10 | — | — | — | 10 |
| Other income (loss), net | 1,545 | — | 731 | 885 | 3,161 |
| Total noninterest income | <u>\$ 11,029</u> | <u>\$ 11,856</u> | <u>\$ 738</u> | <u>\$ 2,745</u> | <u>\$ 26,368</u> |

Total noninterest income increased \$23.4 million, or 73.1 percent, for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase in noninterest income was due primarily to (1) an increase in gains on sales of loans and mortgage banking fee income, which consists of fees related to loan originations, at the mortgage banking segment as a result of higher margins and record loan production, (2) an increase in gains on sales of loans at the community banking segment related to the sale of a pool of PCI loans in 2020, (3) an increase in mortgage lender services income at the mortgage banking segment for providing mortgage origination functions to third parties, as a result of the Lender Solutions division of C&F Mortgage adding new customers and higher mortgage industry volume, (4) an increase in wealth management services income, and (5) an increase in debit card interchange income at the community banking segment. These increases were partially offset by decreased service charges on deposit accounts at the community banking segment resulting from fewer overdraft fees charged and asset write-downs at the community banking segment of \$579,000 in 2020. Asset write-downs, included in “Other income (loss), net,” at the community banking segment included \$298,000 of merger related costs recognized in connection with disposition of assets acquired from Peoples and \$281,000 related to branch consolidation.

Discussion of noninterest income for the year ended December 31, 2018 has been omitted as such discussion was provided in Part II, Item 7. “Management’s Discussion and Analysis,” under the heading “Noninterest Income” in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 3, 2020.

NONINTEREST EXPENSE

TABLE 4: Noninterest Expense

| <i>(Dollars in thousands)</i> | Year Ended December 31, 2020 | | | | |
|---|------------------------------|------------------|------------------|------------------------|------------------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | Total |
| Salaries and employee benefits | \$ 30,774 | \$ 13,908 | \$ 8,716 | \$ 4,270 | \$ 57,668 |
| Occupancy expense | 6,329 | 1,607 | 646 | 57 | 8,639 |
| Early debt repayment charges | 2,197 | — | — | — | 2,197 |
| Other expenses: | | | | | |
| Data processing | 7,791 | 1,828 | 1,220 | 77 | 10,916 |
| Professional fees | 1,775 | 465 | 546 | 260 | 3,046 |
| Mortgage banking loan processing expenses | — | 3,235 | — | — | 3,235 |
| Other expenses | 6,827 | 2,971 | 2,700 | 451 | 12,949 |
| Total other expenses | <u>16,393</u> | <u>8,499</u> | <u>4,466</u> | <u>788</u> | <u>30,146</u> |
| Total noninterest expense | <u>\$ 55,693</u> | <u>\$ 24,014</u> | <u>\$ 13,828</u> | <u>\$ 5,115</u> | <u>\$ 98,650</u> |

| | Year Ended December 31, 2019 | | | | Total |
|---|------------------------------|------------------|------------------|------------------------|-----------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| <i>(Dollars in thousands)</i> | | | | | |
| Salaries and employee benefits | \$ 28,231 | \$ 5,965 | \$ 8,668 | \$ 4,337 | \$ 47,201 |
| Occupancy expense | 5,739 | 1,415 | 685 | 73 | 7,912 |
| Other expenses: | | | | | |
| Data processing | 6,694 | 885 | 1,303 | 76 | 8,958 |
| Professional fees | 1,904 | 175 | 583 | 603 | 3,265 |
| Mortgage banking loan processing expenses | — | 1,666 | — | — | 1,666 |
| Other expenses | 5,996 | 1,572 | 2,963 | 486 | 11,017 |
| Total other expenses | 14,594 | 4,298 | 4,849 | 1,165 | 24,906 |
| Total noninterest expense | \$ 48,564 | \$ 11,678 | \$ 14,202 | \$ 5,575 | \$ 80,019 |

| | Year Ended December 31, 2018 | | | | Total |
|---|------------------------------|------------------|------------------|------------------------|-----------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other and Eliminations | |
| <i>(Dollars in thousands)</i> | | | | | |
| Salaries and employee benefits | \$ 26,632 | \$ 5,298 | \$ 8,542 | \$ 1,531 | \$ 42,003 |
| Occupancy expense | 5,483 | 1,391 | 782 | 63 | 7,719 |
| Other expenses: | | | | | |
| Data processing | 6,097 | 643 | 1,263 | 38 | 8,041 |
| Professional fees | 2,138 | 122 | 643 | 141 | 3,044 |
| Mortgage banking loan processing expenses | — | 1,444 | — | — | 1,444 |
| Other expenses | 6,165 | 1,472 | 2,826 | 1,628 | 12,091 |
| Total other expenses | 14,400 | 3,681 | 4,732 | 1,807 | 24,620 |
| Total noninterest expense | \$ 46,515 | \$ 10,370 | \$ 14,056 | \$ 3,401 | \$ 74,342 |

Total noninterest expense increased \$18.6 million, or 23.3 percent, for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase in noninterest expenses was due primarily to (1) higher mortgage loan production volume at the mortgage banking segment, resulting in higher expenses related to production volume, included in salaries and employee benefits, data processing and mortgage banking loan processing expenses (2) higher operating expenses at the community banking segment, including the effects of (a) assuming certain salaries and employee benefits expense and data processing expense of Peoples, including some costs that have since been eliminated following the integration of its operations into the Bank's, (b) occupancy expense related to opening two new financial centers in 2020 and (c) investing in technology infrastructure to support continued growth, (3) early debt repayment charges incurred in connection with the aggregate payoff of \$44.5 million of convertible FHLB advances in 2020, (4) provision for indemnifications at the mortgage banking segment, included in "Other expenses," of \$881,000 for 2020 compared to no provision for indemnifications in 2019, (5) higher merger related expenses in connection with the acquisition of Peoples, and (6) higher expense associated with the FDIC insurance assessment at the community banking segment, included in "Other expenses," as credits available to banks with less than \$10 billion in consolidated assets were used to offset assessment expense for portions of 2019 and 2020 and were fully utilized by the end of the first quarter of 2020.

Merger related expenses for the year ended December 31, 2020 included \$1.3 million at the community banking segment, of which \$501,000 was data processing expense, \$236,000 was professional fees expense, \$119,000 was salaries and employee benefits expense, \$81,000 was occupancy expense, and \$61,000 was included in all other noninterest expenses, while \$298,000 was a loss on disposition of assets and was recorded in noninterest income. Merger related expenses for the year ended December 31, 2020 also included \$100,000 of professional fees expense recorded as a holding company expense and shown in the "Other and Eliminations" column in the tables above. Merger related expenses for the year ended December 31, 2019 included \$236,000 at the community banking segment, of which \$173,000 was professional fees expense, \$50,000 was data processing expense and \$13,000 was included in all other noninterest expenses, and \$473,000 at the Corporation, of which \$441,000 was professional fees expense and \$32,000 was included in all other noninterest expenses.

As of December 31, 2020, the community banking segment has realized substantially all of the cost savings associated with the integration of Peoples. Additionally, C&F Bank expects to realize annualized cost savings of approximately \$220,000 in connection with the consolidation of its main office in West Point, VA by the end of the second quarter of 2021.

Discussion of noninterest expense for the year ended December 31, 2018 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Noninterest Expense" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 3, 2020.

INCOME TAXES

Income tax expense on 2020 earnings was \$6.8 million, resulting in an effective tax rate of 23.3 percent, compared with \$5.1 million, or 21.2 percent, in 2019 and \$4.5 million, or 20.1 percent, in 2018. The higher effective income tax rate for 2020 compared to 2019 resulted primarily from higher state income taxes, as a greater share of income before taxes was earned at the mortgage banking segment, which is subject to state income tax, and a limitation on the deductibility of certain executive compensation, partially offset by income tax benefits of \$326,000 in 2020 arising from a change in income tax law included in the provisions of the CARES Act, which provided income tax benefits in the current year related to prior tax years of Peoples.

Discussion of income taxes for the year ended December 31, 2018 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Income Taxes" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 3, 2020.

ASSET QUALITY

Allowance and Provision for Loan Losses

Allowance for Loan Losses Methodology – Community Banking and Mortgage Banking. We conduct an analysis of the collectibility of the loan portfolio on a regular basis. This analysis does not apply to PCI loans, loans carried at fair value, loans held for sale or off-balance sheet credit exposure (e.g., unfunded loan commitments and standby letters of credit). We use this analysis to assess the sufficiency of the allowance for loan losses and to determine the necessary provision for loan losses.

The analysis, at a minimum, considers the following factors:

- Changes in lending policies and procedures, including underwriting, collection, charge-off and recovery;
- Changes in international, national, regional and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the experience, ability and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans;
- Changes in the quality of our loan review system;
- Changes in the value of the underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- The effect of other external factors, such as competition;
- Historical trends of actual loan losses based on volume and types of loans; and
- Significant one-time transactions affecting the allowance for loan losses.

In conjunction with the factors described above, we consider the following risk elements that are inherent in the loan portfolio as part of the analysis:

- Real estate residential mortgage loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Real estate construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Commercial, financial and agricultural loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

The review process generally begins with loan officers or management identifying problem loans to be reviewed on an individual basis for impairment. This review of individual loans is limited to those loans that have indications of probable loss or that may result in significant losses to the Corporation, while all other loans, which may include delinquent loans and loans classified as special mention or substandard, are evaluated as a group, as discussed below. In addition, all TDRs are considered impaired loans and are individually evaluated. We consider a loan impaired when it is probable that we 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. If a loan is considered impaired, impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is established for an impaired loan to the extent that this measure of the impaired loan is less than the recorded investment in the loan. When a loan is determined to be impaired, we follow a consistent process to measure that impairment in our loan portfolio. For collateral dependent loans we obtain an updated appraisal if we do not have a current one on file. Appraisals are performed by independent third party appraisers with relevant industry experience. We may make adjustments to the appraised value based on recent sales of similar properties or general market conditions when appropriate. We also estimate costs to sell collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan.

The remaining non-impaired loans are grouped by loan type (e.g., commercial real estate, commercial, residential mortgage, consumer). We assign each loan type an allowance factor based on the historical loss rate for that type of loan and an evaluation of the qualitative factors mentioned above to determine a general allowance. We assign classified loans (i.e., special mention, substandard, doubtful, loss) a higher allowance factor than non-classified loans within a particular loan type based on our concerns regarding collectibility. Our allowance factors increase with the severity of classification. Allowance factors used for unclassified loans are based on our analysis of charge-off history for relevant periods of time which can vary depending on economic conditions, and our judgment based on the overall analysis of the lending environment including the general economic conditions. Our analysis of charge-off history also considers economic cycles and the trends during those cycles. We may occasionally determine that certain groups of loans require no allowance for losses based on characteristics of those loans as a group, such as purchased loans that are initially recorded

at fair value or loans that are guaranteed by U.S. government agencies. Purchased loans other than PCI loans are evaluated in the manner described above, and an allowance is recorded to the extent that the recorded investment in such loans exceeds their outstanding principal net of the required allowance for loan losses. PPP loans require no allowance based on the explicit guarantee of the SBA. The allowance for loan losses is the aggregate of specific allowances and the general allowance for each portfolio type.

As discussed above we segregate loans meeting the criteria for special mention, substandard, doubtful and loss from non-classified, or pass rated, loans. We review the characteristics of each rating at least annually, generally during the first quarter. The characteristics of these loan ratings are as follows:

- Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. The borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. When necessary, acceptable personal guarantors support the loan.
- Special mention loans have a specific, identified weakness in the borrower's operations and in the borrower's ability to generate positive cash flow on a sustained basis. The borrower's recent payment history may be characterized by late payments. The Corporation's risk exposure is mitigated by collateral supporting the loan. The collateral is considered to be well-margined, well maintained, accessible and readily marketable.
- Substandard loans are considered to have specific and well-defined weaknesses that jeopardize the viability of the Corporation's credit extension. The payment history for the loan has been inconsistent and the expected or projected primary repayment source may be inadequate to service the loan. The estimated net liquidation value of the collateral pledged and/or ability of the personal guarantor(s) to pay the loan may not adequately protect the Corporation. There is a distinct possibility that the Corporation will sustain some loss if the deficiencies associated with the loan are not corrected in the near term. A substandard loan would not automatically meet the Corporation's definition of impaired unless the loan is significantly past due and the borrower's performance and financial condition provide evidence that it is probable that the Corporation will be unable to collect all amounts due.
- Substandard nonaccrual loans have the same characteristics as substandard loans; however, they have a nonaccrual classification because it is probable that the Corporation will not be able to collect all amounts due.
- Doubtful rated loans have all the weaknesses inherent in a loan that is classified substandard but with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high.
- Loss rated loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

Allowance for Loan Losses Methodology - PCI Loans - As previously described, on a quarterly basis we evaluate our estimate of cash flows expected to be collected on PCI loans. These evaluations require the continued assessment of key assumptions and estimates similar to the initial estimate of fair value, such as the effect of collateral value changes, changing loss severities, estimated and experienced prepayment speeds and other relevant factors. Subsequent decreases to the expected cash flows to be collected on a PCI loan will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. For a more detailed description, see "Critical Accounting Policies" in this Item 7.

Allowance for Loan Losses Methodology – Consumer Finance. The consumer finance segment's loans consist of non-prime automobile loans and prime marine and RV loans. These loans carry risks associated with (1) the continued credit-worthiness of borrowers and (2) the value of rapidly-depreciating collateral. These loans do not lend themselves to a classification process because of the short duration of time between default, repossession and charge-off. Therefore, the

loan loss allowance review process generally focuses on an analysis of charge-off history for relevant periods of time, which can vary depending on economic conditions. Further consideration is given to the following factors:

- Changes in lending policies and procedures, including underwriting, collection, charge-off and recovery;
- Changes in international, national, regional and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the volume and severity of past due loans;
- Changes in the value of the underlying collateral;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- The effect of other external factors, such as competition;
- An overall analysis of the lending environment;
- Historical trends of actual loan losses based on volume and types of loans; and
- Significant one-time transactions affecting the allowance for loan losses.

Loans are grouped by loan type (e.g., non-prime automobile loans and prime marine and RV loans). We assign each loan type an allowance factor based on the historical loss rate for that type of loan and an evaluation of the qualitative factors mentioned above to determine a general allowance. Loans are further segregated between performing and nonperforming loans. Performing loans are those that have made timely payments in accordance with the terms of the loan agreement and that are not past due 90 days or more. Nonperforming loans are those that do not accrue interest and are greater than 90 days past due.

In accordance with its policies and guidelines and consistent with industry practices, C&F Finance, at times, offers payment deferrals to non-prime automobile borrowers, whereby the borrower is allowed to move up to two payments within a twelve-month rolling period to the end of the loan. A fee will be collected for extensions only in states that permit it. An account for which all delinquent payments are deferred is classified as current at the time the deferment is granted and therefore is not included as a delinquent account. Thereafter, such an account is aged based on the timely payment of future installments in the same manner as any other account. We evaluate the results of this deferment strategy based upon the amount of cash installments that are collected on accounts after they have been deferred versus the extent to which the collateral underlying the deferred accounts has depreciated over the same period of time. Based on this evaluation, we believe that payment deferrals granted according to our policies and guidelines are an effective portfolio management technique and result in higher ultimate cash collections. Payment deferrals may affect the ultimate timing of when an account is charged off. Increased use of deferrals may result in a lengthening of the loss confirmation period, which would increase expectations of credit losses inherent in the portfolio and therefore increase the allowance for loan losses and related provision for loan losses. The average amounts deferred on a monthly basis, as a percentage of average non-prime automobile loans outstanding, during the fourth quarter of 2020 and the year ended December 31, 2020 was 1.56 percent and 2.93 percent, respectively, compared to 1.87 percent and 1.90 percent in the fourth quarter of 2019 and the year ended December 31, 2019, respectively, and 2.53 percent and 2.30 percent in the fourth quarter of 2018 and the year ended December 31, 2018, respectively. Payment deferrals increased for 2020 as the COVID-19 pandemic affected the ability of some borrowers to make timely payments.

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb probable losses inherent in the loan portfolio. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance. The following table presents the Corporation's loan loss experience for the periods indicated:

TABLE 5: Allowance for Loan Losses

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | | | |
|--|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Balance, beginning of period | \$ 32,873 | \$ 34,023 | \$ 35,726 | \$ 37,066 | \$ 35,569 |
| Provision for loan losses: | | | | | |
| Community Banking | 4,600 | 360 | 100 | 200 | — |
| Mortgage Banking | 10 | — | — | — | — |
| Consumer Finance | 6,470 | 8,155 | 10,906 | 16,235 | 18,040 |
| Total provision for loan losses | <u>11,080</u> | <u>8,515</u> | <u>11,006</u> | <u>16,435</u> | <u>18,040</u> |
| Loans charged off: | | | | | |
| Real estate—residential mortgage | (62) | (46) | (42) | (179) | (82) |
| Commercial, financial and agricultural ¹ | (18) | (29) | (409) | (349) | (87) |
| Equity lines | — | (138) | — | (42) | (57) |
| Consumer | (231) | (349) | (344) | (301) | (281) |
| Consumer finance | (9,331) | (13,991) | (16,477) | (21,525) | (20,663) |
| Total loans charged off | <u>(9,642)</u> | <u>(14,553)</u> | <u>(17,272)</u> | <u>(22,396)</u> | <u>(21,170)</u> |
| Recoveries of loans previously charged off: | | | | | |
| Real estate—residential mortgage | 88 | 26 | 57 | 118 | 163 |
| Commercial, financial and agricultural ¹ | 4 | 4 | 59 | 21 | 206 |
| Equity lines | 1 | — | — | 2 | — |
| Consumer | 171 | 228 | 230 | 189 | 236 |
| Consumer finance | 4,581 | 4,630 | 4,217 | 4,291 | 4,022 |
| Total recoveries | <u>4,845</u> | <u>4,888</u> | <u>4,563</u> | <u>4,621</u> | <u>4,627</u> |
| Net loans charged off | <u>(4,797)</u> | <u>(9,665)</u> | <u>(12,709)</u> | <u>(17,775)</u> | <u>(16,543)</u> |
| Balance, end of period | \$ 39,156 | \$ 32,873 | \$ 34,023 | \$ 35,726 | \$ 37,066 |
| Ratio of net charge-offs (recoveries) to average total loans outstanding during period for Community Banking | <u>0.01 %</u> | <u>0.04 %</u> | <u>0.06 %</u> | <u>0.08 %</u> | <u>(0.02) %</u> |
| Ratio of net charge-offs to average total loans outstanding during period for Consumer Finance | <u>1.54 %</u> | <u>3.05 %</u> | <u>4.14 %</u> | <u>5.82 %</u> | <u>5.55 %</u> |

¹ Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

For further information regarding the adequacy of our allowance for loan losses, refer to "Nonperforming Assets" within this Item 7.

The allocation of the allowance for loan losses at December 31 for the years indicated and the ratio of corresponding outstanding loan balances to total loans are as follows:

TABLE 6: Allocation of Allowance for Loan Losses

| <i>(Dollars in thousands)</i> | December 31, | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Allocation of allowance for loan losses: | | | | | |
| Real estate—residential mortgage | \$ 2,914 | \$ 2,080 | \$ 2,246 | \$ 2,371 | \$ 2,559 |
| Real estate—construction ¹ | 975 | 681 | 727 | 605 | 816 |
| Commercial, financial and agricultural ² | 10,696 | 7,121 | 6,688 | 7,478 | 7,393 |
| Equity lines | 687 | 733 | 1,106 | 688 | 685 |
| Consumer | 371 | 465 | 257 | 231 | 261 |
| Consumer finance | 23,513 | 21,793 | 22,999 | 24,353 | 25,352 |
| Total allowance for loan losses | <u>\$ 39,156</u> | <u>\$ 32,873</u> | <u>\$ 34,023</u> | <u>\$ 35,726</u> | <u>\$ 37,066</u> |
| Ratio of loans to total period-end loans: | | | | | |
| Real estate—residential mortgage | 16 % | 16 % | 17 % | 19 % | 19 % |
| Real estate—construction ¹ | 4 | 5 | 5 | 4 | 6 |
| Commercial, financial and agricultural ² | 52 | 45 | 43 | 43 | 39 |
| Equity lines | 4 | 5 | 5 | 5 | 5 |
| Consumer | 1 | 1 | 2 | 1 | 1 |
| Consumer finance | 23 | 28 | 28 | 28 | 30 |
| | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> |

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

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

Loans by credit quality indicators as of December 31, 2020 were as follows:

TABLE 7A: Credit Quality Indicators

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|---|---------------------|--------------------|------------------|---------------------------|---------------------|
| | | | | | |
| Real estate – construction ² | 62,147 | — | — | — | 62,147 |
| Commercial, financial and agricultural ³ | 668,167 | 18,631 | 10,989 | 2,428 | 700,215 |
| Equity lines | 48,140 | 132 | 3 | 191 | 48,466 |
| Consumer | 10,832 | 48 | 41 | 107 | 11,028 |
| | <u>\$ 1,004,998</u> | <u>\$ 20,526</u> | <u>\$ 11,628</u> | <u>\$ 3,002</u> | <u>\$ 1,040,154</u> |

Included in the table above are loans purchased in connection with the acquisition of Peoples of \$53.0 million pass rated, \$695,000 special mention and \$3.0 million substandard.

| <i>(Dollars in thousands)</i> | Performing | Non- Performing | Total |
|-------------------------------|------------|--------------------|-------|
| | | | |

¹ At December 31, 2020, the Corporation did not have any loans classified as Doubtful or Loss.

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

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

Loans by credit quality indicators as of December 31, 2019 were as follows:

TABLE 7B: Credit Quality Indicators

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total¹ |
|---|-------------------|----------------------------|--------------------|-----------------------------------|--------------------------|
| Real estate – residential mortgage | \$ 177,049 | \$ 1,839 | \$ 881 | \$ 1,526 | \$ 181,295 |
| Real estate – construction ² | 54,246 | — | — | — | 54,246 |
| Commercial, financial and agricultural ³ | 487,374 | 13,357 | 70 | 11 | 500,812 |
| Equity lines | 51,662 | 181 | 11 | 229 | 52,083 |
| Consumer | 13,632 | 6 | — | 118 | 13,756 |
| | <u>\$ 783,963</u> | <u>\$ 15,383</u> | <u>\$ 962</u> | <u>\$ 1,884</u> | <u>\$ 802,192</u> |

| <i>(Dollars in thousands)</i> | Performing | Non- Performing | Total |
|-------------------------------|-------------------|----------------------------|-------------------|
| Consumer finance | <u>\$ 312,388</u> | <u>\$ 611</u> | <u>\$ 312,999</u> |

¹ At December 31, 2019, the Corporation did not have any loans classified as Doubtful or Loss.

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

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

The increase in loans rated Special Mention and Substandard at December 31, 2020 compared to December 31, 2019 is related primarily to three commercial relationships which were rated Pass at December 31, 2019, as well as loans that were acquired from Peoples, partially offset by one commercial relationship that was classified as Special Mention at December 31, 2019 and rated Pass at December 31, 2020. Of the three loan relationships that were rated Pass at December 31, 2019 and were subsequently downgraded, one was classified as Special Mention, one was classified as Substandard and one was classified as Substandard Nonaccrual at December 31, 2020 partially as a result of effects on these borrowers of the COVID-19 pandemic.

The allowance for loan losses as a percentage of total loans at the community banking segment, excluding PCI loans, increased to 1.46 percent at December 31, 2020, compared to 1.32 percent at December 31, 2019. The allowance for loan losses as a percentage of total loans excluding all purchased loans and loans originated under the PPP was 1.74 percent at December 31, 2020, compared to 1.36 percent at December 31, 2019. The community banking segment recorded provision for loan losses of \$4.6 million in 2020, primarily to add to reserves based on qualitative adjustments as a result of the COVID-19 pandemic and due to loan growth, compared to provision for loan losses of \$360,000 for 2019. As of December 31, 2020, there have not been significant changes in the overall credit quality of the loan portfolio compared to December 31, 2019, although management believes the effects of PPP loans, payment deferrals and government stimulus may be delaying signs of credit deterioration. Management believes that the level of the allowance for loan losses is sufficient to absorb losses inherent in the portfolio. However, if there is further deterioration in economic conditions, additional provision may be required in future periods.

The consumer finance segment’s allowance for loan losses increased by \$1.7 million to \$23.5 million at December 31, 2020 from \$21.8 million at December 31, 2019, and its provision for loan losses decreased \$1.7 million for the year ended December 31, 2020, as compared to 2019. Total delinquent loans, which does not include loans that have been granted a payment deferral, as a percentage of total loans decreased to 3.08 percent at December 31, 2020 compared to 4.17 percent at December 31, 2019. The consumer finance segment’s net charge-off ratio for 2020 decreased to 1.54 percent from 3.05 percent for 2019 due to a lower number of charge-offs during 2020, as a result of improvement in loan performance and lower losses per loan charged off as a result of a strong used car market. Improvement in loan performance has resulted from the consumer finance segment continuing to purchase higher quality loans, including marine and RV loans, as well as borrowers benefitting from the government’s stimulus measures in response to the pandemic. The Corporation can give no assurance as to the continuation of government stimulus measures or the extent to which they will result in supporting borrowers’ ability to continue making their contractual loan payments. The allowance for loan losses as a percentage of loans increased to 7.53 percent at December 31, 2020,

compared to 6.96 percent at December 31, 2019. The increase in the level of the allowance for loan losses as a percentage of total loans reflects losses that are probable as a result of the economic impacts of the COVID-19 pandemic. Management believes that the level of the allowance for loan losses is sufficient to absorb losses inherent in the portfolio. However, if there is further deterioration in economic conditions, additional provision may be required in future periods.

As previously described, the consumer finance segment, at times, offers payment deferrals to non-prime automobile borrowers as a management technique to achieve higher ultimate cash collections on select loan accounts. Payment deferrals may affect the ultimate timing of when an account is charged off. A significant reliance on deferrals as a means of managing collections may result in a lengthening of the loss confirmation period, which would increase expectations of credit losses inherent in the portfolio. Monthly payment deferrals, as a percentage of non-prime automobile loans outstanding, rose to as high as 8.25 percent during the second quarter of 2020 and returned to normal levels by the end of 2020; the average amount deferred on a monthly basis during the fourth quarter of 2020 as a percentage of non-prime automobile loans was 1.56 percent. The average amounts deferred on a monthly basis during 2020 were 2.93 percent of non-prime automobile loans outstanding, compared to 1.90 percent during 2019 and 2.30 percent during 2018. Payment deferrals increased for 2020 compared to 2019 as the COVID-19 pandemic affected the ability of some borrowers to make timely payments.

Because C&F Finance primarily focuses on non-prime borrowers, the anticipated rates of delinquencies, defaults, repossessions and losses on the consumer finance loans are higher than those experienced in the general automobile finance industry and could be more dramatically affected by changes in general economic conditions. Changes in economic conditions may also affect consumer demand for used automobiles and values of automobiles securing outstanding loans, due to changes in demand or changes in levels of inventory of used automobiles, which may directly affect the amount of a loss incurred by C&F Finance in the event of default. While we manage the higher risk inherent in loans made to non-prime borrowers through the underwriting criteria, portfolio management and collection methods employed by C&F Finance, we cannot guarantee that these criteria or methods will afford adequate protection against these risks. Beginning in 2016 with C&F Finance's implementation of a scorecard model for purchasing loan contracts, the credit worthiness of borrowers at origination has improved for automobile loans purchased by C&F Finance and the level of credit losses experienced has decreased. We cannot provide any assurance that C&F Finance's net charge-off ratio will not increase in future periods. However, we believe that the current allowance for loan losses is adequate to absorb probable losses that have been incurred on existing consumer finance segment loans that may become uncollectible. If factors influencing the consumer finance segment result in higher net charge-off ratios in future periods, the consumer finance segment may need to increase the level of its allowance for loan losses through additional provisions for loan losses, which could negatively affect future earnings of the consumer finance segment.

Nonperforming Assets

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 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 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. These policies are applied consistently across our loan portfolio.

Assets acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of like properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. We may incur additional write-downs of foreclosed assets to fair value less estimated costs to sell if valuations indicate a further deterioration in market conditions. Revenue and expenses from operations and changes in the property valuations are included in net expenses from foreclosed assets and improvements are capitalized.

At the consumer finance segment, the repossession process is generally initiated after a loan becomes more than 60 days delinquent. Borrowers have an opportunity to redeem their repossessed vehicles by paying all outstanding balances, including finance charges and fees. Vehicles that are not redeemed within the prescribed waiting period before C&F Finance has the legal right to sell the repossessed vehicle then become available-for-sale at the end of that period and are reclassified from loans to other assets and are recorded initially at fair value less estimated costs to sell. The difference between the carrying amount of each loan and the fair value of the vehicle (i.e. the deficiency) is charged against the allowance for loan losses. Accounts still in process of collection or for which the Corporation does not have the legal right to sell continue to be classified as loans until such legal authority is obtained. After the vehicles have been sold in third-party auctions, we credit the proceeds from the sale of the vehicles, and any other recoveries, to the carrying value of the repossessed vehicles. C&F Finance pursues collection of deficiencies, as allowed by state law, when it deems such action to be appropriate.

Table 8 summarizes nonperforming assets at December 31 of each of the past five years.

TABLE 8: Nonperforming Assets

Community Banking Segment

| <i>(Dollars in thousands)</i> | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|
| Loans, excluding purchased loans | \$ 939,444 | \$ 770,423 | \$ 723,778 | \$ 686,605 | \$ 629,523 |
| Purchased performing loans ¹ | 87,096 | 26,422 | 36,874 | 42,793 | 53,329 |
| Purchased credit impaired loans ¹ | 6,359 | 705 | 1,835 | 3,103 | 9,256 |
| Total loans | <u>\$ 1,032,899</u> | <u>\$ 797,550</u> | <u>\$ 762,487</u> | <u>\$ 732,501</u> | <u>\$ 692,108</u> |
| Nonaccrual loans | \$ 2,971 | \$ 1,512 | \$ 1,464 | \$ 5,272 | \$ 4,235 |
| OREO ² | 907 | 1,103 | 246 | 168 | 195 |
| Total nonperforming assets | <u>\$ 3,878</u> | <u>\$ 2,615</u> | <u>\$ 1,710</u> | <u>\$ 5,440</u> | <u>\$ 4,430</u> |
| Accruing loans past due for 90 days or more. | \$ 145 | \$ 109 | \$ 324 | \$ 306 | \$ 6 |
| Troubled debt-restructurings (TDRs) ³ | \$ 3,575 | \$ 4,353 | \$ 5,451 | \$ 10,896 | \$ 5,825 |
| Allowance for loan losses (ALL) | \$ 15,035 | \$ 10,482 | \$ 10,426 | \$ 10,775 | \$ 11,115 |
| Nonperforming assets to total loans and OREO | 0.38 % | 0.33 % | 0.22 % | 0.74 % | 0.64 % |
| ALL to total loans, excluding purchased credit impaired loans ⁴ | 1.46 | 1.32 | 1.37 | 1.48 | 1.63 |
| ALL to total loans, excluding purchased loans and PPP loans | 1.74 | 1.36 | 1.37 | 1.48 | 1.63 |
| ALL to total nonaccrual loans | 506.06 | 693.25 | 712.16 | 204.38 | 262.46 |
| Net charge-offs (recoveries) to average total loans | 0.01 | 0.04 | 0.06 | 0.08 | (0.02) |

¹ Acquired loans are tracked in two separate categories – “purchased performing” and “purchased credit impaired.” The remaining discount for the purchased performing loans was \$1.8 million at December 31, 2020, \$1.4 million at December 31, 2019, \$1.9 million at December 31, 2018, \$2.3 million at December 31, 2017 and \$2.9 million at December 31, 2016. The remaining discount for the purchased credit impaired loans was \$5.9 million at December 31, 2020, \$5.6 million at December 31, 2019, \$7.9 million at December 31, 2018, \$9.8 million at December 31, 2017 and \$10.5 million at December 31, 2016. The increase in remaining discount on purchased performing loans and purchased credit impaired loans from December 31, 2019 to December 31, 2020 is due primarily to loans acquired in the acquisition of Peoples.

² OREO includes \$835,000 at both December 31, 2020 and 2019 related to the land and buildings of the Bellgrade branch, which was consolidated into a nearby branch in 2019.

³ Nonaccrual loans include nonaccrual TDRs of \$257,000 at December 31, 2020, \$254,000 at December 31, 2019, \$166,000 at December 31, 2018, \$3.9 million at December 31, 2017 and \$2.0 million at December 31, 2016.

⁴ The ratio of ALL to total loans, excluding purchased credit impaired loans, includes purchased performing loans and loans originated under the PPP for which no allowance for loan losses is required.

Mortgage Banking Segment

| <i>(Dollars in thousands)</i> | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|----------|----------|----------|----------|----------|
| Nonaccrual loans | \$ 31 | \$ 372 | \$ 37 | \$ 39 | \$ 41 |
| Total loans | \$ 7,255 | \$ 4,642 | \$ 3,479 | \$ 3,283 | \$ 3,275 |
| Allowance for loan losses | \$ 608 | \$ 598 | \$ 598 | \$ 598 | \$ 598 |
| Nonaccrual loans to total loans | 0.43 % | 8.01 % | 1.06 % | 1.19 % | 1.25 % |
| Allowance for loan losses to total loans | 8.38 | 12.88 | 17.19 | 18.22 | 18.26 |

Consumer Finance Segment

| <i>(Dollars in thousands)</i> | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|------------|------------|------------|------------|------------|
| Nonaccrual loans | \$ 402 | \$ 611 | \$ 712 | \$ 764 | \$ 1,215 |
| Accruing loans past due for 90 days or more | \$ — | \$ — | \$ — | \$ — | \$ — |
| Repossessed assets | \$ 291 | \$ 410 | \$ 371 | \$ 250 | \$ 580 |
| Total loans | \$ 312,252 | \$ 312,999 | \$ 296,154 | \$ 292,004 | \$ 304,357 |
| Allowance for loan losses | \$ 23,513 | \$ 21,793 | \$ 22,999 | \$ 24,353 | \$ 25,353 |
| Nonaccrual loans to total loans | 0.13 % | 0.20 % | 0.24 % | 0.26 % | 0.40 % |
| Allowance for loan losses to total loans | 7.53 | 6.96 | 7.77 | 8.34 | 8.33 |
| Net charge-offs to average total loans | 1.54 | 3.05 | 4.14 | 5.82 | 5.55 |

Table 9 presents the changes in the OREO balance for 2020 and 2019.

TABLE 9: OREO Changes

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|---|-------------------------|----------|
| | 2020 | 2019 |
| Balance at the beginning of year, gross | \$ 1,191 | \$ 303 |
| Additions | 344 | 1,401 |
| Charge-offs | (57) | — |
| Sales proceeds | (364) | (521) |
| Gain on disposition | — | 8 |
| Balance at the end of year, gross | 1,114 | 1,191 |
| Less valuation allowance | (207) | (88) |
| Balance at the end of year, net | \$ 907 | \$ 1,103 |

Nonperforming assets of the community banking segment totaled \$3.9 million at December 31, 2020, compared to \$2.6 million at December 31, 2019. Nonperforming assets included \$3.0 million in nonaccrual loans at December 31, 2020 compared to \$1.5 million at December 31, 2019, and included \$907,000 in other real estate owned at December 31, 2020, compared to \$1.1 million at December 31, 2019. The increase in nonaccrual loans at December 31, 2020 compared to December 31, 2019 was due primarily to the downgrading of one commercial relationship in 2020, partially offset by payoffs. Nonaccrual loans were comprised primarily of commercial business loans at December 31, 2020 and residential mortgages and equity lines at December 31, 2019. If interest on loans on nonaccrual at December 31, 2020 had been recognized throughout the year, the community banking segment would have recorded additional gross interest income in 2020 of \$30,000.

Nonaccrual loans at the consumer finance segment decreased to \$402,000 at December 31, 2020 from \$611,000 at December 31, 2019. As noted above, the allowance for loan losses at the consumer finance segment increased from \$21.8 million at December 31, 2019 to \$23.5 million at December 31, 2020, and the ratio of the allowance for loan losses to total consumer finance loans was 7.53 percent as of December 31, 2020, compared to 6.96 percent at December 31, 2019. Nonaccrual consumer finance loans remain low relative to the allowance for loan losses and the total consumer finance loan portfolio because the consumer finance segment generally initiates repossession of loan collateral once a loan

becomes more than 60 days delinquent. Repossessed vehicles of the consumer finance segment are classified as other assets and consist only of vehicles the Corporation has the legal right to sell. Prior to the reclassification from loans to repossessed vehicles, the difference between the carrying amount of each loan and the fair value of each vehicle (i.e. the deficiency) is charged against the allowance for loan losses. At December 31, 2020, repossessed vehicles at fair value less estimated costs to sell included in other assets totaled \$291,000, compared to \$410,000 at December 31, 2019. If interest on loans on nonaccrual at December 31, 2020 had been recognized throughout the year, the consumer finance segment would have recorded additional gross interest income in 2020 of \$4,000.

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

Impaired loans, which included TDRs of \$3.6 million, and the related allowance at December 31, 2020, were as follows:

TABLE 10A: Impaired Loans

| <i>(Dollars in thousands)</i> | Unpaid Principal Balance | Recorded Investment in Loans without Specific Reserve | Recorded Investment in Loans with Specific Reserve | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|--|--------------------------------|---|--|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 2,326 | \$ 931 | \$ 1,279 | \$ 77 | \$ 2,353 | \$ 105 |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending | 1,397 | — | 1,397 | 89 | 1,404 | 73 |
| Commercial business lending | 2,430 | — | 2,428 | 585 | 2,573 | — |
| Equity lines | 120 | 111 | — | — | 119 | 2 |
| Consumer | 147 | — | 132 | 128 | 154 | 3 |
| Total | <u>\$ 6,420</u> | <u>\$ 1,042</u> | <u>\$ 5,236</u> | <u>\$ 879</u> | <u>\$ 6,603</u> | <u>\$ 183</u> |

Impaired loans, which included TDRs of \$4.4 million, and the related allowance at December 31, 2019, were as follows:

TABLE 10B: Impaired Loans

| <i>(Dollars in thousands)</i> | Unpaid Principal Balance | Recorded Investment in Loans without Specific Reserve | Recorded Investment in Loans with Specific Reserve | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|--|--------------------------------|---|--|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 3,891 | \$ 2,192 | \$ 1,479 | \$ 72 | \$ 3,506 | \$ 155 |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending | 1,459 | 4 | 1,447 | 77 | 1,581 | 82 |
| Equity lines | 31 | 31 | — | — | 32 | 2 |
| Consumer | 130 | — | 121 | 118 | 123 | — |
| Total | <u>\$ 5,511</u> | <u>\$ 2,227</u> | <u>\$ 3,047</u> | <u>\$ 267</u> | <u>\$ 5,242</u> | <u>\$ 239</u> |

TDRs at December 31, 2020 and 2019 were as follows:

TABLE 11: Troubled Debt Restructurings

| <i>(Dollars in thousands)</i> | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|
| Accruing TDRs | \$ 3,318 | \$ 4,099 |
| Nonaccrual TDRs ¹ | 257 | 254 |
| Total TDRs ² | <u>\$ 3,575</u> | <u>\$ 4,353</u> |

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

² Included in impaired loans in Tables 10A and 10B: Impaired Loans.

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

The Corporation has accommodated certain borrowers affected by the COVID-19 pandemic by granting short-term payment deferrals or periods of interest-only payments on loans with aggregate balances of \$104.7 million during the year ended December 31, 2020. Generally, a short-term payment deferral does not result in a loan modification being classified as a TDR. As of December 31, 2020, there were \$30.7 million of loans whose modification periods had not ended or had been extended. Of these loans, \$30.2 million were not required to be evaluated as TDRs as a result of the CARES Act; however, management believes that these loans have been risk rated appropriately. Management cannot predict the overall impact of the COVID-19 pandemic on its loan portfolio or the extent of payment deferrals or other modifications that may be granted. Depending on the severity and duration of the economic disruption caused by the COVID-19 pandemic, the Corporation may experience an increase in delinquencies that may lead to further loan modifications, including loan modifications that may be classified as TDRs.

FINANCIAL CONDITION

SUMMARY

A financial institution’s primary sources of revenue are generated by its earning assets and sales of financial assets, while its major expenses are produced by the funding of those assets with interest-bearing liabilities, provisions for loan losses and compensation to employees. Effective management of these sources and uses of funds is essential in attaining a financial institution’s maximum profitability while maintaining an acceptable level of risk.

At December 31, 2020, the Corporation had total assets of \$2.09 billion compared to \$1.66 billion at December 31, 2019. The increase resulted primarily from increases in loans and securities and the acquisition of Peoples on January 1, 2020, which added total assets of \$190.5 million, funded primarily by deposit growth. The significant components of the Corporation’s Consolidated Balance Sheets are discussed below.

LOAN PORTFOLIO

General

Through the community banking segment, we engage in a wide range of lending activities, which include the origination, primarily in the community banking segment’s market area, of (1) one-to-four family and multi-family residential mortgage loans, (2) commercial real estate loans, (3) construction loans, (4) land acquisition and development

loans, (5) consumer loans and (6) commercial business loans. We engage in non-prime automobile, and marine and RV lending through the consumer finance segment and in residential mortgage lending through the mortgage banking segment with substantially all of the loans originated through the mortgage banking segment sold to third-party investors. At December 31, 2020, the Corporation's loans held for investment in all categories, net of the allowance for loan losses, totaled \$1.31 billion and loans held for sale had a fair value of \$214.3 million.

Tables 12 and 13 present information pertaining to the composition of loans held for investment and the maturity/repricing of certain loans held for investment.

TABLE 12: Summary of Loans Held for Investment

| <i>(Dollars in thousands)</i> | December 31, | | | | |
|--|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Real estate—residential mortgage | \$ 218,298 | \$ 181,295 | \$ 184,901 | \$ 184,863 | \$ 188,264 |
| Real estate—construction ¹ | 62,147 | 54,246 | 54,461 | 44,782 | 55,732 |
| Commercial, financial, and agricultural ² | 700,215 | 500,812 | 455,935 | 437,884 | 390,388 |
| Equity lines | 48,466 | 52,083 | 55,660 | 55,237 | 52,600 |
| Consumer | 11,028 | 13,756 | 15,009 | 13,018 | 8,399 |
| Consumer finance | 312,252 | 312,999 | 296,154 | 292,004 | 304,357 |
| Total loans | 1,352,406 | 1,115,191 | 1,062,120 | 1,027,788 | 999,740 |
| Less allowance for loan losses | (39,156) | (32,873) | (34,023) | (35,726) | (37,066) |
| Total loans, net | <u>\$ 1,313,250</u> | <u>\$ 1,082,318</u> | <u>\$ 1,028,097</u> | <u>\$ 992,062</u> | <u>\$ 962,674</u> |

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

² Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending (which includes loans originated under the PPP during 2020).

TABLE 13: Maturity/Repricing Schedule of Loans Held for Investment

| <i>(Dollars in thousands)</i> | December 31, 2020 | |
|-------------------------------|---|-----------------------------|
| | Commercial, Financial, and Agricultural | Real Estate Construction |
| Variable Rate: | | |
| Within 1 year | \$ 176,264 | \$ 33,076 |
| 1 to 5 years | 36,642 | — |
| After 5 years | 497 | — |
| Fixed Rate: | | |
| Within 1 year | \$ 52,607 | \$ 28,838 |
| 1 to 5 years | 207,996 | — |
| After 5 years | 226,209 | 233 |

Beginning in April 2020, the community banking segment originated loans under the PPP which are guaranteed by the SBA, and in some cases borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. Aggregate fees from the SBA of \$3.7 million, net of direct costs, will be recognized in interest income over the life of the loans, of which \$2.2 million remains unrecognized as of December 31, 2020. As repayment of the loans is guaranteed by the SBA, the community banking segment does not recognize a reserve for PPP loans in its allowance for loan losses. Table 14 presents the outstanding principal of loans originated under the PPP at December 31, 2020, which are recorded in the Consolidated Balance Sheet net of unrecognized net deferred fees of \$2.2 million.

TABLE 14: Paycheck Protection Loans as of December 31, 2020

| <i>(Dollars in thousands)</i> | Number of Loans | Outstanding |
|--------------------------------------|------------------------|--------------------|
| Below \$50 | 807 | \$ 15,510 |
| At least \$50 and below \$250 | 308 | 32,794 |
| At least \$250 and below \$500 | 43 | 14,585 |
| \$500 and greater | 17 | 15,795 |
| | 1,175 | \$ 78,684 |

In evaluating the allowance for loan losses, the community banking segment considered its exposure to segments of the economy that it believes have been or will be most sensitive to the impacts of the COVID-19 pandemic. Table 15 presents balances of loans to borrowers in these sensitive industries at December 31, 2020, excluding PPP loans, and the exposure of the community banking segment to those borrowers, which includes available credit.

TABLE 15: Sensitive Industries and Exposure

| <i>(Dollars in thousands)</i> | December 31, 2020 | |
|--|--------------------------|-------------------|
| | Balance | Exposure |
| Apartments..... | \$ 82,031 | \$ 96,095 |
| Health care ¹ | 71,636 | 73,596 |
| Commercial real estate - retail ² | 50,455 | 57,009 |
| Restaurants..... | 13,608 | 14,120 |
| Fitness centers and recreation..... | 11,487 | 12,206 |
| Hospitality | 5,963 | 31,786 |
| | \$ 235,180 | \$ 284,812 |

¹ Includes primarily loans secured by medical office buildings and assisted living facilities.

² Includes loans secured by commercial real estate used or being constructed for use in a retail business, a majority of which are leased to unrelated retail tenants.

The increase in total loans from December 31, 2019 to December 31, 2020 was primarily due to commercial loan growth at the community banking segment resulting from loans acquired in the acquisition of Peoples, loans originated under the PPP, and growth in the commercial real estate and commercial business lending segments of the portfolio.

Total loans at December 31, 2020 and 2019 included loans purchased in connection with the Corporation's acquisitions. These loans were recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan losses. The following tables present the outstanding principal balance and the carrying amount of purchased loans that are included in the Corporation's Consolidated Balance Sheets at December 31, 2020 and 2019.

TABLE 16: PCI and Purchased Performing Loans

| <i>(Dollars in thousands)</i> | December 31, 2020 | | |
|---|--|---------------------------------|------------------|
| | Purchased Credit Impaired | Purchased Performing | Total |
| | Outstanding principal balance | <u>\$ 12,760</u> | <u>\$ 89,043</u> |
| Carrying amount | | | |
| Real estate – residential mortgage. | \$ 1,473 | \$ 15,117 | \$ 16,590 |
| Real estate – construction | — | 1,077 | 1,077 |
| Commercial, financial and agricultural. | 4,758 | 58,796 | 63,554 |
| Equity lines | 80 | 10,182 | 10,262 |
| Consumer. | 48 | 1,924 | 1,972 |
| Total acquired loans | <u>\$ 6,359</u> | <u>\$ 87,096</u> | <u>\$ 93,455</u> |

| <i>(Dollars in thousands)</i> | December 31, 2019 | | |
|---|--|---------------------------------|------------------|
| | Purchased Credit Impaired | Purchased Performing | Total |
| | Outstanding principal balance | <u>\$ 6,262</u> | <u>\$ 27,839</u> |
| Carrying amount | | | |
| Real estate – residential mortgage. | \$ 107 | \$ 7,035 | \$ 7,142 |
| Commercial, financial and agricultural. | 563 | 11,338 | 11,901 |
| Equity lines | 35 | 8,046 | 8,081 |
| Consumer | — | 3 | 3 |
| Total acquired loans | <u>\$ 705</u> | <u>\$ 26,422</u> | <u>\$ 27,127</u> |

For a description of the Corporation’s accounting for purchased performing and PCI loans, see “Critical Accounting Policies” in this Item 7.

Credit Policy

The Corporation’s credit policy establishes minimum requirements and provides for appropriate limitations on overall concentration of credit within the Corporation. The policy provides guidance in general credit policies, underwriting policies and risk management, credit approval, and administrative and problem asset management policies. The overall goal of the Corporation’s credit policy is to ensure that loan growth is accompanied by acceptable asset quality with uniform and consistently applied approval, administration, and documentation practices and standards.

Residential Mortgage Lending – Held for Sale

The mortgage banking segment’s guidelines for underwriting conventional conforming loans comply with the underwriting criteria established by Fannie Mae, Freddie Mac and/or the applicable third party investor. The guidelines for non-conforming conventional loans are based on the requirements of private investors and information provided by third-party investors. The guidelines used by C&F Mortgage to originate FHA-insured, USDA-guaranteed and VA-guaranteed loans comply with the criteria established by HUD, the USDA, the VA and/or the applicable third party investor. The conventional loans that C&F Mortgage originates that have loan-to-value ratios greater than 80 percent at origination are generally insured by private mortgage insurance.

Residential Mortgage Lending – Held for Investment

The community banking segment originates residential mortgage loans secured by first and second liens on properties located in its primary market area in the Hampton to Charlottesville corridor in Virginia. The Bank offers various types of residential first mortgage loans in addition to traditional long-term, fixed-rate loans. The majority of such loans include 10, 15 and 30 year amortizing mortgage loans with fixed rates of interest and fixed-rate mortgage loans with terms of 20, 25 and 30 years but subject to call after five years at the Bank's option. Second mortgage loans are offered with fixed and adjustable rates. Second mortgage loans are granted for a fixed period of time, usually between 5 and 20 years. Call option provisions are included in the loan documents for some longer-term, fixed-rate second mortgage loans, and these provisions allow the Bank to make interest rate adjustments for such loans.

Loans associated with residential mortgage lending are included in the real estate—residential mortgage category in Table 12: Summary of Loans Held for Investment.

Construction Lending

The community banking segment has a real estate construction lending program. We make loans primarily for the construction of one-to-four family residences and, to a lesser extent, multi-family dwellings. The Bank also makes construction loans for office and warehouse facilities and other nonresidential projects, generally limited to borrowers that present other business opportunities for the community banking segment.

The amounts, interest rates and terms for construction loans vary, depending upon market conditions, the size and complexity of the project, and the financial strength of the borrower and any guarantors of the loan. The term for a typical construction loan ranges from 9 months to 15 months for the construction of an individual residence and from 15 months to a maximum of 3 years for larger residential or commercial projects. We do not typically amortize construction loans, and the borrower pays interest monthly on the outstanding principal balance of the loan. The Bank offers fixed and variable interest rates on construction loans. We do not generally finance the construction of commercial real estate projects built on a speculative basis. For residential builder loans, we limit the number of models and/or speculative units allowed depending on market conditions, the builder's financial strength and track record and other factors. Generally, the maximum loan-to-value ratio for one-to-four family residential construction loans is 80 percent of the property's fair market value, or 85 percent of the property's fair market value if the property will be the borrower's primary residence. The fair market value of a project is determined on the basis of an appraisal of the project conducted by an appraiser approved by the Bank. For larger projects where unit absorption or leasing is a concern, we may also obtain a feasibility study or other acceptable information from the borrower or other sources about the likely disposition of the property following the completion of construction.

Construction loans for nonresidential projects and multi-unit residential projects are generally larger and involve a greater degree of risk to the Bank than residential mortgage loans. We attempt to minimize such risks (1) by making construction loans in accordance with our underwriting standards and to established customers in our primary market area and (2) by monitoring the quality, progress and cost of construction. Generally, our maximum loan-to-value ratio for non-residential projects and multi-unit residential projects is 80 percent; however, this maximum can be waived for particularly strong borrowers on an exception basis.

Loans associated with construction lending are included in the real estate—construction category in Table 12: Summary of Loans Held for Investment.

Consumer Lot Lending

The community banking segment's consumer lot loans are made to individuals for the purpose of acquiring an unimproved building site for the construction of a residence that generally will be occupied by the borrower. Consumer lot loans are made only to individual borrowers, and each borrower generally must certify his or her intention to build and occupy a single-family residence on the lot. These loans typically have a maximum term of either three or five years with a balloon payment of the entire balance of the loan being due in full at the end of the initial term. The interest rate for these

loans is fixed or variable at a rate that is slightly higher than prevailing rates for one-to-four family residential mortgage loans. We do not believe consumer lot loans bear as much risk as land acquisition and development loans because such loans are not made for the construction of residences for immediate resale, are not made to developers and builders, and are not concentrated in any one subdivision or community.

Loans associated with consumer lot lending are included in the real estate—construction category in Table 12: Summary of Loans Held for Investment.

Commercial Real Estate Lending

The community banking segment's commercial real estate loans are primarily secured by the value of real property. The proceeds of commercial real estate loans are generally used by the borrower to finance or refinance the cost of acquiring and/or improving a commercial property. The properties that typically secure these loans are office and warehouse facilities, hotels, apartment complexes, retail facilities, restaurants and other commercial properties. Present policy authorizes commercial real estate loans to borrowers who will occupy or use the financed property in connection with their normal business operations. We also will consider making commercial real estate loans secured by non-owner-occupied properties under the following two conditions: (1) the borrower is in strong financial condition and presents a substantial business opportunity for the Corporation and (2) the borrower has substantially pre-leased the property to high-caliber tenants.

Our commercial real estate loans are usually amortized over a period of time ranging from 15 years to 30 years and usually have a term to maturity ranging from 5 years to 15 years. These loans normally have provisions for interest rate adjustments after the loan is three to five years old. The maximum loan-to-value ratio for a commercial real estate loan is 80 percent; however, this maximum can be waived for particularly strong borrowers on an exception basis. Most commercial real estate loans are further secured by one or more unconditional personal guarantees.

In recent years, we have structured a portion of our commercial real estate loans as mini-permanent loans. The amortization period, term and interest rates for these loans vary based on borrower preferences and our assessment of the loan and the degree of risk involved. If the borrower prefers a fixed rate of interest, we usually offer a loan with a fixed rate of interest for a term of 3 to 10 years with an amortization period of up to 30 years. The remaining balance of the loan is due and payable in a single balloon payment at the end of the initial term. We believe these loan terms provide some protection from changes in the borrower's business and income as well as changes in general economic conditions. In the case of fixed-rate commercial real estate loans, shorter maturities also provide an opportunity to adjust the interest rate on this type of interest-earning asset in accordance with our asset and liability management strategies. Certain commercial customers qualify for participation in an interest rate swap program. This program provides flexible pricing structures for our larger borrowers who wish to pay a fixed rate of interest, while preserving a floating rate for the Bank, which protects C&F Bank from exposure to rising interest rates.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than residential mortgage loans. Because payments on loans secured by commercial real estate are usually dependent on successful operation or management of the properties securing such loans, repayment of such loans is subject to changes in both general and local economic conditions and the borrower's business and income. As a result, events beyond our control, such as a downturn in the local economy, could adversely affect the performance of the commercial real estate loan portfolio. We seek to minimize these risks by lending to established customers and generally restricting our commercial real estate loans to our primary market area. Emphasis is placed on the income producing characteristics and quality of the collateral.

Loans associated with commercial real estate lending are included in the commercial, financial and agricultural category in Table 12: Summary of Loans Held for Investment.

Land Acquisition and Development Lending

The community banking segment makes land acquisition and development loans to builders and developers for the purpose of acquiring unimproved land to be developed for residential building sites, residential housing subdivisions, multi-family dwellings and a variety of commercial uses. Our policy is to make land acquisition loans to borrowers for the purpose of acquiring developed lots for single-family, townhouse or condominium construction. We will make both land acquisition and development loans to residential builders, experienced developers and others in strong financial condition to provide additional construction and mortgage lending opportunities for the Bank.

We underwrite and process land acquisition and development loans in much the same manner as commercial construction loans and commercial real estate loans. For land acquisition and development loans, we use lower loan-to-value ratios, which are a maximum of 65 percent for raw land, 75 percent for land development and improved lots and 80 percent of the discounted appraised value of the property as determined in accordance with the appraisal policies for developed lots for single-family or townhouse construction. We can waive the maximum loan-to-value ratio for particularly strong borrowers on an exception basis. The term of land acquisition and development loans ranges from a maximum of two years for loans relating to the acquisition of unimproved land to, generally, a maximum of three years for other types of projects. All land acquisition and development loans generally are further secured by one or more unconditional personal guarantees. Because these loans are usually larger in amount and involve more risk than consumer lot loans, we carefully evaluate the borrower's assumptions and projections about market conditions and absorption rates in the community in which the property is located and the borrower's ability to carry the loan if the borrower's assumptions prove inaccurate.

Loans associated with land acquisition and development lending are included in the commercial, financial and agricultural category in Table 12: Summary of Loans Held for Investment.

Builder Line Lending

The community banking segment offers builder lines of credit to residential home builders to support their land and lot inventory needs. A construction loan facility for a builder will typically have an expiration of 12 months or less. Each loan that is made under the master loan facility will have a stated maturity that allows time for the residential unit to be constructed and sold to a homebuyer under prevailing market conditions. Specific terms vary based on the purpose of the loan (e.g., lot inventory, spec or non pre-sold units, pre-sold units) and previous sales activity to new homebuyers in the particular development. Repayment relies upon the successful performance of the underlying residential real estate project. This type of lending carries a higher level of risk related to residential real estate market conditions, a functioning first and secondary market in which to sell residential properties, and the borrower's ability to manage inventory and run projects. We manage this risk by lending to experienced builders and by using specific underwriting policies and procedures for these types of loans.

Loans associated with builder line lending are included in the commercial, financial and agricultural category in Table 12: Summary of Loans Held for Investment.

Commercial Business Lending

The community banking segment's commercial business loan products include revolving lines of credit to provide working capital, term loans to finance the purchase of vehicles and equipment, letters of credit to guarantee payment and performance, and other commercial loans. In general, these credit facilities carry the unconditional guaranty of the owners and/or stockholders.

Revolving and operating lines of credit are typically secured by all current assets of the borrower, provide for the acceleration of repayment upon any event of default, are monitored monthly or quarterly to ensure compliance with loan covenants, and are re-underwritten or renewed annually. Interest rates generally will float at a spread tied to the Bank's prime lending rate. Term loans are generally advanced for the purchase of, and are secured by, vehicles and equipment and are normally fully amortized over a term of two to five years, on either a fixed or floating rate basis.

Loans associated with commercial business lending are included in the commercial, financial and agricultural category in Table 12: Summary of Loans Held for Investment.

Equity Line Lending

The community banking segment offers its customers home equity lines of credit that enable customers to borrow funds secured by the equity in their homes. Currently, home equity lines of credit are offered with adjustable rates of interest that are generally priced at a spread to the prime lending rate. Home equity lines of credit are made on an open-end, revolving basis. Home equity loans generally do not present as much risk to the Bank as other types of consumer loans. These loans must satisfy our underwriting criteria, including loan-to-value and credit score guidelines.

Loans associated with equity line lending are included in the equity lines category in Table 12: Summary of Loans Held for Investment.

Consumer Lending

The community banking segment offers a variety of consumer loans, including automobile, personal secured and unsecured, and loans secured by savings accounts or certificates of deposit. The shorter terms and generally higher interest rates on consumer loans help the Bank maintain a profitable spread between its average loan yield and its cost of funds. Consumer loans secured by collateral other than a personal residence generally involve more credit risk than residential mortgage loans because of the type and nature of the collateral or, in certain cases, the absence of collateral. However, we believe the higher yields generally earned on such loans compensate for the increased credit risk associated with such loans. These loans must satisfy our underwriting criteria, including loan-to-value, debt ratio and credit score guidelines.

Loans associated with consumer lending are included in the consumer category in Table 12: Summary of Loans Held for Investment.

Consumer Finance

The consumer finance segment has an extensive automobile dealer network through which it purchases installment contracts throughout its markets. Credit approval is centralized in two locations, which along with the application processing system, ensures that contract purchase decisions comply with C&F Finance's underwriting policies and procedures.

Finance contract application packages completed by prospective borrowers are submitted by the automobile dealers electronically through a third-party online automotive sales and finance platform to C&F Finance's automated origination and application system, which processes the credit bureau report, generates all relevant loan calculations and displays the requested contract structure. C&F Finance personnel with credit authority review the transaction and determine whether to approve or deny the purchase of the contract. The purchase decision is based primarily on the applicant's credit history with emphasis on prior auto loan history, current employment status, income, collateral type and mileage, and the loan-to-value ratio.

The consumer finance segment's underwriting and collateral guidelines form the basis for the purchase decision. Exceptions to credit policies and authorities must be approved by a designated credit officer. C&F Finance's typical automobile customers have experienced prior credit difficulties. Because C&F Finance serves customers who are unable to meet the credit standards imposed by most traditional automobile financing sources, we expect C&F Finance to sustain a higher level of credit losses in the automobile portfolio than traditional financing sources. However, C&F Finance generally purchases these contracts with interest at higher rates than those charged by traditional financing sources. These higher rates should more than offset the increase in the provision for loan losses for this segment of the Corporation's loan portfolio. Beginning in 2016 with C&F Finance's implementation of a scorecard model for purchasing loan contracts, the credit worthiness of borrowers at origination has improved for automobile loans purchased by C&F Finance and both the interest rates charged and level of credit losses experienced have decreased.

In addition to purchasing automobile contracts through a dealer network, C&F Finance began purchasing marine and RV contracts, also on an indirect basis, through a third party provider in 2018. While the approval process is generally the same as the automobile approval process described above, borrowers on marine and RV contracts purchased by C&F Finance have not had prior credit issues and these contracts are considered prime. The rates charged on these loans are significantly less than the automobile portfolio with a much lower expected level of credit losses.

Loans associated with indirect automobile and marine and recreational vehicle financing are included in the consumer finance category in Table 12: Summary of Loans Held for Investment.

SECURITIES

The investment portfolio plays a primary role in the management of the Corporation’s interest rate sensitivity. In addition, the portfolio serves as a source of liquidity and is used as needed to meet collateral requirements. The investment portfolio consists of securities available for sale, which may be sold in response to changes in market interest rates, changes in prepayment risk, increases in loan demand, general liquidity needs and other similar factors. These securities are carried at estimated fair value. At December 31, 2020 and 2019, all securities in the Corporation’s investment portfolio were classified as available for sale.

Table 17 sets forth the composition of the Corporation’s securities available for sale in dollar amounts at fair value and as a percentage of the Corporation’s total securities available for sale at the dates indicated.

TABLE 17: Securities Available for Sale

| <i>(Dollars in thousands)</i> | <u>December 31, 2020</u> | | <u>December 31, 2019</u> | |
|---|--------------------------|----------------|--------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| U.S. government agencies and corporations | \$ 48,282 | 17 % | \$ 21,440 | 11 % |
| Mortgage-backed securities | 123,714 | 43 | 86,585 | 46 |
| Obligations of states and political subdivisions | 102,805 | 36 | 81,708 | 43 |
| Corporate and other debt securities | 11,588 | 4 | — | — |
| Total available for sale securities at fair value | <u>\$ 286,389</u> | <u>100 %</u> | <u>\$ 189,733</u> | <u>100 %</u> |

The Corporation seeks to diversify its portfolio to minimize risk, including by purchasing (1) shorter-duration mortgage-backed securities to reduce interest rate risk and for cash flow and reinvestment opportunities and (2) securities issued by states and political subdivisions due to the tax benefits and the higher tax-adjusted yield obtained from these securities. All of the Corporation’s mortgage-backed securities are direct issues of United States government agencies or government-sponsored enterprises. At December 31, 2020, all of the Corporation’s obligations of states and political subdivisions that were in a net unrealized loss position were rated “A” or better by Standard & Poor’s or Moody’s Investors Service. The Corporation also invests in the debt securities of corporate issuers, primarily financial institutions, that the Corporation views as having a strong financial position and earnings potential.

Table 18 presents additional information pertaining to the composition of the securities portfolio at amortized cost, by the earlier of contractual maturity or expected maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

TABLE 18: Maturity of Securities

| <i>(Dollars in thousands)</i> | December 31, 2020 | |
|---|-------------------|---|
| | Amortized Cost | Weighted Average Yield ¹ |
| U.S. government agencies and corporations: | | |
| Maturing within 1 year | \$ 37,450 | 0.90 % |
| Maturing after 1 year, but within 5 years | 5,223 | 1.29 |
| Maturing after 5 years, but within 10 years | 5,498 | 1.03 |
| Maturing after 10 years | — | — |
| Total U.S. government agencies and corporations | <u>48,171</u> | 0.96 |
| Mortgage-backed securities: | | |
| Maturing within 1 year | 1,277 | 3.53 |
| Maturing after 1 year, but within 5 years | 98,975 | 1.77 |
| Maturing after 5 years, but within 10 years | 18,331 | 1.35 |
| Maturing after 10 years | 2,081 | 3.35 |
| Total mortgage-backed securities | <u>120,664</u> | 1.76 |
| States and municipals: ¹ | | |
| Maturing within 1 year | 33,382 | 2.75 |
| Maturing after 1 year, but within 5 years | 41,862 | 2.13 |
| Maturing after 5 years, but within 10 years | 25,161 | 1.92 |
| Maturing after 10 years | — | — |
| Total states and municipals | <u>100,405</u> | 2.28 |
| Corporate and other debt securities: | | |
| Maturing within 1 year | 2,630 | 3.11 |
| Maturing after 1 year, but within 5 years | 7,454 | 3.83 |
| Maturing after 5 years, but within 10 years | 1,500 | 4.17 |
| Maturing after 10 years | — | — |
| Total corporate and other debt securities | <u>11,584</u> | 3.71 |
| Total securities: | | |
| Maturing within 1 year | 74,739 | 1.74 |
| Maturing after 1 year, but within 5 years | 153,514 | 1.77 |
| Maturing after 5 years, but within 10 years | 50,490 | 1.56 |
| Maturing after 10 years | 2,081 | 3.35 |
| Total securities | <u>\$ 280,824</u> | 1.74 |

¹ Yields on tax-exempt securities have been computed on a taxable-equivalent basis using the federal corporate income tax rate of 21 percent.

DEPOSITS

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

Deposits totaled \$1.75 billion at December 31, 2020, compared to \$1.29 billion at December 31, 2019. This increase resulted from deposit growth, including the effect of PPP loans and direct government payments received by depositors, and the addition of \$171.8 million of deposits in connection with the acquisition of Peoples.

The Corporation had \$6.1 million in brokered money market deposits outstanding at December 31, 2020, compared to \$2.0 million in brokered money market deposits at December 31, 2019. The source of these brokered deposits is uninvested cash balances held in third-party brokerage sweep accounts. The Corporation uses brokered deposits as a means of diversifying liquidity sources, as opposed to a long-term deposit gathering strategy.

Table 19 presents the average deposit balances and average rates paid for the years 2020, 2019 and 2018.

TABLE 19: Average Deposits and Rates Paid

| | Year Ended December 31, | | | | | |
|---|-------------------------|--------------|---------------------|--------------|---------------------|--------------|
| | 2020 | | 2019 | | 2018 | |
| <i>(Dollars in thousands)</i> | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Noninterest-bearing demand deposits | \$ 431,789 | | \$ 283,505 | | \$ 266,415 | |
| Interest-bearing transaction accounts | 260,478 | 0.21 % | 218,394 | 0.53 % | 221,750 | 0.36 % |
| Money market deposit accounts | 260,342 | 0.37 | 199,840 | 0.51 | 215,662 | 0.32 |
| Savings accounts | 163,763 | 0.07 | 120,644 | 0.09 | 116,896 | 0.09 |
| Certificates of deposit, \$100 thousand or more | 266,236 | 1.76 | 207,931 | 1.86 | 172,616 | 1.28 |
| Other certificates of deposit | 224,065 | 1.49 | 184,613 | 1.58 | 177,279 | 1.06 |
| Total interest-bearing deposits | <u>1,174,884</u> | <u>0.82</u> | <u>931,422</u> | <u>0.98</u> | <u>904,203</u> | <u>0.63</u> |
| Total deposits | <u>\$ 1,606,673</u> | | <u>\$ 1,214,927</u> | | <u>\$ 1,170,618</u> | |

Table 20 details maturities of certificates of deposit with balances of \$100,000 or more at December 31, 2020.

TABLE 20: Maturities of Certificates of Deposit with Balances of \$100,000 or More

| <i>(Dollars in thousands)</i> | December 31, 2020 |
|-------------------------------|-------------------|
| 3 months or less | \$ 85,062 |
| 3-6 months | 18,385 |
| 6-12 months | 30,529 |
| Over 12 months | 335,607 |
| Total | <u>\$ 469,583</u> |

BORROWINGS

In addition to deposits, the Corporation utilizes short-term and long-term borrowings as sources of funds. Short-term borrowings from the Federal Reserve Bank and the FHLB may be used to fund the Corporation's day-to-day operations. Short-term borrowings also include securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the day sold, as well as overnight unsecured fed funds lines with correspondent banks. Long-term borrowings consist of subordinated notes which rank junior to all future senior indebtedness of the Corporation and are structurally subordinated to all existing and future debt and liabilities of the Corporation and its subsidiaries. C&F Finance also has a non-recourse revolving bank line of credit secured by its consumer finance loans.

Trust I, Trust II and CVBK Trust I are wholly-owned non-operating subsidiaries of the Corporation, formed for the purpose of issuing trust preferred capital securities. Collectively, these trusts have issued \$25.0 million of trust preferred capital securities to institutional investors through private placements and \$775,000 in common equity that is held by the Corporation. Trust preferred capital securities of \$5.0 million issued by CVBK Trust I, \$10.0 million issued by Trust I, and \$10.0 million issued by Trust II mature in 2033, 2035 and 2037, respectively, and are redeemable at the Corporation's option. The principal assets of CVBK Trust I, Trust I and Trust II are trust preferred capital notes of the Corporation of \$5.2 million, \$10.3 million and \$10.3 million, respectively, which have like maturities and like interest rates to the trust preferred capital securities. The interest payments by the Corporation on the notes will be used by the trusts to pay the quarterly distributions on the trust preferred capital securities.

For further information concerning the Corporation's borrowings, refer to Item 8. "Financial Statements and Supplementary Data" under the heading "Note 12: Borrowings."

OFF-BALANCE-SHEET ARRANGEMENTS

To meet the financing needs of customers, the Corporation is a party, in the normal course of business, to financial instruments with off-balance-sheet risk. 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 addition to the amount on the balance sheet. The Corporation'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. We use the same credit policies in making these commitments and conditional obligations as we do for on-balance-sheet instruments. We obtain collateral based on our credit assessment of the customer in each circumstance.

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 total amount of unused loan commitments at the Bank was \$327.0 million at December 31, 2020, and \$256.2 million at December 31, 2019.

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 was \$19.1 million at December 31, 2020 and \$16.6 million at December 31, 2019.

The mortgage banking segment enters into interest rate lock commitments (IRLCs) with customers to originate loans for which the interest rates are determined (or "locked") prior to funding. The mortgage banking segment is exposed to interest rate risk through fixed-rate IRLCs and mortgage loans from the time that interest rates are locked until the loans are sold in the secondary market. The mortgage banking segment mitigates this interest rate risk by either (1) entering into forward sales contracts with investors at the time that interest rates are locked for loans to be delivered on a best efforts basis or (2) entering into forward sales contracts for unspecified mortgage backed securities (TBA securities) until it can enter into forward sales contracts with investors for mortgage loans to be delivered on a mandatory basis. IRLCs, forward sales of loans and forward sales of TBA securities are derivative financial instruments.

At December 31, 2020, the mortgage banking segment had \$190.9 million of IRLCs and \$200.9 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$391.8 million in mortgage loans. Also at December 31, 2020, the mortgage banking segment had \$7.7 million of IRLCs and \$5.6 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using forward sales of \$8.0 million of TBA securities and mandatory-delivery forward sales contracts for \$3.9 million in mortgage loans.

At December 31, 2019, the mortgage banking segment had \$63.3 million of IRLCs and \$65.8 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$129.1 million in mortgage loans. Also at December 31, 2019, the mortgage banking segment had \$11.7 million of IRLCs and \$22.0 of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using forward sales of \$24.0 million of TBA securities and mandatory-delivery forward sales contracts for \$6.7 million in mortgage loans. At December 31, 2018, C&F Mortgage had best-efforts forward sales contracts for all of its IRLCs and mortgage loans held for sale.

The mortgage banking segment sells substantially all of the residential mortgage loans it originates to third-party investors. As is customary in the industry, the agreements with these investors require the mortgage banking segment to extend representations and warranties with respect to program compliance, borrower misrepresentation, fraud, and early payment performance. Under the agreements, the investors are entitled to make loss claims and repurchase requests of the mortgage banking segment for loans that contain covered deficiencies. The mortgage banking segment has obtained early payment default recourse waivers for a significant portion of its business. Recourse periods for early payment default for the remaining investors vary from 90 days up to one year. Recourse periods for borrower misrepresentation or fraud, or

underwriting error do not have a stated time limit. The mortgage banking segment maintains an allowance for indemnifications that represents management's estimate of losses that are probable of arising under these recourse provisions. As performance data for loans that have been sold is not made available to the mortgage banking segment by the investors, the estimate of potential losses is inherently subjective and is based on historical indemnification payments and management's assessment of current conditions that may contribute to indemnified losses on mortgage loans that have been sold in the secondary market, including the volume of loans sold, historical experience, current economic conditions, changes in operational and compliance processes, and information provided by investors. Actual indemnification payments may differ materially from management's estimates, which may result in additional provision for indemnification losses in future periods. Payments made under these recourse provisions were \$66,000 in 2019. There were no payments made in 2020 or 2018.

Risks also arise from the possible inability of investors to meet the terms of their contracts. The mortgage banking segment has procedures in place to evaluate the credit risk of investors and does not expect any counterparty to fail to meet its obligations.

The Corporation uses derivatives to manage exposure to interest rate risk through the use of interest rate swaps. Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts.

The Corporation has interest rate swaps that qualify and are designated as cash flow hedges. The Corporation's cash flow hedges effectively modify the Corporation's exposure to interest rate risk by converting variable rates of interest on \$25.0 million of the Corporation's trust preferred capital notes to fixed rates of interest for periods that end between June 2024 and June 2029. The cash flow hedges' total notional amount is \$25.0 million. At December 31, 2020, the cash flow hedges had a fair value of \$1.9 million, which is recorded in other liabilities. The net gain/loss on the cash flow hedges is recognized as a component of other comprehensive income and reclassified into earnings in the same period(s) during which the hedged transactions affect earnings.

The Corporation also enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net effect of these interest rate swaps and the related loans is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. At December 31, 2020, the total notional amount of the interest rate swaps related to these loans was \$169.5 million, and the interest rate swaps had a net fair value of zero, with \$8.2 million recognized in other assets and \$8.2 million recognized in other liabilities. These swaps are not designated as hedging instruments; therefore, changes in fair value are recorded in other noninterest expense.

The Corporation's contracts with dealer counterparties for interest rate swaps and forward sales of TBA securities require the Corporation to post collateral for derivative instruments in a loss position, subject to certain thresholds and offsets. At December 31, 2020 and 2019, \$9.9 million and \$2.5 million, respectively, of cash collateral was maintained with dealer counterparties and was included in "Other assets" in the Consolidated Balance Sheets.

LIQUIDITY

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

Liquid assets, which include cash and due from banks, interest-bearing deposits at other banks, federal funds sold and nonpledged securities available for sale, totaled \$222.9 million at December 31, 2020, compared to \$227.7 million at December 31, 2019. The Corporation's funding sources, including capacity, amount outstanding and amount available at December 31, 2020 are presented in Table 21.

TABLE 21: Funding Sources

| <i>(Dollars in thousands)</i> | December 31, 2020 | | |
|--|-------------------|-------------|-------------------|
| | Capacity | Outstanding | Available |
| Unsecured federal funds agreements | \$ 95,000 | \$ — | \$ 95,000 |
| Repurchase lines of credit | 50,000 | — | 50,000 |
| Borrowings from FHLB | 155,730 | — | 155,730 |
| Borrowings from Federal Reserve Bank | 124,892 | — | 124,892 |
| Revolving bank line of credit | 50,000 | — | 50,000 |
| Total | <u>\$ 475,622</u> | <u>\$ —</u> | <u>\$ 475,622</u> |

We have no reason to believe these arrangements will not be renewed at maturity. During the year ended December 31, 2020, the Corporation pledged additional loans as collateral in order to increase available liquidity at the Federal Reserve Bank that had been unpledged as of December 31, 2019. Additional loans and securities are available that can be pledged as collateral for future borrowings from the Federal Reserve Bank or the FHLB above the current lendable collateral value. Our ability to maintain sufficient liquidity may be affected by numerous factors, including economic conditions nationally and in our markets. Depending on our liquidity levels, our capital position, conditions in the capital markets, our business operations and initiatives, and other factors, we may from time to time consider the issuance of debt, equity or other securities or other possible capital market transactions, the proceeds of which could provide additional liquidity for our operations.

Time deposits of \$100,000 or more, maturing in less than a year, totaled \$134.0 million at December 31, 2020; time deposits of \$100,000 or more, maturing in more than one year, totaled \$335.6 million.

The Corporation's contractual obligations and scheduled payment amounts due at various intervals over the next five years and beyond as of December 31, 2020 are presented in Table 22.

TABLE 22: Contractual Obligations

| <i>(Dollars in thousands)</i> | Payments Due by Period | | | | |
|---|------------------------|---------------------|-----------------|---------------|----------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Subordinated debt | \$ 24,093 | \$ — | \$ — | \$ — | \$ 24,093 |
| Trust preferred capital notes | 25,316 | — | — | — | 25,316 |
| Operating leases | 2,602 | 1,172 | 1,130 | 283 | 17 |
| Finance leases | 7,802 | 61 | 667 | 701 | 6,373 |
| Total ¹ | <u>\$ 59,813</u> | <u>\$ 1,233</u> | <u>\$ 1,797</u> | <u>\$ 984</u> | <u>\$ 55,799</u> |

¹ At December 31, 2020, there were no outstanding Federal Funds purchased or borrowings from the Federal Reserve Bank.

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

CAPITAL RESOURCES

Total equity was \$194.5 million at year-end 2020, compared with \$165.3 million at year-end 2019. During 2020, the Corporation declared common stock dividends of \$1.52 per share, compared to \$1.49 per share declared in 2019 and \$1.41 per share declared in 2018.

The assessment of capital adequacy depends on such factors as asset quality, liquidity, earnings performance, and changing competitive conditions and economic forces. We regularly review the adequacy of the Corporation's and the Bank's capital. We maintain a structure that will assure an adequate level of capital to support anticipated asset growth

and to absorb potential losses. While we will continue to look for opportunities to invest capital in profitable growth, share repurchases are another tool that facilitates improving shareholder return, as measured by ROE and earnings per share.

Under the small bank holding company policy statement of the Federal Reserve Board, which applies to certain bank holding companies with consolidated total assets of less than \$3 billion, the Corporation is not subject to regulatory capital requirements. The disclosure below reflects the Corporation's consolidated capital as determined under regulations that apply to bank holding companies that are not small bank holding companies and minimum capital requirements that would apply to the Corporation if it were not a small bank holding company.

At December 31, 2020 and 2019, the Corporation's CET1 to total risk-weighted assets ratio was 10.9 percent and 11.7 percent, respectively; the Corporation's Tier 1 capital to risk-weighted assets ratio was 12.5 percent and 13.6 percent, respectively; the Corporation's total capital to risk-weighted assets ratio was 15.2 percent and 14.9 percent, respectively; and the Corporation's Tier 1 leverage ratio was 9.6 percent and 11.1 percent, respectively. These ratios include \$25.0 million of trust preferred capital securities in tier 1 capital of the Corporation and \$24.0 million of subordinated notes in Tier 2 capital. Additionally, all applicable regulatory capital ratios of C&F Bank were in excess of mandated minimum requirements at December 31, 2020 and 2019. Total regulatory capital of the Corporation increased during 2020 by \$44.1 million, due primarily to the issuance of subordinated notes, undistributed net income and the acquisition of Peoples. Risk-weighted assets also increased during 2020 due primarily to growth in loans held for investment, loans held for sale, securities available for sale and other assets, and the acquisition of Peoples.

In addition to the regulatory risk-based capital requirements, the Bank must maintain a capital conservation buffer of additional capital of 2.5 percent of risk-weighted assets as required by the Basel III Final Rule. At December 31, 2020, the Bank exceeded the total capital conservation buffer and the tier 1 capital conservation buffer by 328 basis points and 402 basis points, respectively. At December 31, 2019, the Bank exceeded the total capital conservation buffer and the tier 1 capital conservation buffer by 355 and 428 basis points, respectively.

The Corporation's capital resources may be affected by the Corporation's Repurchase Program, which was authorized by the Corporation's Board of Directors during the fourth quarter of 2020. Under the Repurchase Program the Corporation is authorized to purchase up to 365,000 shares of its common stock. Repurchases under the program may be made through privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and shares repurchased will be returned to the status of authorized and unissued shares of common stock. The timing, number and purchase price of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of the shares, general market and economic conditions, applicable legal requirements and other conditions, and there is no assurance that the Corporation will purchase any shares under the Repurchase Program. The Repurchase Program is authorized through November 30, 2021. The Corporation's previous share repurchase program expired on May 31, 2020.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements affecting the Corporation are described in Item 8. "Financial Statements and Supplementary Data" under the heading "Note 1: Summary of Significant Accounting Policies-Recent Significant Accounting Pronouncements."

EFFECTS OF INFLATION AND CHANGING PRICES

The Corporation's financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). U.S. GAAP presently requires the Corporation to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Corporation is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation

rate. Interest rates are highly sensitive to many factors that are beyond the control of the Corporation, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

USE OF CERTAIN NON-GAAP FINANCIAL MEASURES

The accounting and reporting policies of the Corporation conform to U.S. GAAP and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of the Corporation's performance. These include adjusted net income; adjusted earnings per share; adjusted ROE; and adjusted ROA, (all of which are adjusted to exclude the one-time effect of a gain upon sale of a pool of PCI loans in 2020, charges related to early repayment of borrowings in 2020, merger related expenses in connection with the acquisition of Peoples recorded in 2020 and 2019, impairment charges related to branch consolidation in 2020, and provisions of the CARES Act, enacted in 2020, which provided income tax benefits related to prior tax years), tangible book value per share and the following fully-taxable equivalent (FTE) measures: interest income on loans-FTE, interest income on securities-FTE, total interest income-FTE and net interest income-FTE.

Management believes that the use of these non-GAAP measures provide meaningful information about operating performance by enhancing comparability with other financial periods and other financial institutions. The non-GAAP measures used by management enhance comparability by excluding the effects of items that do not reflect ongoing operating performance, including non-recurring gains or charges, balances of intangible assets, including goodwill, that vary significantly between institutions and tax benefits that are not consistent across different opportunities for investment. These non-GAAP financial measures should not be considered an alternative to U.S. GAAP-basis financial statements, and other bank holding companies may define or calculate these or similar measures differently.

A reconciliation of the non-GAAP financial measures used by the Corporation to evaluate and measure the Corporation's performance to the most directly comparable U.S. GAAP financial measures is presented below.

| | For The Year Ended December 31, | | |
|---|------------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| <i>(Dollars in thousands, except per share amounts)</i> | | | |
| Adjusted Net Income and Earnings Per Share | | | |
| Net income, as reported | \$ 22,424 | \$ 18,850 | \$ 18,020 |
| Sale of PCI loans ¹ | (2,756) | - | - |
| Early debt repayment charges ² | 1,735 | - | - |
| Merger related expenses ³ | 1,132 | 653 | - |
| Branch consolidation ⁴ | 222 | - | - |
| Change in tax law | (326) | - | - |
| Adjusted net income | <u>\$ 22,431</u> | <u>\$ 19,503</u> | <u>\$ 18,020</u> |
| Weighted average shares - basic and diluted | 3,648,696 | 3,450,745 | 3,501,221 |
| Earnings per share - basic and diluted, as reported | \$ 6.06 | \$ 5.47 | \$ 5.15 |
| Sale of PCI loans | (0.76) | - | - |
| Early debt repayment charges | 0.48 | - | - |
| Merger related expenses | 0.31 | 0.19 | - |
| Branch consolidation | 0.06 | - | - |
| Change in tax law | (0.09) | - | - |
| Adjusted earnings per share - basic and diluted | <u>\$ 6.06</u> | <u>\$ 5.66</u> | <u>\$ 5.15</u> |
| Adjusted ROE | | | |
| Average total equity, as reported | \$ 178,862 | \$ 156,810 | \$ 145,318 |
| ROE, as reported | 12.54 % | 12.02 % | 12.40 % |
| Adjusted ROE | 12.54 % | 12.44 % | 12.40 % |
| Adjusted ROA | | | |
| Average total assets, as reported | \$ 1,966,299 | \$ 1,565,428 | \$ 1,508,904 |
| ROA, as reported | 1.14 % | 1.20 % | 1.19 % |
| Adjusted ROA | 1.14 % | 1.25 % | 1.19 % |
| Fully Taxable Equivalent Net Interest Income⁵ | | | |
| Interest income on loans | \$ 90,992 | \$ 87,519 | \$ 84,529 |
| FTE adjustment | 162 | 42 | 25 |
| FTE interest income on loans | <u>\$ 91,154</u> | <u>\$ 87,561</u> | <u>\$ 84,554</u> |
| Interest income on securities | \$ 5,208 | \$ 5,312 | \$ 5,922 |
| FTE adjustment | 527 | 561 | 726 |
| FTE interest income on securities | <u>\$ 5,735</u> | <u>\$ 5,873</u> | <u>\$ 6,648</u> |
| Total interest income | \$ 96,913 | \$ 95,010 | \$ 92,548 |
| FTE adjustment | 689 | 603 | 751 |
| FTE interest income | <u>\$ 97,602</u> | <u>\$ 95,613</u> | <u>\$ 93,299</u> |
| Net interest income | \$ 83,531 | \$ 80,454 | \$ 81,521 |
| FTE adjustment | 689 | 603 | 751 |
| FTE net interest income | <u>\$ 84,220</u> | <u>\$ 81,057</u> | <u>\$ 82,272</u> |
| December 31, | | | |
| Tangible Book Value Per Share | 2020 | 2019 | 2018 |
| Equity attributable to C&F Financial Corporation | \$ 193,805 | \$ 164,798 | \$ 151,958 |
| Less goodwill | 25,191 | 14,425 | 14,425 |
| Less other intangible assets | 2,291 | 912 | 1,142 |
| Tangible equity attributable to C&F Financial Corporation | <u>\$ 166,323</u> | <u>\$ 149,461</u> | <u>\$ 136,391</u> |
| Shares outstanding | 3,670,301 | 3,438,126 | 3,497,122 |
| Book value per share | \$ 52.80 | \$ 48.07 | \$ 43.45 |
| Tangible book value per share | <u>\$ 45.32</u> | <u>\$ 43.61</u> | <u>\$ 39.00</u> |

¹ Sale of PCI loans is net of related income taxes of \$733,000 for the year ended December 31, 2020.

² Early debt repayment charges are net of related income tax benefits of \$462,000 for the year ended December 31, 2020.

³ Merger related expenses are net of related income tax benefits of \$264,000 and \$56,000 for the years ended December 31, 2020 and 2019, respectively.

⁴ Branch consolidation charges are net of related income taxes of \$59,000 for the year ended December 31, 2020.

⁵ Assuming a tax rate of 21%.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary component of market risk is interest rate volatility. Fluctuations in interest rates will affect the amount of interest income and expense the Corporation receives or pays on a significant portion of its assets and liabilities and the market value of its interest-earning assets and interest-bearing liabilities, excluding those which have a very short term until maturity. The Corporation does not subject itself to foreign currency exchange rate risk or commodity price risk due to the current nature of its operations.

The primary objective of the Corporation's asset/liability management process is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent and appropriate. Thus the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

The Corporation assumes interest rate risk in the normal course of operations. The fair values of most of the Corporation's financial instruments will change when interest rates change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities and repricing dates of assets and liabilities to the extent believed necessary to balance minimizing interest rate risk and increasing net interest income in current market conditions. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates, maturities and repricing dates of assets and liabilities and attempts to manage interest rate risk by adjusting terms of new loans, deposits and borrowings, by investing in securities with terms that manage the Corporation's overall interest rate risk, and in some cases by using derivative contracts to reduce the Corporation's overall exposure to changes in interest rates. The Corporation does not enter into interest rate-sensitive instruments for trading purposes.

We use simulation analysis to assess earnings at risk and economic value of equity (EVE) analysis to assess economic value at risk. These methods allow management to regularly monitor both the direction and magnitude of the Corporation's interest rate risk exposure. These modeling techniques involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of both assets and liabilities, prepayments on amortizing assets, other embedded options, non-maturity deposit sensitivity and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of the Corporation's interest rate risk position over time.

Simulation analysis evaluates the potential effect of upward and downward changes in market interest rates on future net interest income. The analysis involves changing the interest rates used in determining net interest income over the next twelve months. The resulting percentage change in net interest income in various rate scenarios is an indication of the Corporation's shorter-term interest rate risk. The analysis utilizes a "static" balance sheet approach, which assumes changes in interest rates without any management response to change the composition of the balance sheet. The measurement date balance sheet composition is maintained over the simulation time period with maturing and repayment dollars being rolled back into like instruments for new terms at current market rates. Additional assumptions are applied to modify volumes and pricing under the various rate scenarios. These assumptions include loan prepayments, time deposit early withdrawals, the sensitivity of deposit repricing to changes in market rates, withdrawal behavior of non-maturing deposits, and other factors that management deems significant.

The simulation analysis results are presented in the table below. These results, based on a measurement date balance sheet as of December 31, 2020, indicate that the Corporation would expect net interest income to decrease over the next twelve months 3.38 percent assuming an immediate downward shift in market interest rates of 200 basis points (BP) and to increase 8.11 percent if rates shifted upward to the same degree.

One-Year Net Interest Income Simulation (dollars in thousands)

| Assumed Market Interest Rate Shift | Hypothetical Change in Net Interest Income Over the Next Twelve Months as of December 31, | | | |
|---|--|-------------------|----------------|-------------------|
| | 2020 | | 2019 | |
| | Dollars | Percentage | Dollars | Percentage |
| -200 BP shock | \$ (2,548) | (3.38)% | \$ (6,584) | (8.83)% |
| +200 BP shock. | \$ 6,114 | 8.11 % | \$ 5,538 | 7.43 % |

The EVE analysis provides information on the risk inherent in the balance sheet that might not be taken into account in the simulation analysis due to the shorter time horizon used in that analysis. The EVE of the balance sheet is defined as the discounted present value of expected asset cash flows minus the discounted present value of the expected liability cash flows. The analysis involves changing the interest rates used in determining the expected cash flows and in discounting the cash flows. The resulting percentage change in net present value in various rate scenarios is an indication of the longer term repricing risk and options embedded in the balance sheet.

The EVE analysis results are presented in the table below. These results as of December 31, 2020 indicate that the EVE would increase 8.14 percent assuming an immediate downward shift in market interest rates of 200 BP and would increase 5.57 percent if rates shifted upward to the same degree.

Static EVE Change (dollars in thousands)

| Assumed Market Interest Rate Shift | Hypothetical Change in EVE as of December 31, | | | |
|---|--|-------------------|----------------|-------------------|
| | 2020 | | 2019 | |
| | Dollars | Percentage | Dollars | Percentage |
| -200 BP shock | \$ 19,278 | 8.14 % | \$ (36,038) | (15.60)% |
| +200 BP shock. | \$ 13,190 | 5.57 % | \$ 15,256 | 6.60 % |

In the simulation analysis above, net interest income increases over the next twelve months in the event of an immediate upward shift in interest rates, but declines in the event of an immediate downward shift in interest rates. In a rising rate environment, the Corporation’s assets would reprice quicker than the Corporation’s borrowings and deposits primarily due to the shorter maturity or repricing dates of its interest-bearing deposits in other banks and its loan portfolio. However, in a falling rate environment the simulation assumes that adjustable-rate assets will continue to reprice downward, subject to floors on certain loans, and fixed-rate assets with prepayment or callable options will reprice at lower rates while certain deposits cannot reprice any lower.

The EVE analysis above indicates an increase in the EVE in both an immediate upward shift in interest rates and an immediate downward shift in interest rates. In a rising rate environment, the Corporation’s assets would reprice quicker over time than the Corporation’s borrowings and deposits due to the shorter maturity or repricing dates of its interest-bearing deposits in other banks and its loan portfolio as compared to time deposits and borrowings and the longer average life of non-maturing deposits, such as interest checking and money market accounts. In a falling rate environment, the simulation assumes that adjustable-rate assets will continue to reprice downward, subject to floors on certain loans, and fixed-rate assets with prepayment or callable options will reprice at lower rates while certain deposits cannot reprice any lower given the current exceptionally low interest rate environment.

The Corporation uses interest rate swaps to manage select exposures to interest rate risk. Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. The Corporation has interest rate swaps that qualify as cash flow hedges. The cash flow hedges effectively modify the Corporation's exposure to interest rate risk associated with the Corporation's trust preferred capital notes by converting variable rates of interest on the trust preferred capital notes to fixed rates of interest for periods ending between June 2024 and June 2029. Also, as part of the Corporation's overall strategy for maximizing net interest income while managing interest rate risk, the Corporation enters into interest rate swaps in connection with originating loans to certain commercial borrowers as a means to offer a fixed-rate instrument to the borrower while effectively retaining a variable-rate instrument.

The mortgage banking segment enters into IRLCs with customers to originate loans for which the interest rates are determined prior to funding. The mortgage banking segment then mitigates interest rate risk on these IRLCs and loans held for sale by (1) entering into forward sales contracts with investors at the time that interest rates are locked for loans to be delivered on a best efforts basis or (2) entering into forward sales contracts for unspecified mortgage backed securities (TBA securities) until it can enter into forward sales contracts with investors for loans to be delivered on a mandatory basis. IRLCs, forward sales of loans and forward sales of TBA securities are derivative financial instruments.

We believe that our current interest rate exposure is manageable and does not indicate any significant exposure to interest rate changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**C&F FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| <i>(Dollars in thousands, except per share amounts)</i> | | |
| Assets | | |
| Cash and due from banks | \$ 17,742 | \$ 21,148 |
| Interest-bearing deposits in other banks | 68,927 | 144,285 |
| Total cash and cash equivalents | <u>86,669</u> | <u>165,433</u> |
| Securities—available for sale at fair value, amortized cost of \$280,824 and \$187,759, respectively | 286,389 | 189,733 |
| Loans held for sale, at fair value | 214,266 | 90,500 |
| Loans, net of allowance for loan losses of \$39,156 and \$32,873, respectively | 1,313,250 | 1,082,318 |
| Restricted stock, at cost | 1,636 | 3,257 |
| Corporate premises and equipment, net | 44,132 | 35,261 |
| Other real estate owned, net of valuation allowance of \$207 and \$88, respectively | 907 | 1,103 |
| Accrued interest receivable | 8,103 | 6,776 |
| Goodwill | 25,191 | 14,425 |
| Other intangible assets, net | 2,291 | 912 |
| Bank-owned life insurance | 20,205 | 16,044 |
| Net deferred tax asset | 13,555 | 11,219 |
| Other assets | 69,716 | 40,451 |
| Total assets | <u>\$ 2,086,310</u> | <u>\$ 1,657,432</u> |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing demand deposits | \$ 501,945 | \$ 296,985 |
| Savings and interest-bearing demand deposits | 780,645 | 572,209 |
| Time deposits | 469,583 | 422,056 |
| Total deposits | <u>1,752,173</u> | <u>1,291,250</u> |
| Short-term borrowings | 20,455 | 16,360 |
| Long-term borrowings | 30,398 | 119,529 |
| Trust preferred capital notes | 25,316 | 25,281 |
| Accrued interest payable | 1,109 | 1,291 |
| Other liabilities | 62,388 | 38,442 |
| Total liabilities | <u>1,891,839</u> | <u>1,492,153</u> |
| Commitments and contingent liabilities (Note 19) | | |
| Equity | | |
| Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,670,301 and 3,438,126 shares issued and outstanding, respectively, includes 155,945 and 142,020 of unvested shares, respectively) | 3,514 | 3,296 |
| Additional paid-in capital | 21,427 | 9,503 |
| Retained earnings | 170,819 | 154,248 |
| Accumulated other comprehensive loss, net | <u>(1,955)</u> | <u>(2,249)</u> |
| Equity attributable to C&F Financial Corporation | <u>193,805</u> | <u>164,798</u> |
| Noncontrolling interest | 666 | 481 |
| Total equity | <u>194,471</u> | <u>165,279</u> |
| Total liabilities and equity | <u>\$ 2,086,310</u> | <u>\$ 1,657,432</u> |

See notes to consolidated financial statements.

C&F FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| <i>(Dollars in thousands, except per share amounts)</i> | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Interest income | | | |
| Interest and fees on loans | \$ 90,992 | \$ 87,519 | \$ 84,529 |
| Interest on interest-bearing deposits and federal funds sold | 713 | 2,179 | 2,097 |
| Interest and dividends on securities | | | |
| U.S. government agencies and corporations | 463 | 427 | 361 |
| Mortgage-backed securities | 2,109 | 2,210 | 2,314 |
| Tax-exempt obligations of states and political subdivisions | 1,984 | 2,110 | 2,725 |
| Taxable obligations of states and political subdivisions | 406 | 358 | 319 |
| Other | 246 | 207 | 203 |
| Total interest income | 96,913 | 95,010 | 92,548 |
| Interest expense | | | |
| Savings and interest-bearing deposits | 1,614 | 2,298 | 1,601 |
| Time deposits | 8,020 | 6,796 | 4,085 |
| Borrowings | 2,592 | 4,327 | 4,189 |
| Trust preferred capital notes | 1,156 | 1,135 | 1,152 |
| Total interest expense | 13,382 | 14,556 | 11,027 |
| Net interest income | 83,531 | 80,454 | 81,521 |
| Provision for loan losses | 11,080 | 8,515 | 11,006 |
| Net interest income after provision for loan losses | 72,451 | 71,939 | 70,515 |
| Noninterest income | | | |
| Gains on sales of loans | 29,224 | 10,603 | 7,841 |
| Mortgage banking fee income | 7,713 | 4,700 | 3,686 |
| Interchange income | 4,768 | 4,203 | 3,882 |
| Service charges on deposit accounts | 3,357 | 3,923 | 4,213 |
| Wealth management services income, net | 2,618 | 2,029 | 1,860 |
| Mortgage lender services income | 2,176 | 390 | 329 |
| Other service charges and fees | 1,551 | 1,496 | 1,386 |
| Net gains on sales, maturities and calls of available for sale securities | 38 | 10 | 10 |
| Other | 3,973 | 4,658 | 3,161 |
| Total noninterest income | 55,418 | 32,012 | 26,368 |
| Noninterest expenses | | | |
| Salaries and employee benefits | 57,668 | 47,201 | 42,003 |
| Occupancy | 8,639 | 7,912 | 7,719 |
| Early debt repayment charges | 2,197 | — | — |
| Other | 30,146 | 24,906 | 24,620 |
| Total noninterest expenses | 98,650 | 80,019 | 74,342 |
| Income before income taxes | 29,219 | 23,932 | 22,541 |
| Income tax expense | 6,795 | 5,082 | 4,521 |
| Net income | 22,424 | 18,850 | \$ 18,020 |
| Less net income (loss) attributable to noncontrolling interest | 307 | (9) | — |
| Net income attributable to C&F Financial Corporation | \$ 22,117 | \$ 18,859 | \$ 18,020 |
| Net income per share - basic and diluted | \$ 6.06 | \$ 5.47 | \$ 5.15 |

See notes to consolidated financial statements.

C&F FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Net income..... | \$ 22,424 | \$ 18,850 | \$ 18,020 |
| Other comprehensive income (loss): | | | |
| Defined benefit plan: | | | |
| Net actuarial losses arising during the period | (1,706) | (409) | (1,155) |
| Related income tax effects..... | 358 | 86 | 242 |
| Reclassification of recognized net actuarial losses into net income ¹ ... | 197 | 187 | 125 |
| Related income tax effects | (42) | (38) | (26) |
| Amortization of prior service credit into net income ¹ | (66) | (68) | (62) |
| Related income tax effects | 14 | 14 | 13 |
| Defined benefit plan, net of tax | (1,245) | (228) | (863) |
| Cash flow hedges: | | | |
| Unrealized holding (losses) gains arising during the period | (1,737) | (325) | 123 |
| Related income tax effects | 447 | 84 | (32) |
| Amortization of hedging gains into net income ² | (11) | (56) | — |
| Related income tax effects | 3 | 14 | — |
| Cash flow hedges, net of tax..... | (1,298) | (283) | 91 |
| Securities available for sale: | | | |
| Unrealized holding gains (losses) arising during the period | 3,629 | 3,724 | (2,538) |
| Related income tax effects | (762) | (782) | 533 |
| Reclassification of net realized gains into net income ³ | (38) | (10) | (10) |
| Related income tax effects | 8 | 2 | 2 |
| Securities available for sale, net of tax | 2,837 | 2,934 | (2,013) |
| Other comprehensive income (loss), net of tax | 294 | 2,423 | (2,785) |
| Comprehensive income | 22,718 | 21,273 | 15,235 |
| Less comprehensive income (loss) attributable to noncontrolling interest... | 307 | (9) | — |
| Comprehensive income attributable to C&F Financial Corporation | \$ 22,411 | \$ 21,282 | \$ 15,235 |

¹ These items are included in the computation of net periodic benefit cost and are included in “Noninterest income-Other” on the Consolidated Statements of Income. See “Note 15: Employee Benefit Plans,” for additional information.

² These items are included in “Interest expense – Trust preferred capital notes” on the Consolidated Statements of Income.

³ These items are included in “Net gains on sales, maturities and calls of available for sale securities” on the Consolidated Statements of Income.

See notes to consolidated financial statements.

C&F FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

| | Attributable to C&F Financial Corporation | | | | | Noncontrolling Interest | Total Equity |
|---|---|------------------------------------|----------------------|--|---------------|----------------------------|-----------------|
| | Common Stock | Additional Paid - In Capital | Retained Earnings | Accumulated Other Comprehensive Loss, Net | | | |
| <i>(Dollars in thousands, except per share amounts)</i> | | | | | | | |
| Balance December 31, 2017 | \$ 3,358 | \$ 12,800 | \$ 127,431 | \$ (1,887) | — | \$ 141,702 | |
| Comprehensive income: | | | | | | | |
| Net income | — | — | 18,020 | — | — | 18,020 | |
| Other comprehensive loss | — | — | — | (2,785) | — | (2,785) | |
| Share-based compensation | — | 1,345 | — | — | — | 1,345 | |
| Restricted stock vested | 26 | (26) | — | — | — | — | |
| Common stock issued | 3 | 141 | — | — | — | 144 | |
| Common stock purchased | (29) | (1,508) | — | — | — | (1,537) | |
| Cash dividends declared (\$1.41 per share) | — | — | (4,931) | — | — | (4,931) | |
| Balance December 31, 2018 | <u>3,358</u> | <u>12,752</u> | <u>140,520</u> | <u>(4,672)</u> | — | <u>151,958</u> | |
| Comprehensive income: | | | | | | | |
| Net income (loss) | — | — | 18,859 | — | (9) | 18,850 | |
| Other comprehensive income | — | — | — | 2,423 | — | 2,423 | |
| Issuance of noncontrolling interest | — | — | — | — | 490 | 490 | |
| Share-based compensation | — | 1,466 | — | — | — | 1,466 | |
| Restricted stock vested | 32 | (32) | — | — | — | — | |
| Common stock issued | 3 | 137 | — | — | — | 140 | |
| Common stock purchased | (97) | (4,820) | — | — | — | (4,917) | |
| Cash dividends declared (\$1.49 per share) | — | — | (5,131) | — | — | (5,131) | |
| Balance December 31, 2019 | <u>3,296</u> | <u>9,503</u> | <u>154,248</u> | <u>(2,249)</u> | <u>481</u> | <u>165,279</u> | |
| Comprehensive income: | | | | | | | |
| Net income | — | — | 22,117 | — | 307 | 22,424 | |
| Other comprehensive income | — | — | — | 294 | — | 294 | |
| Share-based compensation | — | 1,447 | — | — | — | 1,447 | |
| Restricted stock vested | 30 | (30) | — | — | — | — | |
| Acquisition of Peoples Bankshares, Incorporated | 210 | 11,402 | — | — | — | 11,612 | |
| Common stock issued | 4 | 140 | — | — | — | 144 | |
| Common stock purchased | (26) | (1,035) | — | — | — | (1,061) | |
| Cash dividends declared (\$1.52 per share) | — | — | (5,546) | — | — | (5,546) | |
| Distributions to noncontrolling interest | — | — | — | — | (122) | (122) | |
| Balance December 31, 2020 | <u>\$ 3,514</u> | <u>\$ 21,427</u> | <u>\$ 170,819</u> | <u>\$ (1,955)</u> | <u>\$ 666</u> | <u>\$ 194,471</u> | |

See notes to consolidated financial statements.

C&F FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | |
|---|--------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| <i>(Dollars in thousands)</i> | | | |
| Operating activities: | | | |
| Net income | \$ 22,424 | \$ 18,850 | \$ 18,020 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Provision for loan losses | 11,080 | 8,515 | 11,006 |
| Accretion of certain acquisition-related discounts, net | (3,707) | (2,871) | (3,034) |
| Share-based compensation | 1,447 | 1,466 | 1,345 |
| Depreciation and amortization | 4,189 | 3,866 | 3,671 |
| Accretion of discounts and amortization of premiums on securities, net | 2,271 | 1,534 | 1,783 |
| Deferred income taxes | (817) | 354 | 632 |
| Provision for indemnifications | 881 | — | 52 |
| Income from bank-owned life insurance | (506) | (711) | (424) |
| Gain on sales of loans held for investment | (3,489) | — | — |
| Early debt repayment charges | 2,197 | — | — |
| Pension expense | 793 | 649 | 403 |
| Pension contribution | (2,000) | — | (3,000) |
| Proceeds from sales of loans held for sale | 1,668,113 | 903,968 | 720,250 |
| Origination of loans held for sale | (1,765,449) | (941,001) | (699,028) |
| Gains on sales of loans held for sale | (25,735) | (10,603) | (7,841) |
| Other losses (gains), net | 624 | (28) | (212) |
| Change in other assets and liabilities: | | | |
| Accrued interest receivable | (897) | 660 | 153 |
| Other assets | 6,882 | 137 | 3,936 |
| Accrued interest payable | (442) | 371 | 82 |
| Other liabilities | 1,767 | 212 | (240) |
| Net cash (used in) provided by operating activities | <u>(80,374)</u> | <u>(14,632)</u> | <u>47,554</u> |
| Investing activities: | | | |
| Acquisition of Peoples Bankshares, Incorporated | 19,101 | — | — |
| Disposition of assets related to business combination | 8,004 | — | — |
| Proceeds from sales, maturities and calls of securities available for sale and payments on mortgage-backed securities | 123,741 | 75,583 | 51,067 |
| Purchases of securities available for sale | (201,870) | (48,216) | (51,322) |
| Purchases of time deposits, net | (5,478) | — | — |
| Repayments on loans held for investment by non-bank affiliates | 129,011 | 123,140 | 117,014 |
| Purchases of loans held for investment by non-bank affiliates | (132,897) | (149,377) | (133,484) |
| Proceeds from sales of loans held for investment | 3,366 | — | — |
| Net increase in community banking loans held for investment | (110,862) | (31,886) | (27,720) |
| Proceeds from bank-owned life insurance | — | 785 | — |
| Purchases of corporate premises and equipment | (10,228) | (2,706) | (3,374) |
| Changes in collateral posted with other financial institutions, net | (7,400) | (2,490) | — |
| Other investing activities, net | 2,226 | (762) | 296 |
| Net cash used in investing activities | <u>(183,286)</u> | <u>(35,929)</u> | <u>(47,523)</u> |
| Financing activities: | | | |
| Net increase in demand and savings deposits | 318,598 | 34,093 | 11,625 |
| Net (decrease) increase in time deposits | (29,212) | 75,496 | (1,393) |
| Net increase (decrease) in short-term borrowings | 4,095 | 1,444 | (5,705) |
| Proceeds from long-term borrowings | 19,924 | 7,000 | — |
| Repayments of long-term borrowings | (121,726) | (7,000) | (2,500) |
| Repurchases of common stock | (1,061) | (4,917) | (1,537) |
| Cash dividends paid | (5,546) | (5,131) | (4,931) |
| Other financing activities, net | (176) | (4) | — |
| Net cash provided by (used in) financing activities | <u>184,896</u> | <u>100,981</u> | <u>(4,441)</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(78,764)</u> | <u>50,420</u> | <u>(4,410)</u> |
| Cash and cash equivalents at beginning of period | 165,433 | 115,013 | 119,423 |
| Cash and cash equivalents at end of period | <u>\$ 86,669</u> | <u>\$ 165,433</u> | <u>\$ 115,013</u> |
| Supplemental cash flow disclosures: | | | |
| Interest paid | \$ 14,168 | \$ 14,150 | \$ 10,909 |
| Income taxes paid | 6,410 | 2,296 | 821 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Transfers from loans to other real estate owned | \$ 63 | \$ 496 | \$ 98 |
| Transfers from corporate premises and equipment to other real estate owned | — | 835 | — |
| Issuance of noncontrolling interest | — | 490 | — |

See notes to consolidated financial statements.

C&F FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation), its direct wholly-owned subsidiary, Citizens and Farmers Bank (the Bank or C&F Bank), and indirect subsidiaries that are wholly-owned or controlled. Subsidiaries that are less than wholly owned are fully consolidated if they are controlled by the Corporation or one of its subsidiaries, and the portion of any subsidiary not owned by the Corporation is reported as noncontrolling interest. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, the Corporation owns all of the common stock of C&F Financial Statutory Trust I, C&F Financial Statutory Trust II, and Central Virginia Bankshares Statutory Trust I, all of which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as liabilities of the Corporation. The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and to predominant practices within the banking industry.

Nature of Operations: The Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, C&F Bank, which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia.

C&F Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (C&F Wealth Management), C&F Insurance Services, Inc., and CVB Title Services, Inc., all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, originates and sells residential mortgages, provides mortgage loan origination services to third-party lenders and, through its subsidiary Certified Appraisals LLC, provides ancillary mortgage loan production services for residential appraisals. C&F Mortgage owns a 51 percent interest in C&F Select LLC, which was organized in January 2019 and is also engaged in the business of originating and selling residential mortgages. C&F Finance, acquired in September 2002, is a finance company purchasing automobile, marine and recreational vehicle (RV) loans through indirect lending programs. C&F Wealth Management, organized in April 1995, is a full-service brokerage firm offering a comprehensive range of wealth management services and insurance products through third-party service providers. C&F Insurance Services, Inc., was organized in July 1999, for the primary purpose of owning an equity interest in an independent insurance agency that operates in Virginia and North Carolina. CVB Title Services, Inc. was organized for the primary purpose of owning an equity interest in a full service title and settlement agency. Business segment data is presented in Note 21.

Basis of Presentation: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, impairment of loans and evaluation of goodwill for impairment. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The COVID-19 pandemic has caused a significant disruption in economic activity worldwide, including in market areas served by the Corporation. Estimates for the allowance for loan losses at December 31, 2020 include probable losses related to the pandemic. The Corporation expects that the pandemic will continue to have an effect on its results of operations. If economic conditions deteriorate further, then additional provision for loan losses may be required in future periods. It is unknown how long these conditions will last and what the ultimate financial impact will be to the Corporation. Depending on the severity and duration of the economic consequences of the pandemic, the Corporation's goodwill may become impaired.

Reclassification: Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. None of these reclassifications are considered material.

Significant Group Concentrations of Credit Risk: The Corporation invests in a variety of securities, principally obligations of U.S. government agencies and obligations of states and political subdivisions. At December 31, 2020, securities issued by the Commonwealth of Virginia and its political subdivisions comprised 16.8 percent of its state and political subdivision portfolio. There are no concentrations of any state or issuer in the Corporation's portfolio of securities available for sale that exceed ten percent of stockholders' equity at December 31, 2020, and the Corporation does not have any other significant securities concentrations in any one industry or geographic region. Additional information about the Corporation's securities portfolio and investment activities is presented in Note 4.

States in which significant concentrations of the Corporation's lending activities exist include Virginia, Tennessee, Georgia and Ohio. At December 31, 2020, 51.8 percent of the Corporation's loan portfolio consisted of commercial, financial and agricultural loans, which include loans secured by real estate for builder lines, acquisition and development and commercial development, as well as commercial loans secured by personal property. In addition, 19.8 percent of the Corporation's loan portfolio consisted of non-prime consumer finance loans to individuals, secured by automobiles. The Corporation does not have any significant loan concentrations to any one customer. Additional information about the Corporation's lending activities is presented in Note 5.

Cash and Cash Equivalents: For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, balances due from banks, interest-bearing deposits in banks and federal funds sold, all of which mature within 90 days. The Bank is typically required to maintain cash reserve balances on hand or with the Federal Reserve Bank (FRB). At December 31, 2020, there was no minimum reserve requirement as a result of a rule adopted by the FRB in March 2020 eliminating the reserve requirement. At December 31, 2019, the minimum reserve requirement was \$1.03 million.

Securities: Investments in debt securities are classified as either held to maturity, available for sale, or trading, based on management's intent. Currently all of the Corporation's debt securities are classified as available for sale. Available for sale debt securities are carried at estimated fair value with the corresponding unrealized gains and losses recognized in other comprehensive income. Gains or losses are recognized in net income on the trade date using the amortized cost of the specific security sold. Purchase premiums are recognized in interest income using the effective interest rate method over the period from purchase to maturity or, for callable securities, the earliest call date, and purchase discounts are recognized in the same manner from purchase to maturity.

Impairment of debt securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Corporation does not intend to sell the security and it is not more-likely-than-not that the Corporation will be required to sell the security before recovery, the Corporation must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. The Corporation regularly reviews unrealized losses in its investments in securities based on criteria including the extent to which market value is below amortized cost, the duration of that market decline, the financial health of and specific prospects for the issuer, the Corporation's best estimate of the present value of cash flows expected to be collected from debt securities, the Corporation's intention with regard to holding the security to maturity and the likelihood that the Corporation would be required to sell the security before recovery.

Loans Held for Sale: The Corporation has elected to use a fair value accounting option for loans originated for resale by its mortgage banking segment. These loans are classified as loans held for sale (LHFS) and are measured at fair value in accordance with Accounting Standards Codification (ASC) Topic 820 - *Fair Value Measurement*, with changes in fair

value reported in net income as a component of “Gains on sales of loans.” Substantially all loans originated by the mortgage banking segment are held for sale to outside investors.

Loans Acquired in a Business Combination: Loans acquired in a business combination, such as the Corporation’s acquisition of Peoples, are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan losses. Purchased credit-impaired (PCI) loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments. When determining fair value, PCI loans were aggregated into pools of loans based on common risk characteristics as of the date of acquisition such as loan type, date of origination, and evidence of credit quality deterioration such as internal risk grades and past due and nonaccrual status. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the “nonaccretable difference,” and is not recorded. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. On a quarterly basis, the Corporation evaluates its estimate of cash flows expected to be collected. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses, while subsequent increases in cash flows may result in a reversal of post-acquisition provision for loan losses, or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan or pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

PCI loans are not classified as nonperforming loans by the Corporation at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at quarterly re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans.

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

Originated Loans: The Corporation makes mortgage, commercial and consumer loans to customers. The Corporation’s recorded investment in loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally is reported at the unpaid principal balances adjusted for charges-offs, unearned discounts, any deferred fees or costs on originated loans, and the allowance for loan losses. Interest on loans is credited to operations based on the principal amount outstanding. 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.

A loan’s past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 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 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. These policies are applied consistently across our loan portfolio.

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. Impairment is measured based on either the fair value of the loan using the loan's obtainable market price or the fair value of the collateral, if the loan is collateral dependent, or using the present value of expected future cash flows discounted at the loan's effective interest rate, which is not a fair value measurement. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Troubled debt restructurings (TDRs) occur when the Corporation agrees to significantly modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans and are evaluated individually. Upon designation as a TDR, the Corporation evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Corporation concludes that the borrower is able to make such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above.

The Corporation has accommodated certain borrowers affected by the COVID-19 pandemic by granting short-term payment deferrals or periods of interest-only payments, including loans that remain in deferral as of December 31, 2020, with an aggregate balance of \$30.74 million. Generally, a short-term payment deferral does not result in a loan modification being classified as a TDR. Additionally, the Coronavirus Aid, Relief and Economic Security Act (CARES Act), enacted on March 27, 2020, and as subsequently supplemented, provided that certain loan modifications that were (1) related to COVID-19 and (2) for loans that were not more than 30 days past due as of December 31, 2019 are not required to be designated as TDRs. Additional information on loan modifications related to COVID-19 is presented in Note 5.

In the ordinary course of business, the Corporation has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Paycheck Protection Program: Beginning in April 2020, the Corporation originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). PPP loans are fully guaranteed by the SBA, and in some cases borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. As repayment of the PPP loans is guaranteed by the SBA, the Corporation does not recognize a reserve for PPP loans in its allowance for loan losses. The Corporation received fees from the SBA of one percent to five percent of the principal amount of each loan originated under the PPP. Fees received from the SBA are recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans is dependent upon the timing of ultimate repayment or forgiveness. Aggregate fees from the SBA of \$3.72 million, net of direct costs, will be recognized in interest income over the life of the loans, of which \$2.16 million remains unrecognized as of December 31, 2020. In 2020, the Corporation recognized \$1.56 million in net loan fees related to PPP loans in interest income on loans in the Consolidated Statement of Income.

Allowance for Loan Losses: The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance for loan losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance represents an amount that, in management's judgment, will be adequate to absorb probable losses inherent in the loan portfolio. Management's judgment in determining the level of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of collateral, overall portfolio quality and review of specific potential losses. This evaluation is inherently

subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The evaluation also considers the following risk characteristics of each loan portfolio:

- Real estate residential mortgage loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Real estate construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Commercial, financial and agricultural loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Consumer and consumer finance loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles and marine and recreational vehicles (RVs)), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- Equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment, and is established when the discounted cash flows (or collateral value or observable market price) of an impaired loan is lower than the carrying value of that loan. For collateral dependent loans, an updated appraisal will be ordered if a current one is not on file. Appraisals are performed by independent third-party appraisers with relevant industry experience. Adjustments to the appraised value may be made based on recent sales of similar properties or general market conditions when appropriate. The general component covers non-classified loans and those loans classified as substandard or special mention that are not individually evaluated for impairment. The general component is based on historical loss experience adjusted for qualitative factors, such as current economic conditions, including current home sales and foreclosures, unemployment rates and retail sales. Relative to non-classified loans, non-impaired classified loans are assigned a higher allowance factor which increases with the severity of classification. The characteristics of these loan ratings are as follows:

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

financial condition provide evidence that it is probable that the Corporation will be unable to collect all amounts due.

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

On a quarterly basis the Corporation evaluates its estimate of cash flows to be collected on PCI loans. These evaluations require the continued assessment of key assumptions and estimates similar to the initial estimate of fair value as of the acquisition date, such as the effect of collateral value changes, changing loss severities, estimated and experienced prepayment speeds and other relevant factors. Subsequent decreases to the expected cash flows to be collected on a PCI loan will generally result in a provision for loan losses.

The consumer finance loans are segregated between performing and nonperforming loans. Performing loans are those that have made timely payments in accordance with the terms of the loan agreement and are not past due 90 days or more. Nonperforming loans are those that do not accrue interest and are greater than 90 days past due.

Allowance for Indemnifications: The allowance for indemnifications is established through charges to earnings in the form of a provision for indemnifications, which is included in other noninterest expenses. A loss is charged against the allowance for indemnifications when a purchaser of a loan (investor) sold by the mortgage banking segment incurs a validated indemnified loss due to borrower misrepresentation, fraud, early payment default or underwriting error.

The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses that are probable of arising from valid indemnification requests for loans that have been sold by the mortgage banking segment. Management's judgment in determining the level of the allowance is based on the volume of loans sold, historical experience, current economic conditions, changes in operational and compliance processes, and information provided by investors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Other Real Estate Owned (OREO): Assets acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure. Physical possession of residential real estate securing consumer mortgage loans occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of similar properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Corporation may incur additional write-downs of foreclosed assets to fair value less estimated costs to sell if valuations indicate a further deterioration in market conditions. Revenue and expenses from operations and changes in the property valuations are included in other noninterest expenses and improvements are capitalized.

The Corporation records a gain/loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform the obligations under the contract and whether collectability of the transaction price is probable. In determining the gain/loss on the sale, the Corporation adjusts the transaction price and the related gain/loss on sale if a significant financing component is present.

Repossessed Assets: Repossessed assets primarily consist of vehicles repossessed by C&F Finance due to borrowers' payment defaults. The repossession process is generally initiated after a loan becomes more than 60 days delinquent. Most customers have an opportunity to redeem their repossessed vehicles by paying all outstanding balances, including finance

charges and fees. Vehicles that are not redeemed within a prescribed waiting period following repossession are then reclassified from loans to repossessed assets available-for-sale (included in other assets) and recorded initially at fair value less estimated costs to sell. The difference between the carrying amount of each loan and the fair value of the vehicle (i.e., the deficiency) is charged against the allowance for loan losses. The waiting period is determined as the length of time after repossession that C&F Finance is prohibited to sell the vehicle under the laws of the state where the vehicle was repossessed. Accounts still in process of collection or for which the Corporation does not have the legal right to sell continue to be classified as loans until such legal authority is obtained. At December 31, 2020, repossessed vehicles at fair value less estimated costs to sell included in other assets totaled \$291,000, compared to \$410,000 at December 31, 2019.

Repossession expense includes the costs to repossess and sell vehicles. These costs include transportation, storage, rekeying, condition reports, legal fees, fees paid to repossession agents and auction fees. These costs are included in noninterest expenses.

Corporate Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed using a straight-line method 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 included in income.

Goodwill: The Corporation's goodwill was recognized in connection with past business combinations and is reported at the community banking segment and the consumer finance segment. The Corporation reviews the carrying value of goodwill at least annually or more frequently if certain impairment indicators exist. In testing goodwill for impairment, the Corporation may first consider qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then no further testing is required and the goodwill of the reporting unit is not impaired. If the Corporation elects to bypass the qualitative assessment or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the fair value of the reporting unit is compared with its carrying amount to determine whether an impairment exists.

Transfer of Financial Assets: Transfers of loans are accounted for as sales when control over the loans has been surrendered. Control over transferred loans is deemed to be surrendered when (1) the loans have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred loans and (3) the Corporation does not maintain effective control over the transferred loans through an agreement to repurchase them before their maturity. During the year ended December 31, 2020, the Corporation recognized a gain of \$3.49 million upon the sale of a pool of loans that were held for investment. The loans sold were a pool of PCI loans, and the gain recognized resulted from the release of a portion of the remaining purchase discount on the pool of loans.

Income Taxes: The Corporation determines deferred income tax assets and liabilities based on temporary 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 includes taxes on income or loss that is taxable in the period and changes during the period in deferred tax assets and liabilities.

C&F Bank invests in qualified affordable housing projects through housing equity funds, the purpose of which is to encourage investment in low-income residential property development in Virginia by providing a return on investment through federal income tax credits and other tax benefits on losses generated by the projects. C&F Bank recognizes its share of losses on these projects as a component of income tax expense.

The benefit of an uncertain tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination by the applicable taxing authority, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. Interest and penalties associated with unrecognized tax benefits are recognized as a component of income tax expense.

Retirement Plan: The Corporation recognizes the overfunded or underfunded status of its defined benefit pension plan as an asset or liability in its Consolidated Balance Sheets, measured as the difference between plan assets at fair value and the projected benefit obligation as of December 31. Net periodic pension cost or income is recorded each period based on actuarially determined amounts in accordance with GAAP and recognized in salaries and employment benefits and other noninterest income in the Consolidated Statements of Income. Actuarial determinations of net periodic pension cost or income are based on assumptions related to discount rates, rates of return on plan assets, employee compensation and mortality and interest crediting rates. Other changes in the overfunded or underfunded status of the pension plan are recorded in the year in which the changes occur through other comprehensive income.

Share-Based Compensation: Share-based compensation expense for grants of restricted shares is accounted for using the fair value of the Corporation's common stock on the date the restricted shares are awarded. Compensation expense for restricted shares is charged to income ratably over the required service period. Forfeitures reduce compensation expense for the periods in which forfeitures actually occur. Income tax windfalls or shortfalls related to the amount deductible upon vesting of restricted stock awards is recorded in income tax expense in the period the stock awards become vested.

Earnings Per Share: The Corporation applies the two-class method of computing basic and diluted earnings per share (EPS), which allocates a portion of undistributed earnings to the Corporation's unvested restricted shares awarded to employees and non-employee directors. These restricted shares are participating securities which contain rights to nonforfeitable dividends prior to vesting. Accordingly, the weighted average number of shares outstanding used in the calculation of basic and diluted EPS includes both common shares and unvested restricted shares outstanding. EPS calculations are presented in Note 13.

Derivative Financial Instruments: The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the Consolidated Balance Sheets. The Corporation's derivative financial instruments include (1) interest rate swaps that qualify and are designated as cash flow hedges on the Corporation's trust preferred capital notes, (2) interest rate swaps with certain qualifying commercial loan customers and dealer counterparties and (3) interest rate contracts arising from mortgage banking activities, including interest rate lock commitments (IRLCs) on mortgage loans and related forward sales of mortgage loans and mortgage backed securities. The gain or loss on the Corporation's cash flow hedges is reported as a component of other comprehensive income, net of deferred income taxes, and reclassified into earnings in the same period(s) during which the hedged transactions affect earnings. IRLCs, forward sales contracts and interest rate swaps with loan customers and dealer counterparties are not designated as hedging instruments, and therefore changes in the fair value of these instruments are reported as noninterest income. The Corporation's derivative financial instruments are described more fully in Note 22.

Leases: The Corporation's leases comprise primarily operating and financing leases of real estate and office equipment in which the Corporation or one of its subsidiaries is the lessee. The Corporation recognizes a lease liability and a right-of-use asset in connection with leases in which it is a lessee, except for leases with a term of twelve months or less. A lease liability represents the Corporation's obligation to make future payments under lease contracts, and a right-of-use asset represents the Corporation's right to control the use of the underlying property during the lease term. Lease liabilities and right-of-use assets are recognized upon commencement of a lease and measured as the present value of lease payments over the lease term, discounted at the incremental borrowing rate of the lessee. The Corporation has elected not to separate lease and nonlease components within the same contract and instead to account for the entire contract as a lease.

Service Charges on Deposit Accounts. The Corporation earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate

primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation.

Other Service Charges and Fees. The Corporation earns fees from its customers for transaction-based services. Such services include ATM, stop payment and wire transfer fees at the community banking segment and on-line payment processing fees at the consumer finance segment. In each case, these service charges and fees are recognized in income at the time or within the same period that the Corporation's performance obligation is satisfied.

Interchange Income. The Corporation earns interchange fees from debit and credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Wealth Management Services Income, Net. The Corporation earns revenue by providing wealth management services and health and life insurance products to its customers through third-party service providers. Fees that are transaction-based (e.g., execution of trades) are recognized on a monthly basis. Other fees and commissions are earned over time as services are provided and are generally assessed based on either account activity or the market value of assets under management at the end of each period. Fees and commissions collected from customers are reported net of related fees paid to the third-party service providers and presented in noninterest income.

Recent Significant Accounting Pronouncements:

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," as part of its project on financial instruments. Subsequently, this ASU was amended when the FASB issued ASU 2018-19, "*Codification Improvements to Topic 326, Financial Instruments – Credit Losses*," ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*," ASU 2019-05, "*Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*," ASU 2019-10, "*Financial Instruments—Credit losses (Topic 326), Derivatives and hedging (Topic 815), and Leases (Topic 842)—Effective dates*," ASU 2019-11, "*Codification Improvements to Topic 326, Financial Instruments—Credit Losses*," ASU 2020-02, "*Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)*" and ASU 2020-03, "*Codification Improvements to Financial Instruments*" (collectively, ASC 326). ASC 326 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new standard will be effective for the Corporation beginning on January 1, 2023. Early adoption of the new standard is permitted.

The amendments of ASC 326, upon adoption, will be applied on a modified retrospective basis, with the cumulative effect of adopting the new standard being recorded as an adjustment to opening retained earnings in the period of adoption. The Corporation has established a working group to prepare for and implement changes related to ASC 326 and has gathered historical loan loss data for purposes of evaluating appropriate portfolio segmentation and modeling methods under the standard. The Corporation has performed procedures to validate the historical loan loss data to ensure its suitability and reliability for purposes of developing an estimate of expected credit losses under ASC 326. The Corporation has engaged a vendor to assist in modeling expected lifetime losses under ASC 326, and is continuing to develop and refine an approach to estimating the allowance for credit losses. The adoption of ASC 326 will result in significant changes to the Corporation's consolidated financial statements, which may include changes in the level of the allowance for credit losses that will be considered adequate, a reduction in total equity and regulatory capital of C&F Bank, differences in the timing of recognizing changes to the allowance for credit losses and expanded disclosures about the allowance for credit losses. The Corporation has not yet determined an estimate of the effect of these changes. The adoption of the standard will also result in significant changes in the Corporation's internal control over financial reporting related to the allowance for credit losses.

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

NOTE 2: Adoption of New Accounting Standards

On January 1, 2020, the Corporation adopted ASU 2018-13, “*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.*” These amendments modified the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. The applicable amendments of ASU 2018-13 were applied prospectively and did not have a material effect on the Corporation’s consolidated financial statements.

NOTE 3: Business Combination

On January 1, 2020, the Corporation completed its acquisition of Peoples Bankshares, Incorporated (Peoples). Peoples shareholders received 0.5366 shares of the Corporation’s common stock and \$27.00 in cash for each share of Peoples common stock, with cash paid in lieu of any fractional shares of the Corporation’s common stock. In connection with the transaction, the Corporation paid aggregate cash consideration of \$10.58 million and issued 209,871 shares of its common stock to the shareholders of Peoples.

The Corporation accounted for the acquisition using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under the acquisition method of accounting, the assets acquired and liabilities assumed in the acquisition and the common stock of the Corporation issued as consideration were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is inherently subjective and involves significant judgment regarding the methods and assumptions used to estimate fair value.

The following table presents as of January 1, 2020 the total consideration paid by the Corporation in connection with the acquisition of Peoples, the fair values of the assets acquired and liabilities assumed, and the resulting goodwill.

| <i>(Dollars in thousands)</i> | Amounts Recognized as of January 1, 2020 |
|---|--|
| Purchase price: | |
| Cash paid | \$ 10,579 |
| Common stock issued | 11,612 |
| Total purchase price | <u>\$ 22,191</u> |
| Identifiable assets acquired: | |
| Cash and cash equivalents | \$ 29,680 |
| Securities available for sale | 17,169 |
| Loans | 124,195 |
| Accrued interest receivable | 430 |
| Corporate premises and equipment | 3,105 |
| Other real estate owned | 281 |
| Core deposit intangible asset | 1,711 |
| Bank-owned life insurance | 3,591 |
| Investment in small business investment company | 1,493 |
| Other receivables | 5,234 |
| Other assets | 3,658 |
| Total identifiable assets acquired | <u>190,547</u> |
| Identifiable liabilities assumed: | |
| Demand and savings deposits | 94,798 |
| Time deposits | 77,018 |
| Borrowings | 4,245 |
| Accrued interest payable | 260 |
| Salaries, benefits and deferred compensation | 2,054 |
| Other liabilities | 747 |
| Total identifiable liabilities assumed | <u>179,122</u> |
| Net identifiable assets acquired | <u>\$ 11,425</u> |
| Goodwill resulting from acquisition | <u>\$ 10,766</u> |

In connection with the acquisition, the Corporation recorded approximately \$10.77 million of goodwill and \$1.71 million of other intangible assets related to the core deposits of Peoples. The goodwill arising from the acquisition of Peoples is not deductible for income taxes. The core deposit intangible asset (CDI) will be amortized over a period of 15 years using a declining balance method.

Loans acquired from Peoples had aggregate outstanding principal of \$131.92 million and an estimated fair value of \$124.20 million. The discount between the outstanding principal balance and fair value represents expected credit losses and adjustments for market interest rates. Under the acquisition method, the allowance for loan losses recorded in the books of Peoples in the amount of \$2.87 million was not carried over into the books of the Corporation. Loans that have evidence of deterioration in credit quality since origination are categorized as purchased credit impaired (PCI). PCI loans acquired from Peoples included medical student loans with an outstanding principal balance of \$4.28 million and a fair value of \$635,000 at January 1, 2020, which were purchased by Peoples and the performance of which was previously backed by surety bonds. The surety bonds were terminated in 2018 when the issuer of the bond was placed into liquidation by its insurance regulator, and replacement surety bond coverage was not obtained. The Bank subsequently sold these medical student loans during the year ending December 31, 2020.

Information about PCI loans acquired from Peoples as of January 1, 2020 is as follows:

| <u>(Dollars in thousands)</u> | <u>January 1, 2020</u> |
|--|------------------------|
| Contractual principal and interest due | \$ 20,310 |
| Nonaccretable difference | (7,679) |
| Expected cash flows | 12,631 |
| Accretable yield. | (3,372) |
| Purchased credit impaired loans - estimated fair value | <u>\$ 9,259</u> |

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Loans: The acquired loans were recorded at fair value at the acquisition date without carryover of People's allowance for loan losses. The fair value of the loans was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then discounting those cash flows based on a discount rate that would be required by a market participant. In this regard, the acquired loans were segregated into pools based on loan type and credit risk. Loan type was determined based on collateral type, loan purpose and loan structure. Credit risk characteristics included risk rating groups (pass rated loans and adversely classified loans), updated loan-to-value ratios and lien position, and past loan performance. For valuation purposes, these pools were further disaggregated by maturity and pricing characteristics (e.g., fixed-rate, adjustable-rate, balloon maturities).

Core Deposit Intangible: The fair value of the CDI was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of equity capital for a market participant. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through the FHLB. The life of the deposit base and projected deposit attrition rates were determined using Peoples' historical deposit data. The CDI was estimated at \$1.71 million or 1.8% of non-maturity deposits.

Deposits: The fair value adjustment of deposits represents a premium over the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar term certificates of deposit. The resulting estimated fair value adjustment of certificates of deposit ranging in maturity from three months to five years is a \$557,000 premium and is being amortized into income over a period of two years.

The following table presents certain unaudited pro forma information as if the acquisition had taken place on January 1, 2019. These results combine the historical results of Peoples and the Corporation for the period prior to the merger. While certain adjustments were made for estimated effects resulting from the application of the acquisition method, including certain fair value adjustments, this pro forma information is not indicative of what would have occurred had the acquisition actually taken place on January 1, 2019. Pro forma adjustments for the year ended December 31, 2019 include the net impact of accretion of loan discounts related to market interest rates, amortization of premiums on deposits and borrowings, amortization of intangible assets and related income taxes. Unaudited pro forma net income for the year ended December 31, 2019 includes after tax merger related expenses of \$2.76 million, or \$(0.75) per share. These amounts include \$2.11 million recorded by Peoples, which was primarily related to pre-existing employment agreements, contract termination costs paid to Peoples' core processing provider, and fees for legal and financial advisors. Unaudited pro forma net income also includes provision for loan losses recorded by Peoples for loans that were recorded by the Corporation at fair value upon acquisition and have no allowance for loan losses in the books of the Corporation. Additionally, the Corporation has achieved certain operational cost savings and other efficiencies as a result of the acquisition and integration of Peoples which are not reflected in the unaudited pro forma amounts below.

| <u>(Dollars in thousands, except per share amounts)</u> | <u>Unaudited Pro Forma Year Ended December 31, 2019</u> |
|--|---|
| Total revenues (net interest income plus noninterest income) | \$ 120,173 |
| Net income. | \$ 18,261 |
| Net income per share, basic and diluted | \$ 4.99 |

The revenue and earnings amounts specific to Peoples since the acquisition date that are included in the consolidated results for 2020 are not readily determinable. Disclosure of these amounts is impracticable due to the merging of certain processes and systems at the acquisition date.

The Corporation recorded merger related expenses in connection with the acquisition of Peoples of \$1.40 million (\$1.13 million after income taxes) for the year ended December 31, 2020 and \$709,000 (\$653,000, after income taxes) for the year ended December 31, 2019. As of December 31, 2020, the Corporation has recorded aggregate merger related expenses of \$2.10 million (\$1.78 million after income taxes). These costs included primarily the integration of systems and operations and legal and consulting expenses, which have been expensed as incurred.

NOTE 4: Securities

The Corporation's debt securities, all of which are classified as available for sale, are summarized as follows:

| | December 31, 2020 | | | |
|--|---------------------------|---------------------------------------|--|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <i>(Dollars in thousands)</i> | | | | |
| U.S. government agencies and corporations | \$ 48,171 | \$ 121 | \$ (10) | \$ 48,282 |
| Mortgage-backed securities | 120,664 | 3,165 | (115) | 123,714 |
| Obligations of states and political subdivisions | 100,405 | 2,436 | (36) | 102,805 |
| Corporate and other debt securities | 11,584 | 47 | (43) | 11,588 |
| | <u>\$ 280,824</u> | <u>\$ 5,769</u> | <u>\$ (204)</u> | <u>\$ 286,389</u> |

| | December 31, 2019 | | | |
|--|---------------------------|---------------------------------------|--|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <i>(Dollars in thousands)</i> | | | | |
| U.S. government agencies and corporations | \$ 21,454 | \$ 3 | \$ (17) | \$ 21,440 |
| Mortgage-backed securities | 85,649 | 979 | (43) | 86,585 |
| Obligations of states and political subdivisions | 80,656 | 1,111 | (59) | 81,708 |
| | <u>\$ 187,759</u> | <u>\$ 2,093</u> | <u>\$ (119)</u> | <u>\$ 189,733</u> |

The amortized cost and estimated fair value of securities at December 31, 2020, by the earlier of contractual maturity or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

| | December 31, 2020 | |
|--|---------------------------|-------------------|
| | Amortized Cost | Fair Value |
| <i>(Dollars in thousands)</i> | | |
| Due in one year or less | \$ 74,739 | \$ 75,015 |
| Due after one year through five years | 153,514 | 157,622 |
| Due after five years through ten years | 50,490 | 51,572 |
| Due after ten years. | 2,081 | 2,180 |
| | <u>\$ 280,824</u> | <u>\$ 286,389</u> |

The following table presents the gross realized gains and losses on and the proceeds from the sales, maturities and calls of securities. During the year ended December 31, 2020, \$5.99 million in proceeds were related to sales of securities acquired in the acquisition of Peoples. There were no sales of securities during the years ended December 31, 2019 and 2018.

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Realized gains from sales, maturities and calls of securities: | | | |
| Gross realized gains | \$ 38 | \$ 10 | \$ 10 |
| Gross realized losses | — | — | — |
| Net realized gains | <u>\$ 38</u> | <u>\$ 10</u> | <u>\$ 10</u> |
| Proceeds from sales, maturities, calls and paydowns of securities | <u>\$ 123,741</u> | <u>\$ 75,583</u> | <u>\$ 51,067</u> |

The Corporation pledges securities primarily to secure public deposits and repurchase agreements. Securities with an aggregate amortized cost of \$146.66 million and an aggregate fair value of \$150.13 million were pledged at December 31, 2020. Securities with an aggregate amortized cost of \$126.22 million and an aggregate fair value of \$127.47 million were pledged at December 31, 2019.

Securities in an unrealized loss position at December 31, 2020, by duration of the period of the unrealized loss, are shown below.

| <i>(Dollars in thousands)</i> | Less Than 12 Months | | 12 Months or More | | Total | |
|--|----------------------------|------------------------|--------------------------|------------------------|-------------------|------------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies and corporations . . . | \$ 12,719 | \$ 10 | \$ — | \$ — | \$ 12,719 | \$ 10 |
| Mortgage-backed securities | 15,691 | 115 | — | — | 15,691 | 115 |
| Obligations of states and political subdivisions . | 5,110 | 36 | — | — | 5,110 | 36 |
| Corporate and other debt securities | 4,271 | 43 | — | — | 4,271 | 43 |
| Total temporarily impaired securities | <u>\$ 37,791</u> | <u>\$ 204</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 37,791</u> | <u>\$ 204</u> |

There were 31 debt securities totaling \$37.79 million of aggregate fair value considered temporarily impaired at December 31, 2020. The primary cause of the temporary impairments in the Corporation's investments in debt securities was fluctuations in interest rates. The Corporation concluded that no other-than-temporary impairment existed in its securities portfolio at December 31, 2020, and no other-than-temporary impairment loss has been recognized in net income, based primarily on the fact that changes in fair value were caused primarily by fluctuations in interest rates, there were no securities with unrealized losses that were significant relative to their carrying amounts, no securities have been in an unrealized loss position continuously for more than 12 months, securities with unrealized losses had generally high credit quality, the Corporation intends to hold these investments in debt securities to maturity and it is more-likely-than-not that the Corporation will not be required to sell these investments before a recovery of its investment, and issuers have continued to make timely payments of principal and interest. Additionally, the Corporation's mortgage-backed securities are entirely issued by either U.S. government agencies or U.S. government-sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

Securities in an unrealized loss position at December 31, 2019, by duration of the period of the unrealized loss, are shown below.

| <i>(Dollars in thousands)</i> | Less Than 12 Months | | 12 Months or More | | Total | |
|--|----------------------------|------------------------|--------------------------|------------------------|-------------------|------------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies and corporations . . . | \$ 6,256 | \$ 11 | \$ 4,094 | \$ 6 | \$ 10,350 | \$ 17 |
| Mortgage-backed securities | 4,099 | 7 | 10,166 | 36 | 14,265 | 43 |
| Obligations of states and political subdivisions . | 9,187 | 53 | 1,368 | 6 | 10,555 | 59 |
| Total temporarily impaired securities | <u>\$ 19,542</u> | <u>\$ 71</u> | <u>\$ 15,628</u> | <u>\$ 48</u> | <u>\$ 35,170</u> | <u>\$ 119</u> |

The Corporation's investment in restricted stock totaled \$1.64 million at December 31, 2020 and consisted of Federal Home Loan Bank (FHLB) stock. Restricted stock is generally viewed as a long-term investment, which is carried at cost because there is no market for the stock other than the FHLBs. Therefore, when evaluating restricted stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing any temporary decline in value. The Corporation did not consider its investment in restricted stock to be other-than-temporarily impaired at December 31, 2020 and no impairment has been recognized.

NOTE 5: Loans

Major classifications of loans are summarized as follows:

| <i>(Dollars in thousands)</i> | December 31, | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| Real estate – residential mortgage | \$ 218,298 | \$ 181,295 |
| Real estate – construction ¹ | 62,147 | 54,246 |
| Commercial, financial and agricultural ² | 700,215 | 500,812 |
| Equity lines | 48,466 | 52,083 |
| Consumer | 11,028 | 13,756 |
| Consumer finance | <u>312,252</u> | <u>312,999</u> |
| | <u>1,352,406</u> | <u>1,115,191</u> |
| Less allowance for loan losses | <u>(39,156)</u> | <u>(32,873)</u> |
| Loans, net | <u>\$ 1,313,250</u> | <u>\$ 1,082,318</u> |

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

² Includes the Corporation's commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending (which includes loans originated under the PPP).

Consumer loans included \$284,000 and \$449,000 of demand deposit overdrafts at December 31, 2020 and 2019, respectively.

Loans acquired in business combinations are recorded in the Consolidated Balance Sheets at fair value at the acquisition date under the acquisition method of accounting. The outstanding principal balance and the carrying amount at December 31, 2020 and 2019 of loans acquired in business combinations were as follows:

| <i>(Dollars in thousands)</i> | December 31, 2020 | | | December 31, 2019 | | |
|---|--|---|---------------------------|--|---|---------------------------|
| | Acquired Loans - Purchased Credit Impaired | Acquired Loans - Purchased Performing | Acquired Loans - Total | Acquired Loans - Purchased Credit Impaired | Acquired Loans - Purchased Performing | Acquired Loans - Total |
| Outstanding principal balance | \$ 12,760 | \$ 89,043 | \$ 101,803 | \$ 6,262 | \$ 27,839 | \$ 34,101 |
| Carrying amount | | | | | | |
| Real estate – residential mortgage | \$ 1,473 | \$ 15,117 | \$ 16,590 | \$ 107 | \$ 7,035 | \$ 7,142 |
| Real estate – construction | — | 1,077 | 1,077 | — | — | — |
| Commercial, financial and agricultural ¹ | 4,758 | 58,796 | 63,554 | 563 | 11,338 | 11,901 |
| Equity lines | 80 | 10,182 | 10,262 | 35 | 8,046 | 8,081 |
| Consumer | 48 | 1,924 | 1,972 | — | 3 | 3 |
| Total acquired loans | <u>\$ 6,359</u> | <u>\$ 87,096</u> | <u>\$ 93,455</u> | <u>\$ 705</u> | <u>\$ 26,422</u> | <u>\$ 27,127</u> |

¹ Includes acquired loans classified by the Corporation as commercial real estate lending and commercial business lending.

The following table presents a summary of the change in the accretable yield of loans classified as PCI loans:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|--|-------------------------|-----------------|
| | 2020 | 2019 |
| Accretable yield, balance at beginning of period | \$ 4,721 | \$ 5,987 |
| Acquisition of Peoples | 3,372 | — |
| Accretion | (3,032) | (3,360) |
| Sale of PCI loan pool | (323) | — |
| Reclassification of nonaccretable difference due to improvement in expected cash flows | 521 | 1,587 |
| Other changes, net | (1,211) | 507 |
| Accretable yield, balance at end of period | <u>\$ 4,048</u> | <u>\$ 4,721</u> |

Loans on nonaccrual status at December 31, 2020 and 2019 were as follows:

| <i>(Dollars in thousands)</i> | December 31, | |
|---|-----------------|-----------------|
| | 2020 | 2019 |
| Real estate – residential mortgage | \$ 276 | \$ 1,526 |
| Commercial, financial and agricultural: | | |
| Commercial business lending | 2,428 | 11 |
| Equity lines | 191 | 229 |
| Consumer | 107 | 118 |
| Consumer finance | 402 | 611 |
| Total loans on nonaccrual status | <u>\$ 3,404</u> | <u>\$ 2,495</u> |

The past due status of loans as of December 31, 2020 was as follows:

| <i>(Dollars in thousands)</i> | 30 - 59 Days | 60 - 89 Days | 90+ Days | Total | PCI | Current ¹ | Total Loans | 90+ Days |
|--|-----------------|-----------------|---------------|------------------|-----------------|----------------------|---------------------|-----------------------|
| | Past Due | Past Due | Past Due | Past Due | | | | Past Due and Accruing |
| Real estate – residential mortgage | \$ 1,100 | \$ 154 | \$ 176 | \$ 1,430 | \$ 1,473 | \$ 215,395 | \$ 218,298 | \$ 145 |
| Real estate – construction: | | | | | | | | |
| Construction lending | — | — | — | — | — | 49,659 | 49,659 | — |
| Consumer lot lending | — | — | — | — | — | 12,488 | 12,488 | — |
| Commercial, financial and agricultural: | | | | | | | | |
| Commercial real estate lending | — | — | — | — | 4,758 | 437,145 | 441,903 | — |
| Land acquisition and development lending | — | — | — | — | — | 37,724 | 37,724 | — |
| Builder line lending | — | — | — | — | — | 18,194 | 18,194 | — |
| Commercial business lending | 24 | — | — | 24 | — | 202,370 | 202,394 | — |
| Equity lines | 52 | — | — | 52 | 80 | 48,334 | 48,466 | — |
| Consumer | 2 | — | — | 2 | 48 | 10,978 | 11,028 | — |
| Consumer finance | 8,249 | 967 | 402 | 9,618 | — | 302,634 | 312,252 | — |
| Total | <u>\$ 9,427</u> | <u>\$ 1,121</u> | <u>\$ 578</u> | <u>\$ 11,126</u> | <u>\$ 6,359</u> | <u>\$ 1,334,921</u> | <u>\$ 1,352,406</u> | <u>\$ 145</u> |

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

The table above includes nonaccrual loans that are current of \$2.86 million, 30-59 days past due of \$115,000 and 90+ days past due of \$433,000.

The past due status of loans as of December 31, 2019 was as follows:

| <i>(Dollars in thousands)</i> | 30 - 59 Days | 60 - 89 Days | 90+ Days | Total | PCI | Current ¹ | Total Loans | 90+ Days |
|---|--------------|--------------|----------|-----------|--------|----------------------|--------------|--------------------------|
| | Past Due | Past Due | Past Due | Past Due | | | | Past Due and Accruing |
| Real estate – residential mortgage | \$ 1,428 | \$ 161 | \$ 1,016 | \$ 2,605 | \$ 107 | \$ 178,583 | \$ 181,295 | \$ — |
| Real estate – construction: | | | | | | | | |
| Construction lending | — | — | — | — | — | 40,943 | 40,943 | — |
| Consumer lot lending | — | — | — | — | — | 13,303 | 13,303 | — |
| Commercial, financial and agricultural: | | | | | | | | |
| Commercial real estate lending | — | — | — | — | 563 | 325,991 | 326,554 | — |
| Land acquisition and development lending | — | — | — | — | — | 42,891 | 42,891 | — |
| Builder line lending | — | — | — | — | — | 26,373 | 26,373 | — |
| Commercial business lending | 73 | 18 | — | 91 | — | 104,903 | 104,994 | — |
| Equity lines | 229 | 56 | 223 | 508 | 35 | 51,540 | 52,083 | 109 |
| Consumer | 20 | 10 | — | 30 | — | 13,726 | 13,756 | — |
| Consumer finance | 11,034 | 1,420 | 611 | 13,065 | — | 299,934 | 312,999 | — |
| Total | \$ 12,784 | \$ 1,665 | \$ 1,850 | \$ 16,299 | \$ 705 | \$ 1,098,187 | \$ 1,115,191 | \$ 109 |

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

The table above includes nonaccrual loans that are current of \$547,000, 30-59 days past due of \$197,000, 60-89 days past due of \$10,000 and 90+ days past due of \$1.74 million.

Loan modifications that were classified as TDRs, and the recorded investment in those loans at the time of their modification, during the years ended December 31, 2020 and 2019 and 2018 were as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | | | | |
|--|-------------------------|------------------------|--------------------|------------------------|--------------------|------------------------|
| | 2020 | | 2019 | | 2018 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| Real estate – residential mortgage | 2 | \$ 176 | 2 | \$ 95 | 1 | \$ 140 |
| Equity lines | 1 | 84 | — | — | — | — |
| Consumer | — | — | 1 | 121 | 1 | 5 |
| Total | 3 | \$ 260 | 3 | \$ 216 | 2 | \$ 145 |

Each of the TDRs during the year ended December 31, 2020, two TDRs during the year ended December 31, 2019 and one during the year ended December 31, 2018 included modifications of the loan’s payment structure. One TDR during the year ended December 31, 2019 and one during the year ended December 31, 2018 included modifications of the loan’s interest rate. There were no TDRs in the years ended December 31, 2020, 2019 or 2018 that included a reduction in principal as part of the loan’s modification.

All TDRs are considered impaired loans and are individually evaluated in the determination of the allowance for loan losses. A TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due. The specific reserve associated with a TDR is reevaluated when a TDR payment default occurs. There were no TDR payment defaults during the years ended December 31, 2020, 2019 or 2018.

In response to the effects of the COVID-19 pandemic, including economic disruption and adverse impacts to commercial and consumer borrowers, the Bank has accommodated certain borrowers by granting short-term payment deferrals or periods of interest-only payments, which generally were less than six months for each borrower. Generally, a short-term payment deferral does not result in a loan modification being classified as a TDR. As of December 31, 2020, there were \$30.74 million of loans whose modification periods had not ended or had been extended. Of these loans, \$30.17 million were not required to be evaluated as TDRs as a result of the CARES Act.

Impaired loans, which included TDRs of \$3.58 million, and the related allowance at December 31, 2020 were as follows:

| <i>(Dollars in thousands)</i> | Unpaid Principal Balance | Recorded Investment in Loans without Specific Reserve | Recorded Investment in Loans with Specific Reserve | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|--|--------------------------------|---|--|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 2,326 | \$ 931 | \$ 1,279 | \$ 77 | \$ 2,353 | \$ 105 |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending | 1,397 | — | 1,397 | 89 | 1,404 | 73 |
| Commercial business lending | 2,430 | — | 2,428 | 585 | 2,573 | — |
| Equity lines | 120 | 111 | — | — | 119 | 2 |
| Consumer | 147 | — | 132 | 128 | 154 | 3 |
| Total | <u>\$ 6,420</u> | <u>\$ 1,042</u> | <u>\$ 5,236</u> | <u>\$ 879</u> | <u>\$ 6,603</u> | <u>\$ 183</u> |

Impaired loans, which included TDRs of \$4.35 million, and the related allowance at December 31, 2019 were as follows:

| <i>(Dollars in thousands)</i> | Unpaid Principal Balance | Recorded Investment in Loans without Specific Reserve | Recorded Investment in Loans with Specific Reserve | Related Allowance | Average Balance- Impaired Loans | Interest Income Recognized |
|--|--------------------------------|---|--|----------------------|--|----------------------------------|
| Real estate – residential mortgage | \$ 3,891 | \$ 2,192 | \$ 1,479 | \$ 72 | \$ 3,506 | \$ 155 |
| Commercial, financial and agricultural: | | | | | | |
| Commercial real estate lending | 1,459 | 4 | 1,447 | 77 | 1,581 | 82 |
| Equity lines | 31 | 31 | — | — | 32 | 2 |
| Consumer | 130 | — | 121 | 118 | 123 | — |
| Total | <u>\$ 5,511</u> | <u>\$ 2,227</u> | <u>\$ 3,047</u> | <u>\$ 267</u> | <u>\$ 5,242</u> | <u>\$ 239</u> |

NOTE 6: Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31, 2020, 2019 and 2018 were as follows:

| <i>(Dollars in thousands)</i> | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|--|--|-----------------------------|--|-----------------|---------------|---------------------|------------------|
| Balance at December 31, 2017 | \$ 2,371 | \$ 605 | \$ 7,478 | \$ 688 | \$ 231 | \$ 24,353 | \$ 35,726 |
| Provision charged to operations | (140) | 122 | (440) | 418 | 140 | 10,906 | 11,006 |
| Loans charged off | (42) | — | (409) | — | (344) | (16,477) | (17,272) |
| Recoveries of loans previously charged off | 57 | — | 59 | — | 230 | 4,217 | 4,563 |
| Balance at December 31, 2018 | 2,246 | 727 | 6,688 | 1,106 | 257 | 22,999 | 34,023 |
| Provision charged to operations | (146) | (46) | 458 | (235) | 329 | 8,155 | 8,515 |
| Loans charged off | (46) | — | (29) | (138) | (349) | (13,991) | (14,553) |
| Recoveries of loans previously charged off | 26 | — | 4 | — | 228 | 4,630 | 4,888 |
| Balance at December 31, 2019 | 2,080 | 681 | 7,121 | 733 | 465 | 21,793 | 32,873 |
| Provision charged to operations | 808 | 294 | 3,589 | (47) | (34) | 6,470 | 11,080 |
| Loans charged off | (62) | — | (18) | — | (231) | (9,331) | (9,642) |
| Recoveries of loans previously charged off | 88 | — | 4 | 1 | 171 | 4,581 | 4,845 |
| Balance at December 31, 2020 | <u>\$ 2,914</u> | <u>\$ 975</u> | <u>\$ 10,696</u> | <u>\$ 687</u> | <u>\$ 371</u> | <u>\$ 23,513</u> | <u>\$ 39,156</u> |

The following table presents, as of December 31, 2020, the balance of the allowance for loan losses, the allowance by impairment methodology, total loans and loans by impairment methodology.

| <i>(Dollars in thousands)</i> | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|---|----------------------------------|--------------------------|--------------------------------------|------------------|------------------|-------------------|---------------------|
| Allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 77 | \$ — | \$ 674 | \$ — | \$ 128 | \$ — | \$ 879 |
| Collectively evaluated for impairment | 2,837 | 975 | 10,022 | 687 | 243 | 23,513 | 38,277 |
| Acquired loans - PCI | — | — | — | — | — | — | — |
| Total allowance | <u>\$ 2,914</u> | <u>\$ 975</u> | <u>\$ 10,696</u> | <u>\$ 687</u> | <u>\$ 371</u> | <u>\$ 23,513</u> | <u>\$ 39,156</u> |
| Loans: | | | | | | | |
| Individually evaluated for impairment | \$ 2,210 | \$ — | \$ 3,825 | \$ 111 | \$ 132 | \$ — | \$ 6,278 |
| Collectively evaluated for impairment | 214,615 | 62,147 | 691,632 | 48,275 | 10,848 | 312,252 | 1,339,769 |
| Acquired loans - PCI | 1,473 | — | 4,758 | 80 | 48 | — | 6,359 |
| Total loans | <u>\$ 218,298</u> | <u>\$ 62,147</u> | <u>\$ 700,215</u> | <u>\$ 48,466</u> | <u>\$ 11,028</u> | <u>\$ 312,252</u> | <u>\$ 1,352,406</u> |

The following table presents, as of December 31, 2019, the balance of the allowance for loan losses, the allowance by impairment methodology, total loans and loans by impairment methodology.

| <i>(Dollars in thousands)</i> | Real Estate Residential Mortgage | Real Estate Construction | Commercial, Financial & Agricultural | Equity Lines | Consumer | Consumer Finance | Total |
|---|----------------------------------|--------------------------|--------------------------------------|------------------|------------------|-------------------|---------------------|
| Allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment. | \$ 72 | \$ — | \$ 77 | \$ — | \$ 118 | \$ — | \$ 267 |
| Collectively evaluated for impairment. | 2,008 | 681 | 7,044 | 733 | 347 | 21,793 | 32,606 |
| Acquired loans - PCI | — | — | — | — | — | — | — |
| Total allowance. | <u>\$ 2,080</u> | <u>\$ 681</u> | <u>\$ 7,121</u> | <u>\$ 733</u> | <u>\$ 465</u> | <u>\$ 21,793</u> | <u>\$ 32,873</u> |
| Loans: | | | | | | | |
| Individually evaluated for impairment. | \$ 3,671 | \$ — | \$ 1,451 | \$ 31 | \$ 121 | \$ — | \$ 5,274 |
| Collectively evaluated for impairment. | 177,517 | 54,246 | 498,798 | 52,017 | 13,635 | 312,999 | 1,109,212 |
| Acquired loans - PCI | 107 | — | 563 | 35 | — | — | 705 |
| Total loans | <u>\$ 181,295</u> | <u>\$ 54,246</u> | <u>\$ 500,812</u> | <u>\$ 52,083</u> | <u>\$ 13,756</u> | <u>\$ 312,999</u> | <u>\$ 1,115,191</u> |

Loans by credit quality indicators as of December 31, 2020 were as follows:

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total ¹ |
|--|---------------------|------------------|------------------|------------------------|---------------------|
| Real estate – residential mortgage | \$ 215,712 | \$ 1,715 | \$ 595 | \$ 276 | \$ 218,298 |
| Real estate – construction: | | | | | |
| Construction lending | 49,659 | — | — | — | 49,659 |
| Consumer lot lending | 12,488 | — | — | — | 12,488 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 415,506 | 15,507 | 10,890 | — | 441,903 |
| Land acquisition and development lending | 37,724 | — | — | — | 37,724 |
| Builder line lending | 18,194 | — | — | — | 18,194 |
| Commercial business lending | 196,743 | 3,124 | 99 | 2,428 | 202,394 |
| Equity lines | 48,140 | 132 | 3 | 191 | 48,466 |
| Consumer | 10,832 | 48 | 41 | 107 | 11,028 |
| | <u>\$ 1,004,998</u> | <u>\$ 20,526</u> | <u>\$ 11,628</u> | <u>\$ 3,002</u> | <u>\$ 1,040,154</u> |

¹ At December 31, 2020, the Corporation did not have any loans classified as Doubtful or Loss.

Included in the table above are loans purchased in connection with the acquisition of Peoples of \$53.01 million pass rated, \$695,000 special mention and \$2.98 million substandard.

| <i>(Dollars in thousands)</i> | Performing | Non-Performing | Total |
|-------------------------------|-------------------|----------------|-------------------|
| Consumer finance | <u>\$ 311,850</u> | <u>\$ 402</u> | <u>\$ 312,252</u> |

Loans by credit quality indicators as of December 31, 2019 were as follows:

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Substandard Nonaccrual | Total¹ |
|--|-------------------|----------------------------|--------------------|-----------------------------------|--------------------------|
| Real estate – residential mortgage | \$ 177,049 | \$ 1,839 | \$ 881 | \$ 1,526 | \$ 181,295 |
| Real estate – construction: | | | | | |
| Construction lending | 40,943 | — | — | — | 40,943 |
| Consumer lot lending | 13,303 | — | — | — | 13,303 |
| Commercial, financial and agricultural: | | | | | |
| Commercial real estate lending | 323,218 | 3,266 | 70 | — | 326,554 |
| Land acquisition and development lending | 33,870 | 9,021 | — | — | 42,891 |
| Builder line lending | 25,995 | 378 | — | — | 26,373 |
| Commercial business lending | 104,291 | 692 | — | 11 | 104,994 |
| Equity lines | 51,662 | 181 | 11 | 229 | 52,083 |
| Consumer | 13,632 | 6 | — | 118 | 13,756 |
| | <u>\$ 783,963</u> | <u>\$ 15,383</u> | <u>\$ 962</u> | <u>\$ 1,884</u> | <u>\$ 802,192</u> |

¹ At December 31, 2019, the Corporation did not have any loans classified as Doubtful or Loss.

| <i>(Dollars in thousands)</i> | Performing | Non- Performing | Total |
|-------------------------------|-------------------|----------------------------|-------------------|
| Consumer finance | <u>\$ 312,388</u> | <u>\$ 611</u> | <u>\$ 312,999</u> |

NOTE 7: OREO

At December 31, 2020 and 2019, the carrying amount of OREO was \$907,000 and \$1.10 million, respectively. At both December 31, 2020 and 2019, OREO was primarily comprised of a property in Midlothian, Virginia previously used by the Bank as its Bellgrade branch, which was consolidated into a nearby branch in 2019. OREO is otherwise comprised of residential properties and non-residential properties associated with commercial relationships, and are located primarily in Virginia. Changes in the balance for OREO are as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|---|--------------------------------|-----------------|
| | 2020 | 2019 |
| Balance at the beginning of year, gross | \$ 1,191 | \$ 303 |
| Additions | 344 | 1,401 |
| Charge-offs | (57) | — |
| Sales proceeds | (364) | (521) |
| Gain on disposition | — | 8 |
| Balance at the end of year, gross | <u>1,114</u> | <u>1,191</u> |
| Less valuation allowance | (207) | (88) |
| Balance at the end of year, net | <u>\$ 907</u> | <u>\$ 1,103</u> |

Changes in the allowance for OREO losses are as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|--|--------------------------------|--------------|--------------|
| | 2020 | 2019 | 2018 |
| Balance at the beginning of year | \$ 88 | \$ 57 | \$ 57 |
| Provision for losses | 176 | 31 | — |
| Charge-offs, net | (57) | — | — |
| Balance at the end of year | <u>\$ 207</u> | <u>\$ 88</u> | <u>\$ 57</u> |

Other net noninterest expense applicable to OREO, excluding the provision for losses and gain or loss on disposition, was \$38,000, \$34,000 and \$26,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTE 8: Corporate Premises and Equipment

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

| <i>(Dollars in thousands)</i> | December 31, | |
|---|------------------|------------------|
| | 2020 | 2019 |
| Land | \$ 8,961 | \$ 7,806 |
| Buildings | 45,352 | 35,933 |
| Equipment, furniture and fixtures | 21,278 | 18,285 |
| | <u>75,591</u> | <u>62,024</u> |
| Less accumulated depreciation | (31,459) | (26,763) |
| | <u>\$ 44,132</u> | <u>\$ 35,261</u> |

NOTE 9: Goodwill and Other Intangible Assets

The carrying amount of goodwill was \$25.19 million and \$14.43 million at December 31, 2020 and 2019, respectively. The following table presents the changes in goodwill during the year ended December 31, 2020. There were no changes in the recorded balance of goodwill during the year ended December 30, 2019.

| <i>(Dollars in thousands)</i> | Community Banking | Consumer Finance | Total |
|---|----------------------|---------------------|------------------|
| Balance as of January 1, 2020 | \$ 3,702 | \$ 10,723 | \$ 14,425 |
| Acquisition of Peoples Bankshares, Incorporated | 10,766 | — | 10,766 |
| Balance at December 31, 2020 | <u>\$ 14,468</u> | <u>\$ 10,723</u> | <u>\$ 25,191</u> |

The Corporation had \$2.29 million and \$912,000 of other intangible assets as of December 31, 2020 and 2019, respectively. Other intangible assets were recognized in connection with the core deposits acquired from Peoples in 2020 and customer relationships acquired by C&F Wealth Management in 2016. The following table summarizes the gross carrying amounts and accumulated amortization of other intangible assets:

| <i>(Dollars in thousands)</i> | December 31, | | December 31, | |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2020 | | 2019 | |
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Core deposit intangibles | \$ 1,711 | \$ (171) | \$ — | \$ — |
| Other intangibles | 1,405 | (654) | 1,405 | (493) |
| Total | <u>\$ 3,116</u> | <u>\$ (825)</u> | <u>\$ 1,405</u> | <u>\$ (493)</u> |

Amortization expense was \$332,000, \$230,000 and \$451,000 for the years ended December 31, 2020, 2019 and 2018, respectively. Amortization expense for 2019 and 2018 included expense related to core deposit intangibles recognized in a previous acquisition, which was fully amortized by December 31, 2019.

Estimated future amortization expense by year as of December 31, 2020 is as follows:

| <i>(Dollars in thousands)</i> | |
|-------------------------------|-----------------|
| 2021 | \$ 314 |
| 2022 | 298 |
| 2023 | 273 |
| 2024 | 260 |
| 2025 | 237 |
| Thereafter | 909 |
| Total | <u>\$ 2,291</u> |

NOTE 10: Leases

The Corporation's leases comprise primarily leases of real estate and office equipment in which the Corporation is the lessee. Lease cost for the years ended December 31, 2020 and 2019 is as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|------------------------------------|-------------------------|-----------------|
| | 2020 | 2019 |
| Operating lease cost | \$ 1,616 | \$ 1,681 |
| Finance lease cost: | | |
| Amortization of right-of-use asset | 166 | — |
| Interest on lease liability | 70 | — |
| Short-term lease cost | 219 | 128 |
| Variable lease cost | 52 | 43 |
| Total lease cost | <u>\$ 2,123</u> | <u>\$ 1,852</u> |

Interest on lease liability cost is included in "Interest expense – Borrowings" and all other lease costs are included in "Occupancy" on the Consolidated Statements of Income. Variable lease payments primarily represent payments for common area maintenance related to real estate leases and taxes and fees related to equipment leases that are not included in base rent payments and changes in lease payments that are adjusted for inflation.

The Corporation adopted ASC 842 effective January 1, 2019. Prior to January 1, 2019, the Corporation measured lease expense in accordance with ASC Topic 840. During the year ended December 31, 2018, the Corporation recognized lease expense of \$1.68 million.

Certain of the Corporation's leases contain options to extend the lease term beyond the initial term. Options to extend the lease term are recognized as part of the Corporation's lease liabilities and right-of-use assets at the commencement of a lease to the extent the Corporation is reasonably certain to exercise such options.

The Corporation's right-of-use assets, lease liabilities, weighted average remaining lease term and weighted average discount rate of the Corporation's leases are set forth in the table below.

| <i>(Dollars in thousands)</i> | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Operating leases: | | |
| Right of use assets | \$ 2,404 | \$ 2,785 |
| Lease liabilities | 2,488 | 2,813 |
| Weighted average remaining lease term (years) | 3.0 | 3.0 |
| Weighted average discount rate | 2.2 % | 3.2 % |
| Finance leases: | | |
| Right of use assets | \$ 6,193 | \$ — |
| Lease liabilities | 6,305 | — |
| Weighted average remaining lease term (years) | 19.5 | — |
| Weighted average discount rate | 2.0 % | — % |

Right of use assets are included in "Other Assets" on the Consolidated Balance Sheets. Operating lease liabilities are included in "Other Liabilities," and Finance lease liabilities are included in "Long-term Borrowings" in the Consolidated Balance Sheets. During the year ended December 31, 2020, the Corporation obtained right-of-use assets in exchange for lease liabilities in operating leases and finance leases of \$1.11 million and \$6.36 million, respectively. During the year ended December 31, 2019, the Corporation obtained right of use assets in exchange for lease liabilities in operating leases of \$1.14 million.

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2020 and 2019 is as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|-------------------------------|-------------------------|-----------------|
| | 2020 | 2019 |
| Operating leases: | | |
| Operating cash flows | \$ 1,659 | \$ 1,567 |
| Finance leases: | | |
| Operating cash flows | 70 | — |
| Financing cash flows | 53 | — |
| Total cash flows | <u>\$ 1,782</u> | <u>\$ 1,567</u> |

Maturities of the Corporation's lease liabilities are as follows:

| <i>(Dollars in thousands)</i> | December 31, 2020 | |
|-------------------------------|-------------------|-----------------|
| | Operating Leases | Finance Leases |
| 2021 | \$ 1,172 | \$ 61 |
| 2022 | 670 | 329 |
| 2023 | 460 | 338 |
| 2024 | 161 | 346 |
| 2025 | 122 | 355 |
| Thereafter | 17 | 6,373 |
| Total | 2,602 | 7,802 |
| Imputed interest | (114) | (1,497) |
| Lease liabilities | <u>\$ 2,488</u> | <u>\$ 6,305</u> |

NOTE 11: Time Deposits

Time deposits are summarized as follows:

| <i>(Dollars in thousands)</i> | December 31, | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| Certificates of deposit, over \$250 | \$ 125,293 | \$ 109,310 |
| Other time deposits | 344,290 | 312,746 |
| | <u>\$ 469,583</u> | <u>\$ 422,056</u> |

Remaining maturities on time deposits are as follows:

| <i>(Dollars in thousands)</i> | December 31, 2020 |
|-------------------------------|-------------------|
| 2021 | \$ 328,215 |
| 2022 | 77,042 |
| 2023 | 28,707 |
| 2024 | 19,454 |
| 2025 | 13,833 |
| Thereafter | 2,332 |
| | <u>\$ 469,583</u> |

NOTE 12: Borrowings

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

| <i>(Dollars in thousands)</i> | December 31, | |
|--|--------------|-----------|
| | 2020 | 2019 |
| Balance outstanding at year end ¹ | \$ 20,455 | \$ 16,360 |
| Maximum balance at any month end during the year | \$ 60,481 | \$ 17,178 |
| Average balance for the year | \$ 22,737 | \$ 15,533 |
| Weighted average rate for the year | 0.54 % | 1.05 % |
| Weighted average rate on borrowings at year end | 0.49 % | 0.82 % |
| Estimated fair value at year end | \$ 20,455 | \$ 16,360 |

¹ Consists of repurchase transactions with customers, which generally mature the day following the day sold and are secured by investment securities.

Long-term borrowings at December 31, 2020 are comprised of \$4.00 million of the Corporation's subordinated notes due in 2028 (the 2028 Subordinated Notes) and \$20.00 million of the Corporation's subordinated notes due in 2030 (the 2030 Subordinated Notes). The 2028 Subordinated Notes bear interest at a fixed rate of 6.99 percent, and may be redeemed at the option of the Corporation at any time beginning in April 2023. The 2030 Subordinated Notes bear interest at a fixed rate of 4.875 percent until September 2025 and at the three month SOFR plus 475.5 basis points thereafter. The 2030 Subordinated Notes may be redeemed at the option of the Corporation at any time beginning in September 2025. The subordinated notes of the Corporation rank junior to all future senior indebtedness of the Corporation and are structurally subordinated to all existing and future debt and liabilities of the Corporation and its subsidiaries. These borrowings are presented in the Consolidated Balance Sheets net of issuance costs and, as applicable, acquisition premium.

C&F Finance has a \$50.00 million non-recourse revolving bank line of credit secured by its consumer finance loans. The interest rate on the revolving bank line of credit, which matures in 2022, floats at the one-month LIBOR rate with a floor of 30 basis points plus a margin of 200 basis points. There was no outstanding balance on the C&F Finance revolving bank line of credit at December 31, 2020, and the outstanding balance of \$75.03 million at December 31, 2019 was presented in long-term borrowings in the Consolidated Balance Sheet. The maximum commitment amount was reduced to \$50.00 million in 2020 at the request of C&F Finance. C&F Finance pays an unused commitment fee of up to 75 basis points on the portion of the commitment amount that is not outstanding. The line of credit agreement contains certain covenants regarding C&F Finance's capital adequacy, collateral performance, adequacy of the allowance for loan losses and interest expense coverage. C&F Finance satisfied all such covenants during 2020.

During the year ended December 31, 2020, the Corporation repaid its outstanding revolving bank line of credit balance of \$75.03 million and repaid FHLB advances of \$44.50 million using excess cash. The Corporation incurred early debt repayment charges of \$2.20 million in connection with the payoff of the FHLB advances.

The Corporation's available sources of credit for future borrowings total approximately \$475.62 million at December 31, 2020, which consists of \$155.73 million available from the FHLB, \$50.00 million on C&F Finance's revolving bank line of credit, \$124.89 million available from the FRB, \$95.00 million under unsecured federal funds agreements with third party financial institutions and \$50.00 million in repurchase lines of credit with third party financial institutions. Credit available from the FHLB is secured by a blanket floating lien on all qualifying closed-end and revolving, open-end loans of C&F Bank secured by 1-4 family residential properties. Credit available from the FRB is secured by liens on specific loans of C&F Bank. Additional loans and securities are available that can be pledged as collateral for future borrowings from the FRB or the FHLB above the current lendable collateral value, including loans held for sale.

C&F Financial Statutory Trust I (Trust I), C&F Financial Statutory Trust II (Trust II) and Central Virginia Bankshares Statutory Trust I (CVBK Trust I) are wholly-owned non-operating subsidiaries of the Corporation, formed for the purpose of issuing trust preferred capital securities. Collectively, these trusts have issued \$25.00 million of trust preferred capital securities to institutional investors through private placements and \$775,000 in common equity that is held by the

Corporation. Trust preferred capital securities of \$5.00 million issued by CVBK Trust I, \$10.00 million issued by Trust I, and \$10.00 million issued by Trust II mature in 2033, 2035 and 2037, respectively, and are redeemable at the Corporation's option. Each of the trusts is required to make quarterly distributions to the holders of the securities at a rate based on the three-month LIBOR plus a spread of between 1.57 percent and 3.15 percent. During 2020, 2019 and 2018, the Corporation used interest rate swaps in designated cash flow hedges of interest payments on the trust preferred capital securities to mitigate the effects of changes in interest rates. At December 31, 2020, the effect of the interest rate swaps was a fixed rate of interest on the securities issued by CVBK Trust I, Trust I and Trust II of 4.64 percent, 3.32 percent and 5.10 percent, respectively. The principal assets of CVBK Trust I, Trust I and Trust II are trust preferred capital notes of the Corporation of \$5.16 million, \$10.31 million and \$10.31 million, respectively, which have like maturities and like interest rates to the trust preferred capital securities. The interest payments by the Corporation on the notes will be used by the trusts to pay the quarterly distributions on the trust preferred capital securities. The trusts are unconsolidated subsidiaries of the Corporation, and the Corporation's trust preferred capital notes are presented as liabilities in the Consolidated Balance Sheets net of acquisition discount, as applicable.

Subject to certain exceptions and limitations, the Corporation may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities.

NOTE 13: Equity, Other Comprehensive Income and Earnings Per Share

Equity and Noncontrolling Interest

During the years ended December 31, 2020, 2019 and 2018, the Corporation repurchased 16,422 shares, 86,523 shares and 21,232 shares of its common stock, respectively, for an aggregate cost of \$630,000, \$4.39 million and \$1.11 million, respectively, under share repurchase programs authorized by its Board of Directors. Additionally, during the years ended December 31, 2020, 2019 and 2018, the Corporation withheld 9,670 shares, 9,909 shares and 7,982 shares of its common stock, respectively, from employees to satisfy tax withholding obligations upon vesting of restricted stock.

In 2019, C&F Select LLC, a subsidiary of C&F Mortgage, issued a 49 percent ownership interest to an unrelated investor. In exchange for this noncontrolling interest in C&F Select LLC, C&F Bank received a note receivable from the investor for \$490,000, which is included in loans the Consolidated Balance Sheets and is secured by cash deposits at C&F Bank.

Accumulated Other Comprehensive Loss, Net

The following table presents the cumulative balances of the components of accumulated other comprehensive loss, net of deferred taxes of \$630,000 and \$604,000 as of December 31, 2020 and 2019, respectively.

| <i>(Dollars in thousands)</i> | December 31, | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| Net unrealized gains on securities | \$ 4,397 | \$ 1,560 |
| Net unrecognized losses on cash flow hedges | (1,367) | (69) |
| Net unrecognized losses on defined benefit plan | (4,985) | (3,740) |
| Total accumulated other comprehensive loss, net. | <u>\$ (1,955)</u> | <u>\$ (2,249)</u> |

Earnings Per Share (EPS)

The components of the Corporation's EPS calculations are as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Net income attributable to C&F Financial Corporation | \$ 22,117 | \$ 18,859 | \$ 18,020 |
| Weighted average shares outstanding—basic and diluted | 3,648,696 | 3,450,745 | 3,501,221 |

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

NOTE 14: Income Taxes

Principal components of income tax expense as reflected in the Consolidated Statements of Income are as follows:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|-------------------------------|-------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Current taxes | \$ 7,612 | \$ 4,728 | \$ 3,889 |
| Deferred taxes | (817) | 354 | 632 |
| | <u>\$ 6,795</u> | <u>\$ 5,082</u> | <u>\$ 4,521</u> |

Income tax expense for the years ended December 31, 2020, 2019 and 2018 differed from the federal statutory rate applied to income before income taxes for the following reasons:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | | | | |
|---|-------------------------|---------------|-----------------|---------------|-----------------|---------------|
| | 2020 | | 2019 | | 2018 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Income tax at statutory rates | \$ 6,136 | 21.0 % | \$ 5,026 | 21.0 % | \$ 4,734 | 21.0 % |
| State income taxes | 1,449 | 5.0 | 695 | 2.9 | 575 | 2.6 |
| Tax-exempt interest income | (493) | (1.7) | (453) | (1.9) | (574) | (2.5) |
| Excess compensation | 328 | 1.1 | — | — | — | — |
| Change in tax law | (326) | (1.1) | — | — | — | — |
| Income from bank-owned life insurance | (107) | (0.4) | (149) | (0.6) | (89) | (0.4) |
| Investments in qualified housing projects | (82) | (0.3) | (93) | (0.4) | (85) | (0.4) |
| Share based compensation | (77) | (0.3) | (126) | (0.5) | (103) | (0.5) |
| Merger related expenses | 29 | 0.1 | 96 | 0.4 | — | — |
| Other | (62) | (0.2) | 86 | 0.3 | 63 | 0.3 |
| | <u>\$ 6,795</u> | <u>23.2 %</u> | <u>\$ 5,082</u> | <u>21.2 %</u> | <u>\$ 4,521</u> | <u>20.1 %</u> |

The CARES Act, enacted in March 2020, included a provision that allowed net operating losses generated in years prior to 2020 to be carried back for up to five tax years. Previously, tax law only allowed for net operating losses to be carried forward to future tax years. During 2020 the Corporation recognized income tax benefits of \$326,000 related to net operating losses generated by Peoples in 2019, which were able to be applied to years prior to 2018 at higher income tax rates than the current statutory rate as a result of the CARES Act.

The Corporation's net deferred income taxes totaled \$13.56 million and \$11.22 million at December 31, 2020 and 2019, respectively. The tax effects of each type of significant item that gave rise to deferred taxes are:

| <i>(Dollars in thousands)</i> | December 31, | |
|---|--------------|-----------|
| | 2020 | 2019 |
| Deferred tax asset | | |
| Allowances for loan losses and OREO losses | \$ 9,743 | \$ 8,227 |
| Nonqualified defined contribution plan | 3,595 | 3,247 |
| Lease liabilities | 1,906 | 667 |
| Fair value adjustments related to business combinations | 1,716 | 1,053 |
| Share-based compensation | 920 | 863 |
| Reserve for indemnification losses | 879 | 645 |
| Accrued expenses | 779 | 426 |
| Cash flow hedges | 471 | 24 |
| Other | 1,364 | 1,359 |
| Deferred tax asset | 21,373 | 16,511 |
| Deferred tax liability | | |
| Goodwill and other intangible assets | (3,164) | (2,818) |
| Right of use assets | (1,868) | (664) |
| Depreciation | (1,272) | (972) |
| Net unrealized gain on securities available for sale | (1,169) | (415) |
| Defined benefit plan | (345) | (423) |
| Deferred tax liability | (7,818) | (5,292) |
| Net deferred tax asset | \$ 13,555 | \$ 11,219 |

The Corporation files income tax returns in the U.S. federal jurisdiction and several states. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2017.

NOTE 15: Employee Benefit Plans

The Corporation's subsidiaries maintain defined contribution plans that provide the opportunity for voluntary tax-qualified deferral to substantially all of its full-time employees who are at least 18 years of age. These plans also provide for employer contributions as a discretionary or non-discretionary matching contribution and in some cases as a discretionary profit-sharing contribution to the account of each participant. The total expense recognized in connection with these qualified defined contribution plans for 2020, 2019 and 2018 were \$2.09 million, \$1.52 million and \$1.31 million, respectively.

C&F Bank has a non-contributory, defined benefit pension plan (Cash Balance Plan) for all full-time employees over 21 years of age. Under the Cash Balance Plan, the benefit account for each participant will grow each year with annual pay credits based on age and years of service and monthly interest credits based on the prior year's December average yield on 30-year Treasuries plus 150 basis points. C&F Bank funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

The Corporation has a nonqualified deferred compensation plan for certain executives. The plan allows for elective salary and bonus deferrals. The plan also allows for employer contributions to make up for limitations on covered compensation imposed by the Internal Revenue Code with respect to qualified plans and to enhance retirement benefits by providing supplemental contributions from time to time. Expenses under this plan were \$465,000, \$294,000 and \$297,000 in 2020, 2019 and 2018, respectively. Investments for this plan are held in a Rabbi trust. These investments are included in other assets and the related liability is included in other liabilities.

On December 16, 2014, the Corporation approved an additional compensation benefit for the Corporation's then Chief Executive Officer at the time to provide post-retirement medical and dental insurance premiums for him and his spouse

for life. There was no expense recognized for this arrangement in 2020 or 2019, and the expense recognized in 2018 was \$88,000. The related liability is included in other liabilities.

The following table summarizes the projected benefit obligations, plan assets, funded status and related assumptions associated with the Cash Balance Plan based upon actuarial valuations.

| <i>(Dollars in thousands)</i> | December 31, | |
|---|---------------------|-----------------|
| | 2020 | 2019 |
| Change in benefit obligation | | |
| Projected benefit obligation, beginning | \$ 20,794 | \$ 17,205 |
| Service cost | 1,603 | 1,218 |
| Interest cost | 551 | 609 |
| Actuarial loss | 2,996 | 2,834 |
| Benefits paid | <u>(1,301)</u> | <u>(1,072)</u> |
| Projected benefit obligation, ending | <u>24,643</u> | <u>20,794</u> |
| Change in plan assets | | |
| Fair value of plan assets, beginning | 22,806 | 20,156 |
| Actual return on plan assets | 2,782 | 3,722 |
| Employer contributions | 2,000 | — |
| Benefits paid | <u>(1,301)</u> | <u>(1,072)</u> |
| Fair value of plan assets, ending | <u>26,287</u> | <u>22,806</u> |
| Funded status | <u>\$ 1,644</u> | <u>\$ 2,012</u> |
| Amounts recognized as an other asset | <u>\$ 1,644</u> | <u>\$ 2,012</u> |
| Amounts recognized in accumulated other comprehensive loss | | |
| Net loss | \$ 6,748 | \$ 5,239 |
| Prior service credits | (438) | (504) |
| Deferred taxes | <u>(1,325)</u> | <u>(995)</u> |
| Total recognized in accumulated other comprehensive loss | <u>\$ 4,985</u> | <u>\$ 3,740</u> |
| Weighted-average assumptions for benefit obligation at valuation date | | |
| Discount rate | 2.1 % | 2.9 % |
| Rate of compensation increase | 3.0 | 3.0 |
| Interest crediting rate | 5.0 | 5.0 |

The accumulated benefit obligation was \$24.64 million and \$20.79 million as of the actuarial valuation dates December 31, 2020 and 2019, respectively. The actuarial loss of \$3.00 million on the projected benefit obligation for 2020 is due primarily to a decrease in the discount rate as well as demographic changes in the population.

The following table summarizes the components of net periodic benefit cost and related assumptions associated with the Cash Balance Plan.

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Components of net periodic benefit cost: | | | |
| Service cost, included in salaries and employee benefits | \$ 1,603 | \$ 1,218 | \$ 1,232 |
| Other components of net periodic benefit cost: | | | |
| Interest cost | 551 | 609 | 521 |
| Expected return on plan assets | (1,492) | (1,297) | (1,413) |
| Amortization of prior service credit | (66) | (68) | (62) |
| Amortization of net obligation at transition | — | — | — |
| Recognized net actuarial losses | 197 | 187 | 125 |
| Other components of net periodic benefit cost, included in other noninterest income | (810) | (569) | (829) |
| Net periodic benefit cost | \$ 793 | \$ 649 | 403 |
| | | | |
| | January 1, | | |
| | 2020 | 2019 | 2018 |
| Weighted-average assumptions for net periodic benefit cost | | | |
| Discount rate | 2.9 % | 4.0 % | 3.3 % |
| Expected return on plan assets | 7.3 | 7.3 | 7.3 |
| Rate of compensation increase | 3.0 | 3.0 | 3.0 |
| Interest crediting rate | 5.0 | 5.0 | 5.0 |

The benefits expected to be paid by the plan in the next ten years are as follows:

| <i>(Dollars in thousands)</i> | |
|-------------------------------|----------|
| 2021 | \$ 4,059 |
| 2022 | 810 |
| 2023 | 1,560 |
| 2024 | 1,376 |
| 2025 | 2,251 |
| 2026 – 2030 | 7,515 |

C&F Bank selects the expected long-term rate of return on assets in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust and for the trust itself. Undue weight is not given to recent experience, which may not continue over the measurement period. Higher significance is placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly within periodic costs).

C&F Bank's defined benefit pension plan's weighted average asset allocations by asset category are as follows:

| | December 31, | |
|------------------------------------|---------------------|--------------|
| | 2020 | 2019 |
| Mutual funds-fixed income. | 37 % | 38 % |
| Mutual funds-equity | 63 | 62 |
| Cash and equivalents. | * | * |
| | <u>100 %</u> | <u>100 %</u> |

* Less than one percent.

The following table summarizes the fair value of the defined benefit plan assets as of December 31, 2020 and 2019. For more information about fair value measurements, see "Note 20: Fair Value of Assets and Liabilities."

| <i>(Dollars in thousands)</i> | December 31, 2020 | | | Assets at Fair Value |
|--|--------------------------------------|----------------|----------------|-----------------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Mutual funds-fixed income ¹ | \$ 9,726 | \$ — | \$ — | \$ 9,726 |
| Mutual funds-equity ² | 16,561 | — | — | 16,561 |
| Cash and equivalents ³ | — | — | — | — |
| Total pension plan assets | <u>\$ 26,287</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 26,287</u> |

| <i>(Dollars in thousands)</i> | December 31, 2019 | | | Assets at Fair Value |
|--|--------------------------------------|----------------|----------------|-----------------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Mutual funds-fixed income ¹ | \$ 8,744 | \$ — | \$ — | \$ 8,744 |
| Mutual funds-equity ² | 14,062 | — | — | 14,062 |
| Cash and equivalents ³ | — | — | — | — |
| Total pension plan assets | <u>\$ 22,806</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 22,806</u> |

¹ This category includes investments in mutual funds focused on fixed income securities with both short-term and long-term investments. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the funds.

² This category includes investments in mutual funds focused on equity securities with a diversified portfolio and includes investments in large cap and small cap funds, growth funds, international focused funds and value funds. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the funds.

³ This category comprises cash and short-term cash equivalent funds. The funds are valued at cost which approximates fair value.

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40 percent fixed income and 60 percent equities. The investment advisor selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

NOTE 16: Related Party Transactions

Loans outstanding to the Corporation's management, including directors and senior officers and certain of their affiliates, totaled \$2.17 million and \$2.26 million at December 31, 2020 and 2019, respectively. For the year ended December 31, 2020, the Corporation named new directors with loans outstanding at C&F Bank of \$6,000, made \$53,000 new loan advances to directors and senior officers, and received repayments totaling \$148,000. Total deposits of directors and senior officers and their related interests were \$5.81 million and \$7.21 million at December 31, 2020 and 2019, respectively. In the opinion of management, these transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management and the Corporation's Board of Directors, do not involve more than normal risk or present other unfavorable features.

NOTE 17: Share-Based Plans

On April 16, 2013, the Corporation's shareholders approved the C&F Financial Corporation 2013 Stock and Incentive Compensation Plan for the grant of equity awards to certain key employees of the Corporation, as well as non-employee directors (including non-employee regional or advisory directors). The plan authorizes the Corporation to issue equity awards in the form of stock options, tandem stock appreciation rights, restricted stock, restricted stock units and/or other stock-based awards. Since the plan's approval, equity awards have only been issued in the form of restricted stock.

As permitted under the plan, the Corporation awards shares of restricted stock to certain key employees and non-employee directors. Restricted shares awarded to employees generally vest on the fifth anniversary of the grant date and restricted shares awarded to non-employee directors generally vest on the third anniversary of the grant date. A summary of the activity for restricted stock awards for the periods indicated is presented below:

| | 2020 | | 2019 | | 2018 | |
|--|----------------|--|----------------|--|----------------|--|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Nonvested at beginning of year | 142,020 | \$ 48.88 | 139,455 | \$ 45.75 | 137,880 | \$ 43.52 |
| Granted | 47,385 | 42.01 | 36,115 | 53.75 | 30,185 | 52.82 |
| Vested | (30,550) | 39.84 | (32,155) | 40.69 | (26,450) | 42.41 |
| Cancelled | (2,910) | 53.46 | (1,395) | 51.05 | (2,160) | 42.54 |
| Nonvested at end of year | <u>155,945</u> | <u>48.52</u> | <u>142,020</u> | <u>48.88</u> | <u>139,455</u> | <u>45.75</u> |

The fair value of shares that vested during the years ended December 31, 2020, 2019 and 2018 were \$1.37 million, \$1.72 million, and \$1.44 million, respectively. Compensation is accounted for using the fair value of the Corporation's common stock on the date the restricted shares are awarded. Compensation expense is charged to income ratably over the required service periods, and was \$1.45 million (\$981,000 after income taxes) in 2020, \$1.47 million (\$932,000 after income taxes) in 2019 and \$1.35 million (\$872,000 after income taxes) in 2018. As of December 31, 2020, there was \$3.76 million of total unrecognized compensation cost related to restricted stock granted under the plan. This amount is expected to be recognized through 2025.

NOTE 18: Regulatory Requirements and Restrictions

The Bank is 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 Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Federal banking regulations also impose regulatory capital requirements on bank holding companies. Under the small bank holding company policy statement of

the FRB, which applies to certain bank holding companies with consolidated total assets of less than \$3 billion, the Corporation is not subject to regulatory capital requirements.

As of December 31, 2020, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized under regulations applicable at December 31, 2020, the Bank was required to maintain minimum total risk-based, Tier 1 risk-based, CET1 risk-based and Tier 1 leverage ratios as set forth in the table below.

The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following table along with regulatory requirements for the Bank and requirements that apply to bank holding companies that are subject to regulatory capital requirements for bank holding companies. The Corporation's consolidated capital is determined under regulations that apply to bank holding companies that are not small bank holding companies. Total risk-weighted assets at December 31, 2020 for the Corporation were \$1.57 billion and for the Bank were \$1.55 billion. Total risk-weighted assets at December 31, 2019 for the Corporation were \$1.32 billion and for the Bank were \$1.29 billion. Management believes that, as of December 31, 2020, the Bank met all capital adequacy requirements to which it is subject.

| <i>(Dollars in thousands)</i> | <u>Actual</u> | | <u>Minimum Capital Requirements</u> | | <u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u> | |
|--|---------------|--------------|-------------------------------------|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <i>As of December 31, 2020:</i> | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | \$ 240,060 | 15.2 % | \$ 125,947 | 8.0 % | N/A | N/A |
| C&F Bank..... | 214,151 | 13.8 | 124,291 | 8.0 | \$ 155,364 | 10.0 % |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | 196,140 | 12.5 | 94,460 | 6.0 | N/A | N/A |
| C&F Bank..... | 194,487 | 12.5 | 93,219 | 6.0 | 124,291 | 8.0 |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | 171,140 | 10.9 | 70,845 | 4.5 | N/A | N/A |
| C&F Bank..... | 194,487 | 12.5 | 69,914 | 4.5 | 100,987 | 6.5 |
| Tier 1 Capital (to Average Tangible Assets) | | | | | | |
| Corporation..... | 196,140 | 9.6 | 81,414 | 4.0 | N/A | N/A |
| C&F Bank..... | 194,487 | 9.6 | 80,640 | 4.0 | 100,800 | 5.0 |
| <i>As of December 31, 2019:</i> | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | \$ 195,927 | 14.9 % | \$ 105,544 | 8.0 % | N/A | N/A |
| C&F Bank..... | 181,369 | 14.0 | 103,307 | 8.0 | \$ 129,134 | 10.0 % |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | 179,233 | 13.6 | 79,158 | 6.0 | N/A | N/A |
| C&F Bank..... | 165,021 | 12.8 | 77,480 | 6.0 | 103,307 | 8.0 |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets) | | | | | | |
| Corporation..... | 154,233 | 11.7 | 59,369 | 4.5 | N/A | N/A |
| C&F Bank..... | 165,021 | 12.8 | 58,110 | 4.5 | 83,937 | 6.5 |
| Tier 1 Capital (to Average Tangible Assets) | | | | | | |
| Corporation..... | 179,233 | 11.1 | 64,863 | 4.0 | N/A | N/A |
| C&F Bank..... | 165,021 | 10.3 | 64,201 | 4.0 | 80,251 | 5.0 |

In addition to the regulatory risk-based capital amounts presented above, the Bank must maintain a capital conservation buffer of additional capital of 2.5 percent of risk-weighted assets as required by the Basel III Final Rule. At December 31, 2020, the Bank exceeded the total capital conservation buffer and the tier 1 capital conservation buffer by 328 and 402 basis points, respectively. At December 31, 2019, the Bank exceeded the total capital conservation buffer and the tier 1 capital conservation buffer by 355 and 428 basis points, respectively.

Between 2003 and 2007, the Corporation's statutory business trusts issued \$25.00 million of aggregate trust preferred securities. Based on the Corporation's Tier 1 capital levels, the entire \$25.00 million of trust preferred securities was included in the Corporation's Tier 1 capital as of December 31, 2020 and 2019. The Corporation's 2028 Subordinated Notes, assumed upon the acquisition of Peoples in 2020, and the Corporation's 2030 Subordinated Notes, issued in 2020, each qualify for inclusion in Tier 2 capital of the Corporation. In each case, the amount included in regulatory capital with respect to trust preferred securities or subordinated notes may be reduced as those instruments near maturity.

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by C&F Bank to the Corporation. The total amount of dividends that may be paid at any date by C&F Bank is generally limited to the retained earnings of C&F Bank, while other measures of capital adequacy may also restrict the Bank's ability to declare dividends.

NOTE 19: Commitments and Contingent Liabilities

The Corporation enters into commitments to extend credit in the normal course of business to meet the financing needs of its customers, including loan commitments and standby letters of credit. These instruments involve elements of credit and interest rate risk in excess of the amounts recorded on the Consolidated Balance Sheets. The Corporation'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 Corporation 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.

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. Because 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 amount of loan commitments at the Bank was \$326.98 million at December 31, 2020 and \$256.15 million at December 31, 2019, which does not include IRLCs at the mortgage banking segment, which are discussed in Note 22.

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 \$19.07 million at December 31, 2020 and \$16.60 million at December 31, 2019.

The mortgage banking segment sells substantially all of the residential mortgage loans it originates to third-party investors. As is customary in the industry, the agreements with these investors require the mortgage banking segment to extend representations and warranties with respect to program compliance, borrower misrepresentation, fraud, and early payment performance. Under the agreements, the investors are entitled to make loss claims and repurchase requests of the mortgage banking segment for loans that contain covered deficiencies. The mortgage banking segment has obtained early payment default recourse waivers for a significant portion of its business. Recourse periods for early payment default for the remaining investors vary from 90 days up to one year. Recourse periods for borrower misrepresentation or fraud, or underwriting error do not have a stated time limit. The mortgage banking segment maintains an allowance for indemnifications that represents management's estimate of losses that are probable of arising under these recourse provisions. As performance data for loans that have been sold is not made available to the mortgage banking segment by the investors, the estimate of potential losses is inherently subjective and is based on historical indemnification payments and management's assessment of current conditions that may contribute to indemnified losses on mortgage loans that have

been sold in the secondary market. The following table presents the changes in the allowance for indemnification losses for the periods presented:

| <i>(Dollars in thousands)</i> | Year Ended December 31, | |
|--|--------------------------------|-----------------|
| | 2020 | 2019 |
| Allowance, beginning of period | \$ 2,475 | \$ 2,541 |
| Provision for indemnification losses | 881 | — |
| Payments | — | (66) |
| Allowance, end of period | <u>\$ 3,356</u> | <u>\$ 2,475</u> |

NOTE 20: Fair Value of Assets and Liabilities

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

- Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt securities traded in an active exchange market, as well as U.S. Treasury securities.
- Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Valuation is determined using model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Corporation’s estimates of assumptions that market participants would use in pricing the respective asset or liability. Valuation techniques may include the use of pricing models, discounted cash flow models and similar techniques.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Securities available for sale. The Corporation primarily values its investment portfolio using Level 2 fair value measurements, but may also use Level 1 or Level 3 measurements if required by the composition of the portfolio. At December 31, 2020 and 2019, the Corporation’s entire investment securities portfolio was comprised of securities available for sale, which were valued using Level 2 fair value measurements. The Corporation has contracted with third party portfolio accounting service vendors for valuation of its securities portfolio. The vendors’ sources for security valuation are ICE Data Services (ICE) and Thomson Reuters Pricing Service (TRPS). Each source provides opinions, known as evaluated prices, as to the value of individual securities based on model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. ICE provides evaluated prices for the Corporation's obligations of states and political subdivisions category of securities. ICE uses proprietary pricing models and pricing systems, mathematical tools and judgment to determine an evaluated price for a security based upon a hierarchy of market information regarding that

security or securities with similar characteristics. TRPS provides evaluated prices for the Corporation's U.S. government agencies and corporations, mortgage-backed and corporate categories of securities. Fixed-rate callable securities of the U.S. government agencies and corporations category are individually evaluated on an option adjusted spread basis for callable issues or on a nominal spread basis incorporating the term structure of agency market spreads and the appropriate risk free benchmark curve for non-callable issues. Pass-through mortgage-backed securities (MBS) in the mortgage-backed category are grouped into aggregate categories defined by issuer program, weighted average coupon, and weighted average maturity. Each aggregate is benchmarked to relative to-be-announced mortgage backed securities (TBA securities) or other benchmark prices. TBA securities prices are obtained from market makers and live trading systems. Collateralized mortgage obligations in the mortgage-backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Each evaluation is determined using an option adjusted spread and prepayment model based on volatility-driven, multi-dimensional spread tables. Fixed-rate securities issued by the Small Business Association in the mortgage backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics.

Investments in small business investment company funds. The Corporation holds an investment in a small business investment company fund, which is recorded at fair value and included in other assets in the Consolidated Balance Sheets. Changes in fair value are recognized in net income. At December 31, 2020, the fair value of the Corporation's investment in small business investment companies, based on net asset value, was \$1.48 million. Investments in small business investment company funds measured at net asset value are not presented in the tables below related to fair value measurements. Changes in fair value of small business investment company funds resulted in the recognition of unrealized losses of \$62,000 for the year ended December 31, 2020.

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

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

Derivative asset/liability – interest rate swaps on loans. The Corporation recognizes interest rate swaps at fair value. The Corporation has contracted with a third party vendor to provide valuations for these interest rate swaps using standard valuation techniques. All of the Corporation's interest rate swaps on loans are classified as Level 2.

Derivative asset/liability - cash flow hedges. The Corporation recognizes cash flow hedges at fair value. The fair value of the Corporation's cash flow hedges is determined using the discounted cash flow method. All of the Corporation's cash flow hedges are classified as Level 2.

Derivative asset/liability – forward sales of TBA securities. The Corporation recognizes forward sales of TBA securities at fair value. The fair value of forward sales of TBA securities is based on prices obtained from market makers and live trading systems for TBA securities of similar issuer programs, coupons and maturities. All of the Corporation's forward sales of TBA securities are classified as Level 2.

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

| <i>(Dollars in thousands)</i> | December 31, 2020 | | | |
|--|--------------------------------------|-------------------|----------------|------------------------------|
| | Fair Value Measurements Using | | | Assets/Liabilities at |
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets: | | | | |
| Securities available for sale | | | | |
| U.S. government agencies and corporations | \$ — | \$ 48,282 | \$ — | \$ 48,282 |
| Mortgage-backed securities | — | 123,714 | — | 123,714 |
| Obligations of states and political subdivisions | — | 102,805 | — | 102,805 |
| Corporate and other debt securities | — | 11,588 | — | 11,588 |
| Total securities available for sale | — | 286,389 | — | 286,389 |
| Loans held for sale | — | 214,266 | — | 214,266 |
| Derivatives | | | | |
| IRLC | — | 4,582 | — | 4,582 |
| Interest rate swaps on loans | — | 8,185 | — | 8,185 |
| Total assets | <u>\$ —</u> | <u>\$ 513,422</u> | <u>\$ —</u> | <u>\$ 513,422</u> |
| Liabilities: | | | | |
| Derivatives | | | | |
| Interest rate swaps on loans | \$ — | \$ 8,185 | \$ — | \$ 8,185 |
| Cash flow hedges | — | 1,882 | — | 1,882 |
| Forward sales of TBA securities | — | 47 | — | 47 |
| Total liabilities | <u>\$ —</u> | <u>\$ 10,114</u> | <u>\$ —</u> | <u>\$ 10,114</u> |

| <i>(Dollars in thousands)</i> | December 31, 2019 | | | |
|--|--------------------------------------|-------------------|----------------|------------------------------|
| | Fair Value Measurements Using | | | Assets/Liabilities at |
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets: | | | | |
| Securities available for sale | | | | |
| U.S. government agencies and corporations | \$ — | \$ 21,440 | \$ — | \$ 21,440 |
| Mortgage-backed securities | — | 86,585 | — | 86,585 |
| Obligations of states and political subdivisions | — | 81,708 | — | 81,708 |
| Total securities available for sale | — | 189,733 | — | 189,733 |
| Loans held for sale | — | 90,500 | — | 90,500 |
| Derivatives | | | | |
| IRLC | — | 1,083 | — | 1,083 |
| Interest rate swaps on loans | — | 2,462 | — | 2,462 |
| Total assets | <u>\$ —</u> | <u>\$ 283,778</u> | <u>\$ —</u> | <u>\$ 283,778</u> |
| Liabilities: | | | | |
| Derivatives | | | | |
| Interest rate swaps on loans | \$ — | \$ 2,462 | \$ — | \$ 2,462 |
| Cash flow hedges | — | 145 | — | 145 |
| Forward sales of TBA securities | — | 25 | — | 25 |
| Total liabilities | <u>\$ —</u> | <u>\$ 2,632</u> | <u>\$ —</u> | <u>\$ 2,632</u> |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

Impaired loans. The Corporation does not record loans held for investment at fair value on a recurring basis. However, there are instances when a loan is considered impaired and an allowance for loan losses is established. The Corporation measures impairment either based on the fair value of the loan using the loan’s obtainable market price or the fair value of the collateral if the loan is collateral dependent, or using the present value of expected future cash flows discounted at the loan’s effective interest rate, which is not a fair value measurement. The Corporation maintains a valuation allowance to the extent that this measure of the impaired loan is less than the recorded investment in the loan. When an impaired loan is measured at fair value based solely on observable market prices or a current appraisal without further adjustment for unobservable inputs, the Corporation records the impaired loan as a nonrecurring fair value measurement classified as Level 2. However, if based on management’s review, additional discounts to observed market prices or appraisals are required or if observable inputs are not available, the Corporation records the impaired loan as a nonrecurring fair value measurement classified as Level 3.

Impaired loans that are measured based on expected future cash flows discounted at the loan’s effective interest rate rather than the market rate of interest, are not recorded at fair value and are therefore excluded from fair value disclosure requirements.

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

The following table presents the balances of assets measured at fair value on a nonrecurring basis. At December 31, 2020 there were no impaired loans that were measured at fair value.

| <i>(Dollars in thousands)</i> | December 31, 2020 | | | Assets at Fair Value |
|------------------------------------|--------------------------------------|----------------|----------------|-----------------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Other real estate owned, net | \$ — | \$ — | \$ 72 | \$ 72 |
| Total | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 72</u> | <u>\$ 72</u> |

| <i>(Dollars in thousands)</i> | December 31, 2019 | | | Assets at Fair Value |
|------------------------------------|--------------------------------------|----------------|----------------|-----------------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Impaired loans, net | \$ — | \$ — | \$ 102 | \$ 102 |
| Other real estate owned, net | — | — | 268 | 268 |
| Total | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 370</u> | <u>\$ 370</u> |

The following table presents quantitative information about Level 3 fair value measurements for financial assets measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019:

| <i>(Dollars in thousands)</i> | Fair Value Measurements | | | |
|--|-------------------------|------------------------|---|---------------------------------------|
| | Fair Value | Valuation Technique(s) | Unobservable Inputs | Range (Weighted Average) ¹ |
| <i>At December 31, 2020:</i> | | | | |
| Other real estate owned, net | \$ 72 | Appraisals | Discount to reflect current market conditions and estimated selling costs | 75%-80% (79%) |
| Total | <u>\$ 72</u> | | | |
| <i>At December 31, 2019:</i> | | | | |
| Impaired loans, net | \$ 102 | Appraisals | Discount to reflect current market conditions and estimated selling costs | 30% (30%) |
| Other real estate owned, net | 268 | Appraisals | Discount to reflect current market conditions and estimated selling costs | 33% - 75% (37%) |
| Total | <u>\$ 370</u> | | | |

¹ The weighted average of unobservable inputs is calculated based on the relative asset fair values.

Fair Value of Financial Instruments

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

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

| <i>(Dollars in thousands)</i> | Carrying Value | Fair Value Measurements at December 31, 2020 Using | | | Total Fair Value |
|---|----------------|--|---------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Cash and short-term investments . . . | \$ 86,669 | \$ 86,669 | \$ — | \$ — | \$ 86,669 |
| Securities available for sale | 286,389 | — | 286,389 | — | 286,389 |
| Loans, net | 1,313,250 | — | — | 1,308,569 | 1,308,569 |
| Loans held for sale | 214,266 | — | 214,266 | — | 214,266 |
| Derivatives | | | | | |
| IRLC | 4,582 | — | 4,582 | — | 4,582 |
| Interest rate swaps on loans | 8,185 | — | 8,185 | — | 8,185 |
| Bank-owned life insurance | 20,205 | — | 20,205 | — | 20,205 |
| Accrued interest receivable | 8,103 | 8,103 | — | — | 8,103 |
| Financial liabilities: | | | | | |
| Demand and savings deposits | 1,282,590 | 1,282,590 | — | — | 1,282,590 |
| Time deposits | 469,583 | — | 474,154 | — | 474,154 |
| Borrowings | 69,864 | — | 71,119 | — | 71,119 |
| Derivatives | | | | | |
| Cash flow hedges | 1,882 | — | 1,882 | — | 1,882 |
| Interest rate swaps on loans | 8,185 | — | 8,185 | — | 8,185 |
| Forward sales of TBA securities | 47 | — | 47 | — | 47 |
| Accrued interest payable | 1,109 | 1,109 | — | — | 1,109 |

| <i>(Dollars in thousands)</i> | Carrying Value | Fair Value Measurements at December 31, 2019 Using | | | Total Fair Value |
|---|----------------|--|---------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Cash and short-term investments . . . | \$ 165,433 | \$ 165,433 | \$ — | \$ — | \$ 165,433 |
| Securities available for sale | 189,733 | — | 189,733 | — | 189,733 |
| Loans, net | 1,082,318 | — | — | 1,082,783 | 1,082,783 |
| Loans held for sale | 90,500 | — | 90,500 | — | 90,500 |
| Derivatives | | | | | |
| IRLC | 1,083 | — | 1,083 | — | 1,083 |
| Interest rate swaps on loans | 2,462 | — | 2,462 | — | 2,462 |
| Bank-owned life insurance | 16,044 | — | 16,044 | — | 16,044 |
| Accrued interest receivable | 6,776 | 6,776 | — | — | 6,776 |
| Financial liabilities: | | | | | |
| Demand and savings deposits | 869,194 | 869,194 | — | — | 869,194 |
| Time deposits | 422,056 | — | 423,605 | — | 423,605 |
| Borrowings | 161,170 | — | 154,964 | — | 154,964 |
| Derivatives | | | | | |
| Cash flow hedges | 145 | — | 145 | — | 145 |
| Interest rate swaps on loans | 2,462 | — | 2,462 | — | 2,462 |
| Forward sales of TBA securities | 25 | — | 25 | — | 25 |
| Accrued interest payable | 1,291 | 1,291 | — | — | 1,291 |

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) in the normal course of operations. As a result, the fair values of the Corporation's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to balance minimizing interest rate risk and increasing net interest income in current market conditions. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are

receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors interest rates, maturities and repricing dates of assets and liabilities and attempts to manage interest rate risk by adjusting terms of new loans, deposits and borrowings and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

NOTE 21: Business Segments

The Corporation operates in a decentralized fashion in three principal business segments: community banking, mortgage banking and consumer finance. Revenues from community banking operations consist primarily of interest earned on loans and investment securities and fees earned on deposit accounts and debit card interchange activity. Previously, the community banking segment was referred to as the retail banking segment. Mortgage banking operating revenues consist principally of gains on sales of loans in the secondary market, mortgage banking fee income related to loan originations, and interest earned on mortgage loans held for sale. Revenues from consumer finance consist primarily of interest earned on purchased retail installment sales contracts.

C&F Wealth Management derives revenues from offering wealth management services and insurance products through third-party service providers. The Corporation's revenues and expenses are comprised primarily of interest expense associated with the Corporation's trust preferred capital notes, general corporate expenses, and changes in the value of the rabbi trust and deferred compensation liability related to its nonqualified deferred compensation plan. The results of C&F Wealth Management and the Corporation are not significant to the Corporation on a consolidated basis and are included in "Other."

| <i>(Dollars in thousands)</i> | Year Ended December 31, 2020 | | | | | |
|---|------------------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | Community Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
| Revenues: | | | | | | |
| Interest income | \$ 62,173 | \$ 4,954 | \$ 38,949 | \$ — | \$ (9,163) | \$ 96,913 |
| Gains on sales of loans | 3,489 | 25,792 | — | — | (57) | 29,224 |
| Other noninterest income. | 10,843 | 9,985 | 492 | 4,904 | (30) | 26,194 |
| Total operating income | <u>76,505</u> | <u>40,731</u> | <u>39,441</u> | <u>4,904</u> | <u>(9,250)</u> | <u>152,331</u> |
| Expenses: | | | | | | |
| Provision for loan losses | 4,600 | 10 | 6,470 | — | — | 11,080 |
| Interest expense | 10,630 | 1,579 | 8,726 | 1,611 | (9,164) | 13,382 |
| Salaries and employee benefits | 30,774 | 13,908 | 8,716 | 4,270 | — | 57,668 |
| Depreciation and amortization. | 3,561 | 281 | 175 | 172 | — | 4,189 |
| Other noninterest expenses | 21,358 | 9,825 | 4,937 | 673 | — | 36,793 |
| Total operating expenses | <u>70,923</u> | <u>25,603</u> | <u>29,024</u> | <u>6,726</u> | <u>(9,164)</u> | <u>123,112</u> |
| Income (loss) before income taxes | 5,582 | 15,128 | 10,417 | (1,822) | (86) | 29,219 |
| Income tax expense (benefit). | 155 | 4,392 | 2,805 | (539) | (18) | 6,795 |
| Net income (loss). | <u>\$ 5,427</u> | <u>\$ 10,736</u> | <u>\$ 7,612</u> | <u>\$ (1,283)</u> | <u>\$ (68)</u> | <u>\$ 22,424</u> |
| Total assets | <u>\$ 1,950,514</u> | <u>\$ 239,417</u> | <u>\$ 314,746</u> | <u>\$ 44,934</u> | <u>\$ (463,301)</u> | <u>\$ 2,086,310</u> |
| Capital expenditures | <u>\$ 6,528</u> | <u>\$ 354</u> | <u>\$ 3,346</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 10,228</u> |

Year Ended December 31, 2019

| <i>(Dollars in thousands)</i> | Community Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
|-----------------------------------|------------------------------|-----------------------------|-----------------------------|-------------------|---------------------|---------------------|
| Revenues: | | | | | | |
| Interest income | \$ 59,465 | \$ 2,699 | \$ 41,389 | \$ 4 | \$ (8,547) | \$ 95,010 |
| Gains on sales of loans | — | 10,603 | — | — | — | 10,603 |
| Other noninterest income | 11,392 | 5,103 | 565 | 4,349 | — | 21,409 |
| Total operating income | <u>70,857</u> | <u>18,405</u> | <u>41,954</u> | <u>4,353</u> | <u>(8,547)</u> | <u>127,022</u> |
| Expenses: | | | | | | |
| Provision for loan losses | 360 | — | 8,155 | — | — | 8,515 |
| Interest expense | 10,181 | 1,618 | 10,169 | 1,135 | (8,547) | 14,556 |
| Salaries and employee benefits | 28,231 | 5,965 | 8,668 | 4,337 | — | 47,201 |
| Depreciation and amortization | 3,242 | 246 | 196 | 182 | — | 3,866 |
| Other noninterest expenses | 17,091 | 5,467 | 5,338 | 1,056 | — | 28,952 |
| Total operating expenses | <u>59,105</u> | <u>13,296</u> | <u>32,526</u> | <u>6,710</u> | <u>(8,547)</u> | <u>103,090</u> |
| Income (loss) before income taxes | 11,752 | 5,109 | 9,428 | (2,357) | — | 23,932 |
| Income tax expense (benefit) | 1,837 | 1,336 | 2,560 | (651) | — | 5,082 |
| Net income (loss) | <u>\$ 9,915</u> | <u>\$ 3,773</u> | <u>\$ 6,868</u> | <u>\$ (1,706)</u> | <u>\$ —</u> | <u>\$ 18,850</u> |
| Total assets | <u>\$ 1,468,627</u> | <u>\$ 102,467</u> | <u>\$ 314,431</u> | <u>\$ 30,299</u> | <u>\$ (258,392)</u> | <u>\$ 1,657,432</u> |
| Capital expenditures | <u>\$ 2,270</u> | <u>\$ 246</u> | <u>\$ 123</u> | <u>\$ 67</u> | <u>\$ —</u> | <u>\$ 2,706</u> |

Year Ended December 31, 2018

| <i>(Dollars in thousands)</i> | Community Banking | Mortgage Banking | Consumer Finance | Other | Eliminations | Consolidated |
|-----------------------------------|------------------------------|-----------------------------|-----------------------------|-------------------|---------------------|---------------------|
| Revenues: | | | | | | |
| Interest income | \$ 55,019 | \$ 2,018 | \$ 42,789 | \$ 6 | \$ (7,284) | \$ 92,548 |
| Gains on sales of loans | — | 7,841 | — | — | — | 7,841 |
| Other noninterest income | 11,029 | 4,015 | 738 | 2,745 | — | 18,527 |
| Total operating income | <u>66,048</u> | <u>13,874</u> | <u>43,527</u> | <u>2,751</u> | <u>(7,284)</u> | <u>118,916</u> |
| Expenses: | | | | | | |
| Provision for loan losses | 100 | — | 10,906 | — | — | 11,006 |
| Interest expense | 6,842 | 904 | 9,413 | 1,152 | (7,284) | 11,027 |
| Salaries and employee benefits | 26,632 | 5,298 | 8,542 | 1,531 | — | 42,003 |
| Depreciation and amortization | 3,014 | 269 | 211 | 177 | — | 3,671 |
| Other noninterest expenses | 16,869 | 4,803 | 5,303 | 1,693 | — | 28,668 |
| Total operating expenses | <u>53,457</u> | <u>11,274</u> | <u>34,375</u> | <u>4,553</u> | <u>(7,284)</u> | <u>96,375</u> |
| Income (loss) before income taxes | 12,591 | 2,600 | 9,152 | (1,802) | — | 22,541 |
| Income tax expense (benefit) | 1,958 | 697 | 2,460 | (594) | — | 4,521 |
| Net income (loss) | <u>\$ 10,633</u> | <u>\$ 1,903</u> | <u>\$ 6,692</u> | <u>\$ (1,208)</u> | <u>\$ —</u> | <u>\$ 18,020</u> |
| Total assets | <u>\$ 1,351,932</u> | <u>\$ 51,226</u> | <u>\$ 296,876</u> | <u>\$ 16,461</u> | <u>\$ (195,084)</u> | <u>\$ 1,521,411</u> |
| Capital expenditures | <u>\$ 3,178</u> | <u>\$ 133</u> | <u>\$ 59</u> | <u>\$ 4</u> | <u>\$ —</u> | <u>\$ 3,374</u> |

During the year ended December 31, 2020, the Corporation recorded merger related expenses of \$1.40 million (\$1.13 million after income taxes), in connection with its acquisition of Peoples, of which \$1.30 million (\$1.03 million after income taxes) was allocated to the community banking segment and recorded as \$119,000 of salaries and benefits expense, \$879,000 of other noninterest expense and a loss on disposal of equipment of \$298,000 included in other noninterest income. The remainder was recorded as other noninterest expense at the holding company. During the year ended December 31, 2019, the Corporation recorded merger related expenses of \$709,000 (\$653,000 after income taxes) in connection with its acquisition of Peoples, of which \$236,000 (\$196,000 after income taxes) was allocated to the community banking segment and recorded as other noninterest expense, and the remainder was recorded as other noninterest expense at the holding company.

The community banking segment extends two warehouse lines of credit to the mortgage banking segment, providing a portion of the funds needed to originate mortgage loans. The community banking segment charges the mortgage banking segment interest at the daily FHLB advance rate plus a spread ranging from 50 basis points to 175 basis points. The community banking segment also provides the consumer finance segment with a portion of the funds needed to purchase

loan contracts by means of variable rate notes that carry interest at one-month LIBOR plus 200 basis points, with a floor of 3.5 percent, and fixed rate notes that carry interest at rates ranging from 2.4 percent to 8.0 percent. The community banking segment acquires certain residential real estate loans from the mortgage banking segment at prices similar to those paid by third-party investors. These transactions are eliminated to reach consolidated totals. Certain corporate overhead costs incurred by the community banking segment are not allocated to the mortgage banking, consumer finance and other segments.

NOTE 22: Derivative Financial Instruments

The Corporation uses derivative financial instruments primarily to manage risks to the Corporation associated with changing interest rates, and to assist customers with their risk management objectives. The Corporation designates certain interest rate swaps as hedging instruments in qualifying cash flow hedges. The changes in fair value of these designated hedging instruments is reported as a component of other comprehensive income. Derivative contracts that are not designated in a qualifying hedging relationship include customer accommodation loan swaps and contracts related to mortgage banking activities.

Cash flow hedges. The Corporation designates interest rate swaps as cash flow hedges when they are used to manage exposure to variability in cash flows on variable rate borrowings such as the Corporation's trust preferred capital notes. These interest rate swaps are derivative financial instruments that manage the risk of variability in cash flows by exchanging variable-rate interest payments on a notional amount of the Corporation's borrowings for fixed-rate interest payments. Interest rate swaps designated as cash flow hedges are expected to be highly effective in offsetting the effect of changes in interest rates on the amount of variable-rate interest payments, and the Corporation assesses the effectiveness of each hedging relationship quarterly. If the Corporation determines that a cash flow hedge is no longer highly effective, future changes in the fair value of the hedging instrument would be reported in earnings. As of December 31, 2020, the Corporation has designated cash flow hedges to manage its exposure to variability in cash flows on certain variable rate borrowings for periods that end between June 2024 and June 2029.

All interest rate swaps were entered into with counterparties that met the Corporation's credit standards and the agreements contain collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in these derivative contracts is not significant.

Unrealized gains or losses recorded in other comprehensive income related to cash flow hedges are reclassified into earnings in the same period(s) during which the hedged interest payments affect earnings. When a designated hedging instrument is terminated and the hedged interest payments remain probable of occurring, any remaining unrecognized gain or loss in other comprehensive income is reclassified into earnings in the period(s) during which the forecasted interest payments affect earnings. Amounts reclassified into earnings and interest receivable or payable under designated interest rate swaps are reported in interest expense. The Corporation does not expect any unrealized losses related to cash flow hedges to be reclassified into earnings in the next twelve months.

Loan swaps. The Bank also enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These back-to-back loan swaps are derivative financial instruments and are reported at fair value in "other assets" and "other liabilities" in the Consolidated Balance Sheets. Changes in the fair value of loan swaps are recorded in other noninterest income and sum to zero because of the offsetting terms of swaps with borrowers and swaps with dealer counterparties.

Mortgage banking. The mortgage banking segment enters into IRLCs with customers to originate loans for which the interest rates are determined (or "locked") prior to funding. The mortgage banking segment is exposed to interest rate risk through fixed-rate IRLCs and mortgage loans from the time that interest rates are locked until the loans are sold in the secondary market. The mortgage banking segment mitigates this interest rate risk by either: (1) entering into forward sales contracts with investors at the time that interest rates are locked for mortgage loans to be delivered on a best efforts basis or (2) entering into forward sales contracts for TBA securities until it can enter into forward sales contracts with investors

for mortgage loans to be delivered on a mandatory basis. IRLCs, forward sales of loans and forward sales of TBA securities are derivative financial instruments and are reported at fair value in other assets and other liabilities in the Consolidated Balance Sheets. Changes in the fair value of mortgage banking derivatives are recorded as a component of gains on sales of loans.

At December 31, 2020, the mortgage banking segment had \$190.96 million of IRLCs and \$200.88 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$391.84 million in mortgage loans. Also at December 31, 2020, the mortgage banking segment had \$7.67 million of IRLCs and \$5.63 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using forward sales of \$8.00 million of TBA securities and mandatory-delivery forward sales contracts for \$3.94 million in mortgage loans.

At December 31, 2019, the mortgage banking segment had \$63.35 million of IRLCs and \$65.77 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$129.12 million in mortgage loans. Also at December 31, 2019, the mortgage banking segment had \$11.72 million of IRLCs and \$21.98 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using forward sales of \$24.00 million of TBA securities and mandatory-delivery forward sales contracts for \$6.73 million in mortgage loans.

The following tables summarize key elements of the Corporation's derivative instruments other than forward sales of mortgage loans. The fair values of forward sales of mortgage loans were not material to the consolidated financial statements of the Corporation at December 31, 2020 and 2019.

| | December 31, 2020 | | |
|---|--------------------|--------|-------------|
| <i>(Dollars in thousands)</i> | Notional Amount | Assets | Liabilities |
| Cash flow hedges: | | | |
| Interest rate swap contracts | \$ 25,000 | \$ — | \$ 1,882 |
| Not designated as hedges: | | | |
| Customer-related interest rate swap contracts: | | | |
| Matched interest rate swaps with borrower | 84,753 | 8,185 | — |
| Matched interest rate swaps with counterparty | 84,753 | — | 8,185 |
| Mortgage banking contracts: | | | |
| IRLCs | 198,632 | 4,582 | — |
| Forward sales of TBA securities | 8,000 | — | 47 |
| | | | |
| | December 31, 2019 | | |
| <i>(Dollars in thousands)</i> | Notional Amount | Assets | Liabilities |
| Cash flow hedges: | | | |
| Interest rate swap contracts | \$ 25,000 | \$ — | \$ 145 |
| Not designated as hedges: | | | |
| Customer-related interest rate swap contracts: | | | |
| Matched interest rate swaps with borrower | 74,266 | 2,454 | 8 |
| Matched interest rate swaps with counterparty | 74,266 | 8 | 2,454 |
| Mortgage banking contracts: | | | |
| IRLCs | 75,073 | 1,083 | — |
| Forward sales of TBA securities | 24,000 | — | 25 |

The Corporation and the Bank are required to maintain cash collateral with dealer counterparties for interest rate swap relationships in a loss position. At December 31, 2020 and 2019, \$9.92 million and \$2.49 million, respectively, of cash collateral was maintained with dealer counterparties and was included in "Other assets" in the Consolidated Balance Sheets.

NOTE 23: Holding Company Condensed Financial Information

The following tables present the condensed balance sheets as of December 31, 2020 and 2019 and the condensed statements of comprehensive income and cash flows for the years ended December 31, 2020, 2019 and 2018 for the Corporation on a standalone basis:

| <i>(Dollars in thousands)</i> | December 31, | |
|---|---------------------|-------------------|
| | 2020 | 2019 |
| Condensed Balance Sheets | | |
| Assets | | |
| Cash..... | \$ 21,272 | \$ 11,464 |
| Other assets..... | 22,680 | 17,687 |
| Investment in C&F Bank..... | 218,148 | 175,254 |
| Total assets..... | <u>\$ 262,100</u> | <u>\$ 204,405</u> |
| Liabilities and shareholders' equity | | |
| Trust preferred capital notes..... | \$ 25,316 | \$ 25,281 |
| Long-term borrowings..... | 24,093 | — |
| Other liabilities..... | 18,886 | 14,326 |
| Shareholders' equity..... | 193,805 | 164,798 |
| Total liabilities and shareholders' equity..... | <u>\$ 262,100</u> | <u>\$ 204,405</u> |

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Condensed Statements of Comprehensive Income | | | |
| Interest expense on borrowings..... | \$ (1,611) | \$ (1,135) | \$ (1,152) |
| Dividends received from C&F Bank..... | 8,746 | 22,632 | 6,312 |
| Equity in undistributed net income of C&F Bank..... | 15,373 | (1,697) | 13,228 |
| Other income..... | 2,041 | 2,108 | 45 |
| Other expenses..... | (2,432) | (3,049) | (413) |
| Net income..... | <u>22,117</u> | <u>18,859</u> | <u>18,020</u> |
| Other comprehensive income (loss), net of tax..... | 294 | 2,423 | (2,785) |
| Comprehensive income..... | <u>\$ 22,411</u> | <u>\$ 21,282</u> | <u>\$ 15,235</u> |

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|--|--------------------------------|------------------|----------------|
| | 2020 | 2019 | 2018 |
| Condensed Statements of Cash Flows | | | |
| Operating activities: | | | |
| Net cash provided by operating activities | \$ 8,141 | \$ 20,674 | \$ 5,801 |
| Investing activities: | | | |
| Acquisition of Peoples Bankshares, Inc. | (10,084) | — | — |
| Swap collateral, net. | (1,710) | (150) | — |
| Net cash used in investing activities | <u>(11,794)</u> | <u>(150)</u> | <u>—</u> |
| Financing activities: | | | |
| Proceeds from borrowings | 19,924 | — | — |
| Common stock repurchases | (1,061) | (4,385) | (1,105) |
| Cash dividends | (5,546) | (5,131) | (4,931) |
| Other financing activities, net | 144 | 140 | 144 |
| Net cash provided by (used in) financing activities | <u>13,461</u> | <u>(9,376)</u> | <u>(5,892)</u> |
| Net increase (decrease) in cash and cash equivalents | 9,808 | 11,148 | (91) |
| Cash at beginning of year | 11,464 | 316 | 407 |
| Cash at end of year | <u>\$ 21,272</u> | <u>\$ 11,464</u> | <u>\$ 316</u> |

NOTE 24: Other Noninterest Expenses

The following table presents the significant components in the Consolidated Statements of Income line “Noninterest Expenses-Other.”

| <i>(Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Data processing fees | \$ 10,916 | \$ 8,958 | \$ 8,041 |
| Mortgage banking loan processing expenses | 3,235 | 1,666 | 1,444 |
| Professional fees | 3,046 | 3,265 | 3,044 |
| Marketing and advertising expenses | 1,663 | 1,781 | 1,601 |
| Telecommunication expenses | 1,455 | 1,328 | 1,331 |
| Travel and educational expenses | 1,153 | 1,329 | 1,231 |
| All other noninterest expenses | 8,678 | 6,579 | 7,928 |
| Total other noninterest expenses | <u>\$ 30,146</u> | <u>\$ 24,906</u> | <u>\$ 24,620</u> |

The table above includes merger related expenses for the year ended December 31, 2020 of \$898,000, of which \$501,000 was included in data processing fees, \$336,000 was included in professional fees, and \$61,000 was included in all other noninterest expenses. The table above includes merger related expenses for the year ended December 31, 2019 of approximately \$709,000, of which \$50,000 was included in data processing fees, \$614,000 was included in professional fees, \$1,000 was included in telecommunication expenses and \$44,000 was included in all other noninterest expenses. There were no merger related expenses for the year ended December 31, 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
C&F Financial Corporation
Toano, Virginia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of C&F Financial Corporation and its subsidiaries (the Corporation) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Corporation's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 3, 2021 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Qualitative Factors

As described in Note 1 – Summary of Significant Accounting Policies and Note 6 – Allowance for Loan Losses to the consolidated financial statements, the Corporation maintains an allowance for loan losses that management believes will be adequate to absorb probable losses inherent in the loan portfolio. For loans that are not specifically identified for impairment, management determines the allowance for loan losses based on historical loss experience adjusted for qualitative factors. Qualitative adjustments to the historical loss experience are established by applying a loss percentage to the loan segments established by management based on their assessment of shared risk characteristics within groups of similar loans.

Qualitative factors are determined based on management's continuing evaluation of inputs and assumptions underlying the quality of the loan portfolio. Management evaluates qualitative factors by loan segment, primarily considering current economic conditions, changes in concentrations, nature and volume of loans, delinquency trends, collateral values, and lending policies and procedures, and may also consider the experience and tenure of the lending team, loan review system, and other external factors. Qualitative factors contribute significantly to the allowance for loan losses. Management exercised significant judgment when assessing the qualitative factors in estimating the allowance for loan losses. We identified the assessment of the qualitative factors as a critical audit matter as auditing the qualitative factors involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

The primary audit procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the evaluation of qualitative factors, including management's review of the data inputs used as the basis for the allocations and management's review and approval of the reasonableness of the assumptions used to develop the qualitative adjustments.
- Substantively testing management's process, including evaluating their judgments and assumptions for developing the qualitative factors, which included:
 - Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
 - Evaluating the reasonableness of management's judgments related to the determination of qualitative factors.
 - Evaluating the qualitative factors for directional consistency and for reasonableness.
 - Testing the mathematical accuracy of the allowance calculation, including the application of the qualitative factors.

Business Combinations – Fair Value of Acquired Loans

As described in Note 1 – Summary of Significant Accounting Policies and Note 3 – Business Combination to the consolidated financial statements, the Corporation completed its acquisition of Peoples Bankshares, Inc. on January 1, 2020 for total consideration valued at approximately \$22.2 million. The transaction was accounted for as a business combination using the acquisition method of accounting. Accordingly, assets acquired and liabilities assumed were recorded at fair value on the acquisition date, including acquired loans. As disclosed by management, determining the acquired fair values, particularly in relation to the loan portfolio, is inherently subjective and involves significant judgment regarding the methods and assumptions used to estimate fair value. In determining the fair value of loans acquired, management must determine whether or not acquired loans have evidence of credit deterioration at acquisition, the amount and timing of cash flows expected to be collected, and market discount rates, among other assumptions. Changes in these assumptions could have a significant impact on the fair value of the loans acquired and the amount of goodwill recorded.

We identified the acquisition date fair value of acquired loans as a critical audit matter as auditing this estimate is especially complex and requires subjective auditor judgment. Auditing this estimate required a high level of judgment in evaluating management's identification of loans with evidence of credit deterioration, the need for specialized skill in development and application of subjective assumptions in estimated cash flows, and the size of the acquired loan portfolio.

The primary audit procedures we performed to address this critical audit matter included the following:

- Testing the effectiveness of controls over the Corporation’s fair value measurement process, which included:
 - Management’s review of the work performed by a third-party valuation specialist, including review of the specialist’s key assumptions and inputs in estimating fair value, as well as the completeness and accuracy of the data utilized in forming the estimates.
 - Identification of loans with credit deterioration at the acquisition date and the valuation of those loans.
- Substantively testing management’s process, including the use of our own valuation specialist to assess the Corporation’s methods and significant assumptions utilized in determining the fair value of the acquired loan portfolio and evaluating whether the assumptions used were reasonable with respect to market participant views and other factors.
- Testing the completeness and accuracy of loans determined to have credit deterioration at acquisition and evaluating the reasonableness of the criteria utilized by management in making the determination.
- Testing the accuracy of the data utilized in the development of acquisition date fair values by confirming, on a sample basis, select data.

Assessment of the Carrying Value of Goodwill

As described in Note 1 – Summary of Significant Accounting Policies and Note 9 – Goodwill and Other Intangible Assets to the consolidated financial statements, the Corporation recognized goodwill in connection with past business combinations and its acquisition of Peoples Bankshares, Inc. on January 1, 2020. Goodwill is reported at both the community banking and the consumer finance segments. The Corporation’s goodwill is not amortized but is subject to annual tests for impairment, or more frequently, if certain impairment indicators exist. The impairment test compares the fair value of the reporting unit with its carrying amount to determine whether impairment exists. Management’s measurements of the community banking and consumer finance segments involves significant judgment regarding the methods and key assumptions used to estimate fair value.

We identified the goodwill impairment assessment of the community banking and consumer finance segments as a critical audit matter. Auditing this estimate required a high degree of auditor judgment in performing procedures over the key assumptions, which included the selection of valuation techniques and valuation multiples, discount rate, control premium, and expectations of future earnings, among others. In addition, auditor judgment was required to evaluate the overall fair value of each reporting unit, which incorporated multiple approaches.

The primary procedures we performed to address the critical audit matter included:

- Testing the effectiveness of controls over the Corporation’s goodwill impairment analysis, which involved management’s review of the work performed by a third-party valuation specialist, including their application of subjective assumptions as well as the completeness and accuracy of data utilized in the fair value determination by the third-party specialist.
- Substantively testing management’s impairment analysis, including the use of our own valuation specialist, to evaluate the Corporation’s fair value methodology, the significant assumptions used, the accuracy and completeness of inputs, and the overall conclusions reached.

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

We have served as the Corporation’s auditor since 1997.

Richmond, Virginia
March 3, 2021

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2020 to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Corporation's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Corporation or its subsidiaries to disclose material information required to be set forth in the Corporation's periodic reports.

Management's Report on Internal Control over Financial Reporting. Management of the Corporation is also responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*. Based on our assessment, we believe that, as of December 31, 2020, the Corporation's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020 has been audited by Yount, Hyde & Barbour, P.C., the independent registered public accounting firm who also audited the Corporation's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour, P.C.'s attestation report on the Corporation's internal control over financial reporting appears on the following page.

Changes in Internal Controls. There were no changes in the Corporation's internal control over financial reporting during the Corporation's fourth quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
C&F Financial Corporation
Toano, Virginia

Opinion on the Internal Control Over Financial Reporting

We have audited C&F Financial Corporation's (the Corporation's) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2020 of the Corporation and its subsidiaries, and our report dated March 3, 2021 expressed an unqualified opinion.

Basis for Opinion

The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Richmond, Virginia
March 3, 2021

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the directors of the Corporation is contained in the 2021 Proxy Statement under the caption, "Proposal One: Election of Directors," and is incorporated herein by reference. The information regarding the Section 16(a) reporting requirements of the directors and executive officers is contained in the 2021 Proxy Statement under the caption, "Delinquent Section 16(a) Reports," and is incorporated herein by reference. The information concerning executive officers of the Corporation is included after Item 4 of this Form 10-K under the caption, "Information about Our Executive Officers." The information regarding the Corporation's Audit Committee is contained in the 2021 Proxy Statement under the caption "Audit Committee Report" and is incorporated herein by reference.

The Corporation has adopted a Code of Business Conduct and Ethics (Code) that applies to its directors, executives and employees including the principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. This Code is posted on our Internet website at <http://www.cffc.com> under "Investor Relations." The Corporation will provide a copy of the Code to any person without charge upon written request to C&F Financial Corporation, c/o Secretary, 3600 La Grange Parkway, Toano, Virginia 23168. The Corporation intends to provide any required disclosure of any amendment to or waiver of the Code that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on <http://www.cffc.com> under "Investor Relations" promptly following the amendment or waiver. The Corporation may elect to disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure. The information contained on or connected to the Corporation's Internet website is not incorporated by reference in this report and should not be considered part of this or any other report that we file or furnish to the SEC.

The Corporation provides an informal process for security holders to send communications to its Board of Directors. Security holders who wish to contact the Board of Directors or any of its members may do so by addressing their written correspondence to C&F Financial Corporation, Board of Directors, c/o Corporate Secretary, 3600 La Grange Parkway, Toano, Virginia 23168. Correspondence directed to an individual board member will be referred, unopened, to that member. Correspondence not directed to a particular board member will be referred, unopened, to the Chairman of the Board.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the 2021 Proxy Statement under the captions, "Compensation Committee Interlocks and Insider Participation," "Compensation Policies and Practices as They Relate to Risk Management," "Executive Compensation" and "Compensation Committee Report," and the compensation tables that follow the Compensation Committee Report in the 2021 Proxy Statement are incorporated herein by reference. The information regarding director compensation contained in the 2021 Proxy Statement under the caption, "Director Compensation," is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in the 2021 Proxy Statement under the caption, "Security Ownership of Certain Beneficial Owners and Management," is incorporated herein by reference.

The information contained in the 2021 Proxy Statement under the caption, "Equity Compensation Plan Information," is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained in the 2021 Proxy Statement under the caption, “Interest of Management in Certain Transactions,” is incorporated herein by reference. The information contained in the 2021 Proxy Statement under the caption, “Director Independence,” is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the 2021 Proxy Statement under the captions, “Principal Accountant Fees” and “Audit Committee Pre-Approval Policy,” is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits:

- 2.1 Agreement and Plan of Reorganization dated as of August 13, 2019 by and among C&F Financial Corporation and Peoples Bankshares, Incorporated (incorporated by reference to Appendix A to Pre-Effective Amendment No. 1 to Form S-4 filed October 15, 2019)
- 3.1 Amended and Restated Articles of Incorporation of C&F Financial Corporation, effective March 7, 1994 (incorporated by reference to Exhibit 3.1 to Form 10-Q filed November 8, 2017)
- 3.1.1 Amendment to Articles of Incorporation of C&F Financial Corporation (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed January 14, 2009)
- 3.2 Amended and Restated Bylaws of C&F Financial Corporation, as adopted December 15, 2020 (incorporated by reference to Exhibit 3.1 to Form 8-K filed December 17, 2020)
- 4.1 Description of Securities Registered under Section 12(b) of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.1 to Form 10-K filed March 3, 2020)
- 4.2 Form of Subordinated Note (incorporated by reference to Exhibit 4.1 to Form 8-K filed September 30, 2020)

Certain instruments relating to trust preferred securities not being registered have been omitted in accordance with Item 601(b)(4)(iii) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.

- *10.1 Amended and Restated Change in Control Agreement dated December 30, 2008 between C&F Financial Corporation and Larry G. Dillon (incorporated by reference to Exhibit 10.1 to Form 10-K filed March 9, 2009)
- *10.3 Amended and Restated Change in Control Agreement dated December 30, 2008 between C&F Financial Corporation and Thomas F. Cherry (incorporated by reference to Exhibit 10.3 to Form 10-K filed March 9, 2009)
- *10.3.1 Amendment to Amended and Restated Change in Control Agreement dated March 1, 2012 between C&F Financial Corporation and Thomas F. Cherry (incorporated by reference to Exhibit 10.3.1 to Form 10-K filed March 5, 2012)
- *10.4 C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Executives (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 8, 2018)
- *10.4.1 Amendment to C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Executives (As Restated Effective January 1, 2018), effective January 1, 2018
- *10.4.2 Amendment to C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Executives (As Restated Effective January 1, 2018), effective November 1, 2018
- *10.4.3 Amendment to C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Executives (As Restated Effective January 1, 2018), effective January 1, 2020
- *10.4.4 Adoption Agreement for C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Executives (As Restated Effective January 1, 2018) (Updated Form January 1, 2020)
- *10.5 C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 10.5 to Form 10-K filed March 8, 2018)
- *10.5.1 Amendment to C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Directors (As Restated Effective January 1, 2018), effective January 1, 2018

- *10.5.2 Amendment to C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Directors (As Restated Effective January 1, 2018), effective November 1, 2018
- *10.5.3 Adoption Agreement for C&F Financial Corporation Non-Qualified Deferred Compensation Plan for Directors (As Restated Effective January 1, 2018) (Updated Form January 1, 2020)
- *10.9 C&F Financial Corporation Management Incentive Plan dated June 13, 2019 (incorporated by reference to Exhibit 10.9 to Form 8-K filed June 14, 2019)
- *10.12 Employment Agreement (Amended and Restated) between C&F Mortgage Corporation and Bryan McKernon, dated January 1, 2013 (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 5, 2013)
- *10.14 Amended and Restated Change in Control Agreement dated December 30, 2008 between C&F Financial Corporation and Bryan McKernon (incorporated by reference to Exhibit 10.14 to Form 10-K filed March 9, 2009)
- *10.14.1 Amendment to Amended and Restated Change in Control Agreement dated March 1, 2012 between C&F Financial Corporation and Bryan McKernon (incorporated by reference to Exhibit 10.14.1 to Form 10-K filed March 5, 2012)
- 10.19 Amended and Restated Loan and Security Agreement by and between Wells Fargo Preferred Capital, Inc., various financial institutions and C&F Finance Company dated as of August 25, 2008 (incorporated by reference to Exhibit 10.19 to Form 8-K filed August 28, 2008)
- 10.19.1 First Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Preferred Capital, Inc., various financial institutions and C&F Finance Company dated as of July 1, 2010 (incorporated by reference to Exhibit 10.19.1 to Form 10-Q filed August 6, 2010)
- 10.19.2 Second Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of September 17, 2012 (incorporated by reference to Exhibit 10.19.2 to Form 10-Q filed November 8, 2012)
- 10.19.3 Third Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of November 12, 2013 (incorporated by reference to Exhibit 10.19.3 to Form 10-K filed March 7, 2014)
- 10.19.4 Fourth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of September 2, 2015 (incorporated by reference to Exhibit 10.19.4 to Form 10-Q filed November 6, 2015)
- 10.19.5 Fifth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of November 1, 2016 (incorporated by reference to Exhibit 10.19.5 to Form 10-Q filed November 7, 2016)
- 10.19.6 Sixth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of June 28, 2017 (incorporated by reference to Exhibit 10.19.6 to Form 10-Q filed August 8, 2017)
- 10.19.7 Seventh Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of December 21, 2017 (incorporated by reference to Exhibit 10.19.7 to Form 10-K filed March 8, 2018)
- 10.19.8 Eighth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of April 30, 2019 (incorporated by reference to Exhibit 10.19.8 to Form 10-Q filed May 8, 2019)
- 10.19.9 Ninth Amendment to Amended and Restated Loan and Security Agreement by and among Wells Fargo Bank, N.A., various financial institutions and C&F Finance Company dated as of May 8, 2020 (incorporated by reference to Exhibit 10.19.9 to Form 10-Q filed May 13, 2020)

- *10.29 C&F Financial Corporation 2013 Stock and Incentive Compensation Plan (incorporated by reference to Appendix A to the Corporation's Proxy Statement filed March 15, 2013)
- *10.29.1 Form of C&F Financial Corporation Restricted Stock Agreement for Chief Executive Officer (for awards granted between 2016 and 2018) (approved December 15, 2015) (incorporated by reference to Exhibit 10.29.1 to Form 10-K filed March 4, 2016)
- *10.29.2 Form of C&F Financial Corporation Restricted Stock Agreement for Key Employees (approved December 15, 2015) (incorporated by reference to Exhibit 10.29.2 to Form 10-K filed March 4, 2016)
- *10.29.3 Form of C&F Financial Corporation Restricted Stock Agreement for Non-Employee Directors (approved December 15, 2015) (incorporated by reference to Exhibit 10.29.3 to Form 10-K filed March 4, 2016)
- *10.33 Change in Control Agreement dated October 9, 2012 between C&F Financial Corporation and John Anthony Seaman (incorporated by reference to Exhibit 10.33 to Form 10-K filed March 7, 2014)
- *10.34 Change in Control Agreement dated August 5, 2015 between C&F Financial Corporation and S. Dustin Crone (incorporated by reference to Exhibit 10.34 to Form 10-Q filed August 7, 2015)
- *10.35 Change in Control Agreement dated May 5, 2016 between C&F Financial Corporation and Jason E. Long (incorporated by reference to Exhibit 10.35 to Form 10-Q filed May 9, 2016)
- *10.36 Incentive Compensation Opportunity for years beginning in 2019 for Larry G. Dillon (incorporated by reference to Item 5.02 of Form 8-K filed June 14, 2019)
- 10.37 Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10.1 on Form 8-K filed September 30, 2020)
- 21 Subsidiaries of the Registrant
- 23 Consent of Yount, Hyde & Barbour, P.C.
- 31.1 Certification of CEO pursuant to Rule 13a-14(a)
- 31.2 Certification of CFO pursuant to Rule 13a-14(a)
- 32 Certification of CEO/CFO pursuant to 18 U.S.C. Section 1350
- 101 INS Inline XBRL Instance Document: The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH Inline XBRL Taxonomy Extension Schema
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase
- 104 Cover Page Interactive Data File: the cover page XBRL tags are embedded within the Inline XBRL document and are contained within Exhibit 101

* Indicates management contract

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

C&F FINANCIAL CORPORATION
(Registrant)

Date: March 3, 2021

By: /S/ THOMAS F. CHERRY
Thomas F. Cherry
President and Chief Executive Officer
(Principal Executive Officer)

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/ THOMAS F. CHERRY Date: March 3, 2021
Thomas F. Cherry, President,
Chief Executive Officer and Director
(Principal Executive Officer)

/S/ JASON E. LONG Date: March 3, 2021
Jason E. Long,
Senior Vice President, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

/S/ DR. JULIE R. AGNEW Date: March 3, 2021
Dr. Julie R. Agnew, Director

/S/ J. P. CAUSEY JR. Date: March 3, 2021
J. P. Causey Jr., Director

/S/ LARRY G. DILLON Date: March 3, 2021
Larry G. Dillon, Executive Chairman

/S/ AUDREY D. HOLMES Date: March 3, 2021
Audrey D. Holmes, Director

/S/ JAMES H. HUDSON III Date: March 3, 2021
James H. Hudson III, Director

/S/ ELIZABETH R. KELLEY Date: March 3, 2021
Elizabeth R. Kelley, Director

/S/ JAMES T. NAPIER Date: March 3, 2021
James T. Napier, Director

/S/ C. ELIS OLSSON Date: March 3, 2021
C. Elis Olsson, Director

/S/ D. ANTHONY PEAY Date: March 3, 2021
D. Anthony Peay, Director

/S/ PAUL C. ROBINSON Date: March 3, 2021
Paul C. Robinson, Director

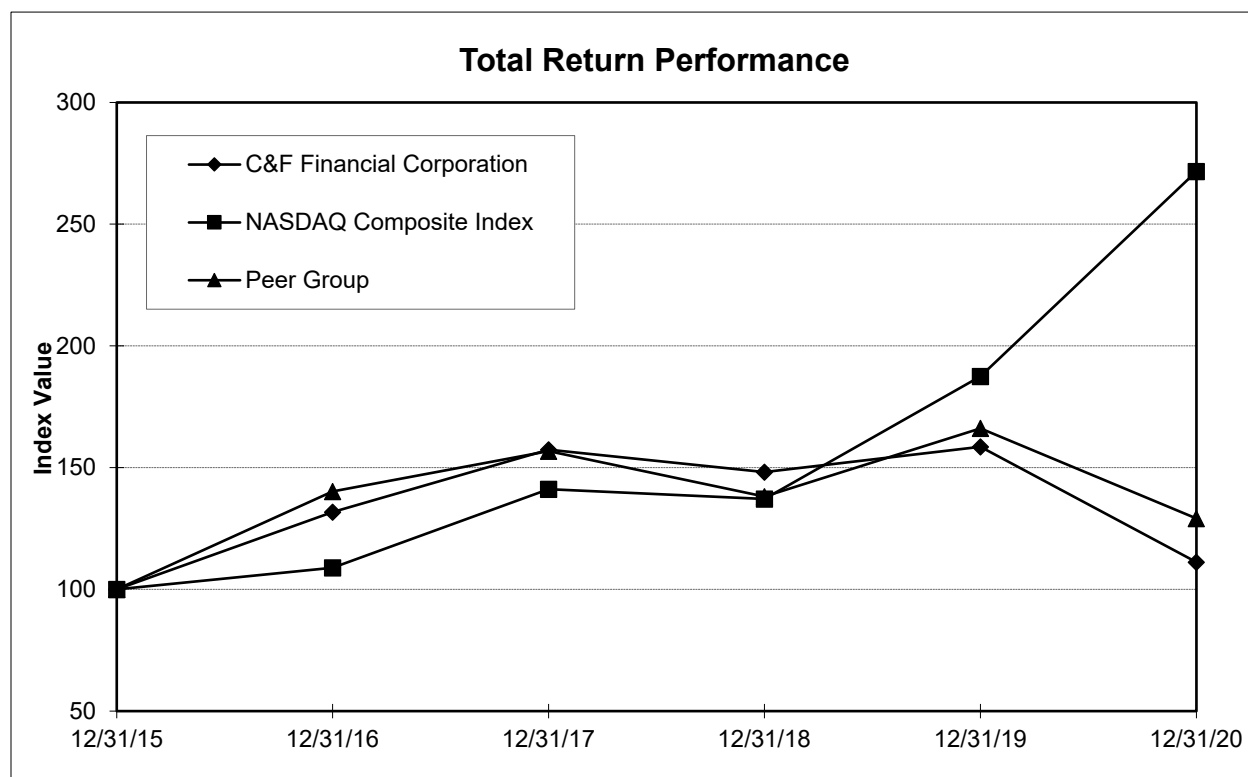
/S/ GEORGE R. SISSON III Date: March 3, 2021
George R. Sisson III, Director

/S/ DR. JEFFERY O. SMITH Date: March 3, 2021
Dr. Jeffery O. Smith, Director

The following graph compares the yearly cumulative total shareholder return on the common stock of C&F Financial Corporation (the Corporation) with the yearly cumulative total shareholder return on stock included in (1) the NASDAQ Composite Index and (2) a group of peer commercial financial institutions identified by the Corporation (the Peer Group). The Peer Group consists of entities that meet the following criteria: (i) publicly-traded commercial financial institution headquartered in Virginia, Kentucky, Maryland, North Carolina, South Carolina, Tennessee and West Virginia and (ii) total assets as of December 31, 2019 of between \$1 billion and \$3.6 billion. For 2020, the Peer Group consisted of 24 publicly-traded commercial financial institutions with a median asset size of \$1.8 billion based on total assets as of December 31, 2019. The following financial institutions were included in the Peer Group: American National Bankshares Inc. (VA), CapStar Financial Holdings, Inc. (TN), Community Bankers Trust Corporation (VA), The Community Financial Corporation (MD), First Community Bancshares, Inc. (VA), First Community Corporation (SC), First United Corporation (MD), FVCBankcorp, Inc. (VA), HomeTrust Bancshares, Inc. (NC), Howard Bancorp, Inc. (MD), Limestone Bancorp, Inc. (KY), MainStreet Bancshares, Inc. (VA), MVB Financial Corp. (WV), National Bankshares, Inc. (VA), Old Point Financial Corporation (VA), Peoples Bancorp of North Carolina, Inc. (NC), Premier Financial Bancorp, Inc. (WV), Reliant Bancorp, Inc. (TN), Select Bancorp, Inc. (NC), Shore Bancshares, Inc. (MD), SmartFinancial, Inc. (TN), Southern First Bancshares, Inc. (SC), Southern National Bancorp of Virginia, Inc. (VA), Summit Financial Group, Inc. (WV).

The graph below assumes \$100 invested on December 31, 2015 in the Corporation, the NASDAQ Composite Index and the Peer Group, and shows the total return on such an investment as of December 31, 2020, assuming reinvestment of dividends. There can be no assurance that the Corporation's stock performance in the future will continue with the same or similar trends depicted in the graph below.

C&F Financial Corporation



| <i>Index</i> | <i>Period Ending</i> | | | | | |
|---------------------------|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 | 12/31/19 | 12/31/20 |
| C&F Financial Corporation | 100.00 | 131.72 | 157.35 | 148.15 | 158.55 | 111.17 |
| NASDAQ Composite Index | 100.00 | 108.87 | 141.13 | 137.12 | 187.44 | 271.64 |
| Peer Group | 100.00 | 140.19 | 156.77 | 138.11 | 166.12 | 129.09 |

Investor Relations & Financial Statements



C&F Financial Corporation's Annual Report on Form 10-K and quarterly reports on Form 10-Q, as filed with the Securities and Exchange Commission, may be obtained without charge by visiting the Corporation's website at cffc.com.

Copies of these documents can also be obtained without charge upon written request. Requests for this or other financial information about C&F Financial Corporation should be directed to:

Jason E. Long

Chief Financial Officer, C&F Financial Corporation
P.O. Box 391, West Point, VA 23181

Stock Listing

NASDAQ[®]

Current market quotations for the common stock of C&F Financial Corporation are available under the symbol CFFI.

Stock Transfer Agent

American Stock Transfer & Trust Company, LLC
serves as transfer agent for the Corporation.

You may write them at:

6201 15th Avenue, Brooklyn, NY 11219

telephone them toll-free at: **800.937.5449**

or visit their website at: astfinancial.com





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