C & F FINANCIAL CORP
Form DEF 14A
March 15, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

C&F FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

C&F Financial Corporation

802 Main Street

P.O. Box 391

West Point, Virginia 23181

Dear Fellow Shareholders:

You are cordially invited to attend the 2006 Annual Meeting of Shareholders of C&F Financial Corporation, the holding company for Citizens and Farmers Bank. The meeting will be held on Tuesday, April 18, 2006, at 3:30 p.m. at the **Holiday Inn, Patriot, 3032 Richmond Road, Williamsburg, Virginia**. The accompanying Notice and Proxy Statement describe the matters to be presented at the meeting. Enclosed is our Annual Report to Shareholders that will be reviewed at the Annual Meeting.

Please complete, sign, date, and return the enclosed proxy card as soon as possible. Whether or not you will be able to attend the Annual Meeting, it is important that your shares be represented and your vote recorded. If you decide to attend the Annual Meeting in person, you can revoke your proxy at any time before it is voted at the Annual Meeting.

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

Sincerely,

/s/ Larry G. Dillon
Larry G. Dillon

Chairman, President & Chief Executive Officer

West Point, Virginia

March 15, 2006

C&F FINANCIAL CORPORATION

802 Main Street

P.O. Box 391

West Point, Virginia 23181

NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 18, 2006

The 2006 Annual Meeting of Shareholders of C&F Financial Corporation (the Corporation) will be held at the **Holiday Inn, Patriot, 3032 Richmond Road, Williamsburg, Virginia**, on Tuesday, April 18, 2006, at 3:30 p.m. for the following purposes:

1. To elect two Class I directors to the Board of Directors of the Corporation to serve until the 2009 Annual Meeting of Shareholders, as described in the Proxy Statement accompanying this Notice.

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

Shareholders of record at the close of business on February 15, 2006, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ Thomas F. Cherry
Thomas F. Cherry

Secretary

March 15, 2006

IMPORTANT NOTICE

Please complete, sign, date, and return the enclosed proxy card in the accompanying postage paid envelope so that your shares will be represented at the meeting. Shareholders attending the meeting may personally vote on all matters that are considered, in which event their signed proxies will be revoked.

C&F FINANCIAL CORPORATION

802 Main Street

P.O. Box 391

West Point, Virginia 23181

PROXY STATEMENT

2006 ANNUAL MEETING OF SHAREHOLDERS

April 18, 2006

The following information is furnished in connection with the solicitation by and on behalf of the Board of Directors of the enclosed proxy to be used at the 2006 Annual Meeting of Shareholders (the Annual Meeting) of C&F Financial Corporation (the Corporation) to be held Tuesday, April 18, 2006, at 3:30 p.m. at the **Holiday Inn, Patriot, 3032 Richmond Road, Williamsburg, Virginia**. The approximate mailing date of this Proxy Statement and accompanying proxy is March 15, 2006.

Revocation and Voting of Proxies

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

Voting Rights of Shareholders

Only those shareholders of record at the close of business on February 15, 2006, are entitled to notice of and to vote at the Annual Meeting, or any adjournments thereof. The number of shares of Corporation common stock outstanding and entitled to vote at the Annual Meeting is 3,150,148. The Corporation has no other class of stock outstanding. A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business.

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

With regard to the election of directors, votes may be cast in favor or withheld. If a quorum is present, the nominees receiving the greatest number of affirmative votes cast at the Annual Meeting will be elected directors; therefore, votes withheld will have no effect.

Approval of any other matter requires an affirmative vote of a majority of the shares cast on the matter. Thus, although abstentions and broker non-votes (shares held by customers which may not be voted on certain matters because the broker has not received specific instructions from the customers) are counted for purposes of determining the presence or absence of a quorum, they are generally not counted for purposes of determining whether a matter has been approved, and therefore have no effect.

Solicitation of Proxies

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

Security Ownership of Certain Beneficial Owners and Management

The following table shows as of February 15, 2006, the beneficial ownership of the Corporation s common stock of each director, director nominee, executive officer and of all directors, director nominees, and executive officers of the Corporation as a group.

Name	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Robert L. Bryant	12,000(2)	*
J. P. Causey Jr.	44,238(3)	1.4
Barry R. Chernack	9,183(3)	*
Larry G. Dillon	117,165(4)	3.7
James H. Hudson III	13,262(3)	*
Joshua H. Lawson	39,696(3)	1.3
Bryan E. McKernon	33,600(5)	1.1
William E. O Connell Jr.	13,250(3)	*
Paul C. Robinson	13,723(3)	*
Thomas F. Cherry	32,200(6)	1.0
All Directors, Nominees and Executive Officers as a group (10 persons)	328,317	9.9

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

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

(2) Consists of 12,000 shares for Mr. Bryant as to which he holds presently exercisable options.

(3) Includes 11,250 shares each for Mr. Causey, Mr. Hudson, Mr. Lawson, Mr. O Connell and Mr. Robinson and 7,500 shares for Mr. Chernack as to which they hold presently exercisable options. A description of the plan under which these options were issued is set forth below in Director Compensation. Excludes 1,200 and 245 shares held solely by Mr. Causey s and Mr. Hudson s spouses, respectively, as to which Mr. Causey and Mr. Hudson disclaim beneficial ownership.

(4) Includes 45,900 shares for Mr. Dillon as to which he holds presently exercisable options. A description of the plan under which these options were issued is set forth below in greater detail in Compensation Committee Report on Executive Compensation. Also includes 40,293 shares held by a non-family trust, of which Mr. Dillon is a co-trustee, and with respect to which Mr. Dillon shares voting and investment power. Mr. Dillon disclaims beneficial ownership of the shares held in trust.

(5) Includes 29,500 shares for Mr. McKernon as to which he holds presently exercisable options. A description of the plan under which these options were issued is set forth below in greater detail in Compensation Committee Report on Executive Compensation.

(6)

Includes 30,600 shares for Mr. Cherry as to which he holds presently exercisable options. A description of the plan under which these options were issued is set forth below in greater detail in Compensation Committee Report on Executive Compensation.

As of February 15, 2006, there are no shareholders known to the Corporation to be the beneficial owners of more than 5% of the Corporation s common stock, par value $1.00 per share, which is the Corporation s only voting security outstanding.

PROPOSAL ONE

ELECTION OF DIRECTORS

The Corporation s Board is divided into three classes (I, II and III) of directors. The term of office for Class I directors will expire at the Annual Meeting. The two persons named below, both of whom currently serve as directors of the Corporation, will be nominated to serve as Class I directors. If elected, the Class I nominees will serve until the 2009 Annual Meeting of Shareholders. The two persons named in the proxy will vote for the election of the nominees named below unless authority is withheld. The Corporation s Board believes that the nominees will be available and able to serve as directors, but if any of these persons should not be available or able to serve, the proxies may exercise discretionary authority to vote for a substitute proposed by the Corporation s Board.

Certain information concerning the nominees for election at the Annual Meeting as Class I directors is set forth below, as well as certain information about the Class II and III directors, who will continue in office until the 2007 and 2008 Annual Meetings of Shareholders, respectively.

Name (Age)	Served Since[1]	Principal Occupation During Past Five Years
Class I Directors (Nominees)	**(To Serve Until the 2009 Annual Meeting)**	
Larry G. Dillon (53)	1989	Chairman, President and Chief Executive Officer of the Corporation and the Bank
James H. Hudson III (57)	1997	Attorney-at-Law Hudson & Bondurant, P.C.
Class II Directors	**(Serving Until the 2007 Annual Meeting)**	
Joshua H. Lawson (64)	1993	President, Thrift Insurance Corporation
Paul C. Robinson (48)	1994	President, Francisco, Robinson & Associates, Inc.
Class III Directors	**(Serving Until the 2008 Annual Meeting)**	
J. P. Causey Jr. (62)	1984	Executive Vice President, Secretary & General Counsel of Chesapeake Corporation 2001 to present; Senior Vice President prior to 2001
Barry R. Chernack (58)	2000	Retired January 2000 to present; Managing Partner, Pricewaterhouse-Coopers, LLP, Southern Virginia Practice prior to January 2000
William E. O Connell Jr. (68)	1994	Retired January 2005 to present; Chessie Professor of Business, The College of William and Mary prior to January 2005

(1) Refers to the year in which the director was first elected to the Board of Directors of the Bank.

The Board of Directors of the Bank consists of the seven current members of the Corporation s Board listed above, as well as Audrey D. Holmes, Bryan E. McKernon, Charles Elis Olsson and Thomas B. Whitmore Jr.

The Board of Directors is not aware of any family relationship among any director, executive officer or person nominated by the Corporation to become a director; nor is the Board of Directors aware of any involvement of any director, executive officer or person nominated to become a director in any legal proceedings that would be material to an evaluation of the ability or integrity of any director, executive officer, or person nominated to become a director. None of the directors or director nominees serve as directors of any other public company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934. **Unless authority for the above nominees is withheld, the shares represented by the enclosed proxy card, if executed and returned, will be voted FOR the election of the nominees proposed by the Board of Directors.**

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

Board Committees and Attendance

During 2005, there were 14 meetings of the Board of Directors of the Corporation. Each director attended at least 75% of all meetings of the Board and Board committees on which he served. Following the Annual Meeting, provided that the nominees, Mr. Dillon and Mr. Hudson, are re-elected to the Board of Directors, the Board has determined that all non-employee directors, which comprise a majority of the Corporation s Board, will satisfy the independence requirements of the NASDAQ Stock Market (NASDAQ) listing standards. The Board has affirmatively determined that directors (or nominees) Causey, Chernack, Hudson, Lawson, O Connell and Robinson are independent within the meaning of the NASDAQ listing standards. During 2005, the Board of Directors held at least two regularly-scheduled executive session meetings attended solely by these independent directors.

The Corporation has not adopted a formal policy on Board members attendance at its annual meeting of shareholders, although all Board members are encouraged to attend and historically most have done so. All Board members attended the Corporation s 2005 Annual Meeting of Shareholders.

The Board of Directors of the Corporation has an Audit Committee and a Compensation Committee, and the Board of Directors of the Bank has an Executive Committee. Pursuant to a Board resolution, the independent members of the Board of Directors of the Corporation act as the Nominating Committee for selecting candidates to be nominated for election as directors.

The Corporation s Board of Directors does not have a standing nominating committee nor a nominating committee charter. The Board of Directors does not believe that it is necessary to have a nominating committee because it believes that the functions of a nominating committee can be adequately performed by its independent members. The independent members of the Board of Directors serving as the Nominating Committee met once in 2005.

While there are no formal procedures for shareholders to submit director recommendations, the independent directors will consider candidates recommended by shareholders in writing. Such written submissions should include the name, address and telephone number of the recommended candidate, along with a brief statement of the candidate s qualifications to serve as a director. All such shareholder recommendations should be submitted to the attention of the Corporation s Secretary, P.O. Box 391, West Point, Virginia 23181, and must be received within a reasonable time prior to the printing and mailing of the 2007 Annual Meeting proxy statement in order to be considered by the independent directors for the annual election of directors in 2007. Any candidates recommended by a shareholder will be reviewed and considered in the same manner as all other director candidates considered by the independent directors.

In addition, in accordance with the Corporation s bylaws, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as director(s) at an Annual Meeting if the shareholder gives written notice of his or her intent to make such nomination. In accordance with the Corporation s bylaws, a shareholder nomination must include the nominee s written consent to serve as a director of the Corporation if selected, sufficient background information with respect to the nominee including, but not limited to, the nominee s name and address, the amount and nature of the nominee s beneficial ownership of the Corporation s securities, his or her principal occupation for the past five years and his or her age, sufficient identification of the nominating shareholder, including the shareholder s name and address, a description of any arrangements or understandings between the shareholder and the nominee pursuant to which the nomination is to be made by the shareholder, and a representation by the shareholder that he or she is the owner of stock of the Corporation entitled to vote at the Annual Meeting and that he or she intends to appear at the Annual Meeting (in person or by proxy) to nominate the individual specified in the notice. Nominations must be received by the Corporation s Secretary at the Corporation s principal office in West Point, Virginia, no later than February 13, 2007 in order to be considered for the annual election of directors in 2007. These requirements are more fully described in Article III, Section 16 of the Corporation s bylaws, a copy of which will be provided, without charge, to any shareholder upon written request to the Corporation s Secretary.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing Board composition. However, minimum qualifications include high level leadership experience in business activities, breadth of knowledge about issues affecting the Corporation and time available for meetings and consultation on Corporation matters. The independent directors seek a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, to the Corporation and its shareholders. The independent directors, along with other board members as appropriate, evaluate potential nominees, whether proposed by shareholders or otherwise, by reviewing their qualifications, reviewing results of personal and reference interviews and reviewing other relevant information. Candidates whose evaluations are favorable are then chosen by a majority of the independent directors to be recommended for nomination by the full Board. The full Board then selects and nominates candidates for election as directors by the shareholders at the annual meeting.

Current members of the Corporation s Compensation Committee are Messrs. Causey, Chernack and Hudson, each of whom is independent for this purpose according to NASDAQ listing standards. The Compensation Committee recommends the level of compensation to be paid to the executive officers of the Corporation and certain key officers of the Bank and its subsidiaries. It also administers all incentive and equity compensation plans for the benefit of such officers and directors eligible to participate in such plans. The Compensation Committee met six times during 2005. See Compensation Committee Report on Executive Compensation on pages 11 through 14.

Current members of the Corporation s Audit Committee are Messrs. Causey, Chernack and O Connell, each of whom is independent for this purpose according to NASDAQ listing standards and the regulations of the Securities and Exchange Commission. The Audit Committee engages the Corporation s independent registered public accounting firm, approves the scope of the independent registered public accounting firm s audit, reviews the reports of examination by the regulatory agencies, the independent registered public accountant and the internal auditor, and issues reports to the Board of Directors periodically. The Audit Committee met 13 times during 2005. See Report of the Audit Committee on pages 15 through 16.

Members of the Bank s Executive Committee are Messrs. Causey, Dillon, Hudson and O Connell. The Executive Committee reviews various matters and submits proposals or recommendations to the Corporation s Board of Directors. The Executive Committee did not meet in 2005.

Shareholder Communications with the Corporation s Board of Directors

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

Director Compensation

Mr. Causey, as Chairman of the Corporation s Compensation Committee, and Mr. Chernack, as Chairman of the Corporation s Audit Committee, each receive an annual retainer of $7,600. The remaining non-employee members of the Board of Directors of the Corporation each receive an annual retainer of $6,000. The retainers are payable in quarterly installments. In addition, all non-employee members of the Board of Directors of the Corporation receive a base meeting fee of $500 per day for Corporation, Bank or committee meeting attendance and a fee of $250 for secondary meeting attendance for each additional Corporation Board, Bank Board or committee meeting of either Board held on the same day as a meeting for which the base meeting fee is paid.

In addition to cash compensation, non-employee members of the Board of Directors of the Corporation participate in the 1998 Non-Employee Director Stock Compensation Plan. Under this plan, directors are granted a minimum of 1,000 and a maximum of 2,000 options to purchase the Corporation s common stock at a price equal to the fair market value of the Corporation s common stock at the date of grant. All options expire ten years from the date of grant. On May 1, 2005, each non-employee member of the Board of Directors of the Corporation was granted 1,500 options with an exercise price of $37.76 per share.

On December 20, 2005, the Compensation Committee recommended to the Corporation s Board of Directors and the Board of Directors approved accelerating the vesting of all unvested stock options outstanding under the Corporation s employee incentive stock compensation plans and its non-employee director stock compensation plans effective as of December 20, 2005. The Board accelerated the vesting of these options to eliminate the Corporation s recognition of compensation expense associated with the affected options under Statement of Financial Accounting Standards No. 123R, Share-Based Payment, which will apply to the Corporation beginning in the first quarter of 2006. In order to offset unintended personal benefit to the Corporation s executive officers and directors as a result of the vesting acceleration, shares of the Corporation s common stock received upon exercise of an accelerated option by an executive officer or director may not be sold or otherwise transferred prior to the expiration of the option s original vesting period.

Interest of Management in Certain Transactions

As of December 31, 2005, the total maximum extensions of credit (including used and unused lines of credit) to policy-making officers, directors and their associates amounted to $1,484,017, or 2.47% of total year-end capital. The maximum aggregate amount of such indebtedness outstanding during 2005 was $1,364,300, or 2.27% of total year-end capital. These loans were made in the ordinary course of the Bank s business, on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and do not involve more than the normal risks of collectibility or present other unfavorable features. The Bank expects to have in the future similar banking transactions with the Corporation s officers, directors and their associates.

See Compensation Committee Interlocks and Insider Participation on pages 14 through 15 for information relating to Mr. Hudson s relationship to the Corporation.

Executive Compensation

Summary of Cash and Certain Other Compensation. The following table shows the cash compensation paid to Mr. Dillon, Chairman, President and Chief Executive Officer of the Corporation and to Thomas F. Cherry, Executive Vice President, Chief Financial Officer and Secretary of the Corporation (named executive officers) during 2005, 2004 and 2003. Robert L. Bryant, Executive Vice President and Chief Operating Officer of the Corporation and Bryan E. McKernon, President and Chief Executive Officer of C&F Mortgage Corporation became executive officers in 2005 and they are included in the following table for 2005 and 2004. There are no other executive officers of the Corporation.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Year**	**Salary**	**Bonus[1]**	**Other Annual Compensation[2]**	**Securities Underlying Options[3]**	**All Other Compensation[4]**
Larry G. Dillon	2005	$ 218,000	$ 110,000		7,500	$ 45,650
	2004	202,000	100,000		7,500	43,410
Chairman/President/Chief Executive Officer	2003	198,000	75,000		6,000	21,092
Thomas F. Cherry	2005	155,000	81,375		6,000	31,985
	2004	144,000	64,800		6,000	29,676
Executive Vice President/Chief Financial Officer/Secretary	2003	134,000	45,000		3,500	31,258
Robert L. Bryant [5]	2005	155,000	81,375		6,000	30,607
	2004	92,019	48,900		6,000	17,484
Executive Vice President/ Chief Operating Officer						
Bryan E. McKernon	2005	150,000	928,938[6]		6,000	5,025
	2004	150,000	869,235[6]		6,000	5,399
President and Chief Executive Officer of C&F Mortgage						

(1) With the exception of Mr. McKernon s bonus, which is addressed in note (6) below, all bonuses were paid in accordance with the management incentive bonus policy adopted by the Bank effective January 1, 1987 and the Management Incentive Plan adopted by the Corporation on February 25, 2005.

(2) The amount of compensation in the form of perquisites or other personal benefits properly categorized in this column according to the disclosure rules adopted by the Securities and Exchange Commission did not exceed the lesser of either $50,000 or 10% of the total annual salary and bonus reported for Messrs. Dillon, Cherry, Bryant and McKernon in any of the years reported.

(3) Year 2005 options were granted at an exercise price of $37.99; Year 2004 options were granted at an exercise price of $39.29 per share; year 2003 options were granted at an exercise price of $42.00 per share.

(4) $5,250, $6,000 and $6,000 were contributed for Mr. Dillon and $5,250, $5,826 and $5,383 were contributed for Mr. Cherry under the Bank s Profit-Sharing Plan for 2005, 2004 and 2003, respectively. $5,107 and $1,311 were contributed for Mr. Bryant under the Bank s Profit-Sharing Plan for 2005 and 2004. $10,500, $10,250 and $10,000 were contributed for Mr. Dillon and $10,500, $9,450 and $8,950 were contributed for Mr. Cherry under the Bank s 401(k) Plan for 2005, 2004 and 2003, respectively. An additional $3,525 was contributed in 2003 for Mr. Cherry under the Bank s 401(k) Plan for an underpayment of previous years contributions. $10,000 and $1,673 were contributed for Mr. Bryant under the Bank s 401(k) Plan for 2005 and 2004. $5,025 and $5,399 were contributed for Mr. McKernon under C&F Mortgage Corporation s 401(k) Plan for 2005 and 2004. $29,900, $27,160 and $5,092 were contributed for Mr. Dillon and $16,235, $14,400 and $13,400 were contributed for Mr. Cherry under the Corporation s Executive s Deferred Compensation Plan for 2005, 2004 and 2003, respectively. $15,500 and $14,500 were contributed for Mr. Bryant under the Corporation s Executive s Deferred Compensation Plan for 2005 and 2004.

(5) Mr. Bryant was hired on May 1, 2004 as Chief Operating Officer of the Bank. Mr. Bryant was appointed Chief Operating Officer of the Corporation on February 25, 2005.

(6) Bonus was paid in accordance with the Employment Agreement by and between C&F Mortgage Corporation and Mr. McKernon originally dated November 30, 1995 and amended in 1998 and 2002.

Stock Option Grants in 2005. The following table shows all grants of options in 2005 to the named executive officers:

Option Grants in 2005

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[2]	
Name	**Number of Securities Underlying Options Granted (#)[1]**	**% of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/Sh)**	**Expiration Date**	**5% ($)**	**10% ($)**
Larry G. Dillon	7,500	5.44%	$ 37.99	12/20/15	$ 179,188	$ 454,097
Thomas F. Cherry	6,000	4.35%	37.99	12/20/15	143,350	363,278
Robert L. Bryant	6,000	4.35%	37.99	12/20/15	143,350	363,278
Bryan E. McKernon	6,000	4.35%	37.99	12/20/15	143,350	363,278

(1) Vesting is as follows: 100% on December 20, 2005.

(2) Potential realizable value at the assumed annual rates of stock price appreciation indicated, based on actual option term (10 years) and annual compounding, less cost of shares at exercise price.

Stock Option Exercises in 2005 and Year-End Option Values. The following table shows certain information with respect to the number of shares acquired on exercise and the number and value of unexercised options at December 31, 2005 for the named executive officers.

Aggregated Option Exercises in 2005 and Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at December 31, 2005 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2005 ($) Exercisable/ Unexercisable
Larry G. Dillon	3,000	$ 82,110	45,900/None	$ 512,398/N/A
Thomas F. Cherry			30,600/None	$ 289,053/N/A
Robert L. Bryant			12,000/None	-/N/A
Bryan E. McKernon	3,200	85,109	29,500/None	$ 258,388/N/A

On December 20, 2005, the Compensation Committee recommended to the Corporation s Board of Directors and the Board of Directors approved accelerating the vesting of all unvested stock options outstanding under the Corporation s employee incentive stock compensation plans and its non-employee director stock compensation plans effective as of December 20, 2005. The Board accelerated the vesting of these options to eliminate the Corporation s recognition of compensation expense associated with the affected options under Statement of Financial Accounting Standards No. 123R, Share-Based Payment, which will apply to the Corporation beginning in the first quarter of 2006. In order to offset unintended personal benefit to the Corporation s executive officers and directors as a result of the vesting acceleration, shares of the Corporation s common stock received upon exercise of an accelerated option by an executive officer or director may not be sold or otherwise transferred prior to the expiration of the option s original vesting period.

Employment and Change in Control Agreements

Mr. McKernon is employed by C&F Mortgage Corporation (the Mortgage Corporation) under an employment agreement originally dated November 30, 1995 and amended in 1998 and 2002. Under the agreement, the Mortgage Corporation has employed Mr. McKernon as its president and chief executive officer under a three-year evergreen contract, which remains in effect at all times unless and until terminated as permitted by the agreement. Either party, by notice to the other at any time and for any reason, may give notice of an intention to terminate the agreement three years from the date notice is received by the other. Additionally, either party may terminate the agreement in the event the Mortgage Corporation fails to meet certain specified financial performance criteria for a stipulated period or of a stipulated amount within a prescribed time period. The agreement terminates upon the death or disability of Mr. McKernon, or upon the failure of either party to fulfill its obligations under the agreement.

Under the agreement, the Mortgage Corporation will pay Mr. McKernon an annual base salary of $150,000, payable monthly. The Mortgage Corporation also is obligated to pay Mr. McKernon a bonus, computed and paid on a monthly basis, based upon a variable percentage of the Mortgage Corporation s financial performance for the preceding month, subject to adjustment annually in order that the total bonus for a fiscal year will be equal to the specified percentage as determined by the year-end financial performance amount on which the bonus is based.

The Mortgage Corporation has the right, at any time and at its option, to buy out Mr. McKernon s agreement based upon the Mortgage Corporation s financial performance. In the event of a buy out of the agreement, the Mortgage Corporation also may purchase a limited non-competition commitment from Mr. McKernon.

The agreement also provides that Mr. McKernon will be entitled, during his employment, to benefits commensurate with those furnished to other employees, and with life insurance equal to three times his base salary. The agreement also contains provisions requiring confidentiality of information regarding the Mortgage Corporation.

The agreement provides for change in control benefits for Mr. McKernon as described below. Mr. McKernon may terminate his employment agreement upon an event of covered termination as defined in his change in control agreement. Any termination of the employment agreement also will terminate Mr. McKernon s change in control agreement except a termination of his employment agreement as described in the preceding sentence.

The Corporation has entered into change in control agreements with Messrs. Dillon, Cherry, Bryant and McKernon. The agreement for Mr. Dillon provides certain payments and benefits in the event of a termination of his employment by the Corporation without cause, or by Mr. Dillon for good reason, during the period beginning on the occurrence of a change in control (as defined in the agreement) of the Corporation and ending 61 days after the second anniversary of the change in control date. In such event, Mr. Dillon would be entitled (i) to receive in 12 consecutive quarterly installments, or in a lump sum, two and one-half times the sum of his highest annual base salary during the 24-month period preceding the change in control date and his highest annual bonus for the three fiscal years preceding the change in control date; (ii) for a period of three years following termination, to receive continuing health insurance, life insurance, and similar benefits under the Corporation s welfare benefit plans and to have the three-year period credited as service towards completion of any service requirement for retiree coverage under the Corporation s welfare benefit plans; and (iii) if Mr. Dillon requests within one year after his termination, to have the Corporation acquire his residence for its appraised fair market value.

The agreements for Messrs. Cherry, Bryant and McKernon provide certain payments and benefits in the event of a termination of their employment by the Corporation without cause, or by Messrs. Cherry, Bryant or McKernon for good reason, during the period beginning on the occurrence of a change in control (as defined in the agreement) of the Corporation and ending 61 days after the first anniversary of the change in control date. In such event, Messrs. Cherry, Bryant and McKernon would each be entitled (i) to receive in eight consecutive quarterly installments, or in a lump sum, two times his highest annual base salary during the 24-month period preceding the change in control date and (ii) for a period of two years following termination, to receive continuing health insurance, life insurance, and similar benefits under the Corporation s welfare benefit plans and to have the two-year period credited as service towards completion of any service requirement for retiree coverage under the Corporation s welfare benefit plans. In addition, Messrs. Cherry and Bryant would each be entitled to two times his highest annual bonus for the three fiscal years preceding the change in control date.

During the term of the agreements following a change in control, Messrs. Dillon, Cherry, Bryant and McKernon may voluntarily terminate their employment and become entitled to these payments and benefits under certain circumstances. These circumstances include, but are not limited to, a material adverse change in position, authority or responsibilities, or a reduction in rate of annual base salary, benefits (including incentives, bonuses, stock compensation, and retirement and welfare plan coverage) or other perquisites as in effect immediately prior to the change in control date.

If any payments to or benefits under (collectively, payments) these change in control agreements would be subject to excise tax as an excess parachute payment under federal income tax rules, the Corporation has agreed to pay Messrs. Dillon, Cherry, Bryant and McKernon additional amounts (gross-up payments) to adjust for the incremental tax costs of such payments. However, if such payments and gross-up payments do not provide a net after-tax benefit of at least $25,000, as compared to the net after-tax proceeds resulting from an elimination of the gross-up payments and a reduction of the payments such that the receipt of payments would not give rise to any excise tax, then payments and benefits provided under the agreements will be reduced, so that Messrs. Dillon, Cherry, Bryant and McKernon will not be subject to a federal excise tax.

Employee Benefit Plans

The Bank has a non-contributory defined benefit retirement plan (the Retirement Plan) covering substantially all employees who have reached the age of 21 and have been fully employed for at least one year. The Retirement Plan provides participants with retirement benefits related to salary and years of credited service. Employees become vested after five plan years of service, and the normal retirement date is the plan anniversary date nearest the employee s 65th birthday. The Retirement Plan does not cover directors who are not active employees. The amount expensed for the Retirement Plan during the year ended December 31, 2005, was $545,012.

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

	Years of Credited Service				
Consecutive Five-Year Average Salary	**15**	**20**	**25**	**30**	**35**
$25,000	$ 4,688	$ 6,250	$ 7,813	$ 8,750	$ 9,688
40,000	7,500	10,000	12,500	14,000	15,500
55,000	10,974	14,633	18,291	20,574	22,857
75,000	16,824	22,433	28,041	31,774	35,507
100,000	24,137	32,183	40,228	45,774	51,319
125,000	31,449	41,933	52,416	59,774	67,132
150,000	38,762	51,683	64,603	73,774	82,944
200,000	53,387	71,183	88,978	101,774	114,569
210,000 and above	56,312	75,083	93,853	107,374	120,894

Benefits under the Retirement Plan are based on a straight life annuity assuming full benefit at age 65, no offsets, and covered compensation of $48,696 for a person age 65 in 2005. Compensation taken into account for the Retirement Plan is limited to $210,000 in 2005 by the Internal Revenue Code. The estimated annual benefit payable under the Retirement Plan upon retirement is $114,671 for Mr. Dillon credited with 40 years, $108,743 for Mr. Cherry credited with 37 years and $38,452 for Mr. Bryant credited with 10 years. Mr. McKernon is not a participant in the Retirement Plan because he is not an employee of the Bank. Benefits are estimated on the basis that a participant will continue to receive, until age 65, covered salary in the same amount paid in 2005.

Compensation Committee Report on Executive Compensation

The Compensation Committee (the Committee), which is composed of the independent directors of the Corporation listed below (who are also independent directors of the Bank), recommends to the Corporation s Board of Directors the annual salary levels and any bonuses to be paid to the Chief Executive Officer and other executive officers of the Corporation and recommends to the Bank s Board the annual salary levels and any bonuses to be paid to the other key Bank officers. The Committee also makes recommendations to the Corporation s Board regarding the issuance of stock options and other compensation related matters.

During 2005, the Corporation s only executive officers were the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and President and Chief Executive Officer of C&F Mortgage (the Mortgage Corporation). During 2005, the individuals serving as the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of the Corporation also served in the same capacities for the Bank. These officers were compensated for services rendered by them to the Bank, but not for services rendered by them to the Corporation.

Principal Objectives

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

Compensation Elements

As detailed below, the principal elements of the Corporation s executive compensation program include base annual salary, short-term incentive compensation, long-term equity incentive compensation and employer contributions under the amended Executive s Deferred Compensation Plan.

In determining base annual salary, short-term incentive compensation, and long-term equity incentive compensation for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer for 2005, the Committee retained the services of an independent compensation consultant to provide an opinion on the Corporation s compensation strategy and levels of compensation for its key executives compared to peer banks.

Base annual salary and short-term incentive compensation for the President and Chief Executive Officer of the Mortgage Corporation, however, is established by an employment agreement entered into in 1995 and amended in 1998 and 2002. The employment agreement provides for a fixed annual base salary and a performance-based short-term incentive directly related to the profitability of the Mortgage Corporation.

In determining the total compensation package for the Chief Executive Officer for 2005, the Committee evaluated the performance of the Chief Executive Officer based on the financial performance of the Corporation and the Bank, achievements in implementing long-term strategy, and the personal observations of the Chief Executive Officer s performance by the members of the Committee. No particular weight was given to any one aspect of the performance of the Chief Executive Officer, but his performance was evaluated by reference to the Corporation s return on equity (ROE) and return on assets (ROA) performance compared to that of the Corporation s regional comparison group consisting of the Southeastern and Virginia-based banks with an asset-size comparable to the Bank s, and the Corporation s performance as compared to the independent bank index reflected in the 5-Year Total Shareholder Return chart presented on page 18 of this proxy statement.

In determining the total compensation package for the Chief Financial Officer and Chief Operating Officer for 2005, the Committee evaluated their performance based on the advice of the Chief Executive Officer, financial performance of the Corporation and the Bank, achievements in implementing long-term strategy and personal observations of the Chief Financial Officer s and Chief Operating Officer s performance by members of the Committee.

Base Annual Salary

In considering compensation for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, the Committee relied on a review of compensation paid by competitors provided by the independent compensation consultant and an evaluation of the officers levels of responsibility and performance.

Based on the information provided by the independent compensation consultant, the individual performance evaluations and the factors discussed above with respect to the Chief Executive Officer s compensation, the Committee established annual base salaries for the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer for 2005 in the median range of salaries for comparable positions among the regional comparison group consisting of the Southeastern and Virginia-based banks with an asset-size comparable to the Bank s. The Committee believes that this compensation information provides relevant and appropriate indicators of compensation paid for quality executives by the entities with which the Corporation competes. With respect to the Chief Executive Officer s base salary, consistent with the Committee s review of the factors discussed above, this process resulted in an increase of base salary to $218,000 for 2005.

Short-Term Incentive Compensation

Short-term incentive compensation for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer is governed by the Corporation s Management Incentive Plan (MIP) adopted by the Corporation in 2005. Under the MIP, at the beginning of 2005 the Committee established performance objectives for the Corporation and the award formula or matrix by which all incentive awards were to be calculated under the MIP. Executive officers were assigned a cash award target, to be paid if the executive achieved his or her cash award targeted performance goals in 2005.

For 2005, the cash award targets for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer were based solely on achievement of the Corporate Goal, which was a weighted measure of the Corporation s ROE and ROA for 2005 compared to a peer group of banks selected by the Committee. Depending on the level of achievement with respect to the Corporate Goal under the MIP, for 2005 the Chief Executive Officer could earn a target cash award of up to 70% of his base salary as of January 1, 2005 and the Chief Financial Officer and Chief Operating Officer could earn a target cash award of up to 52.5% of their base salaries as of January 1, 2005. Based on the Corporation s ROE and ROA for 2005 in relation to the peer group, the Chief Executive Officer received a cash award of 50.5% of his base salary for 2005 and the Chief Financial Officer and Chief Operating Officer each received a cash award of 52.5% of their base salaries for 2005. The Chief Executive Officer earned a cash award of 70% of his base salary in 2005 but elected to take less.

All short-term incentive payments to the President and Chief Executive Officer of the Mortgage Corporation for 2005 were made in accordance with his employment agreement and related directly to the profitability of the Mortgage Corporation.

Long-Term Incentive Compensation

The Corporation adopted the 2004 Incentive Stock Plan effective April 20, 2004. It makes available up to 500,000 shares of common stock for awards to key employees of the Corporation and its subsidiaries in the form of stock options, stock appreciation rights, and restricted stock. The purpose of the 2004 Incentive Stock Plan is to promote the success of the Corporation and its subsidiaries by providing incentives to key employees that will promote the identification of their personal interests with the long term financial success of the Corporation and with growth in shareholder value. The 2004 Incentive Stock Plan is designed to provide flexibility to the Corporation in its ability to motivate, attract, and retain the services of key employees upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

Each year, the Committee considers the desirability of granting long-term incentive awards under the Corporation s 2004 Incentive Stock Plan. In the future, the Committee may utilize a combination of stock options, stock appreciation rights and restricted stock to focus executive officers, as well as other members of senior management, on building profitability and shareholder value. The Committee notes in particular its view that equity grants make a desirable long-term compensation method because they closely align the interest of management with shareholder value.

Under the MIP, executive officers may be awarded equity-based awards under the 2004 Incentive Stock Plan if the executive achieves his or her equity-based award targeted performance goal(s). For 2005, the equity-based award targets for the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer were based solely on achievement of the Corporate Goal, which was based on 5-year total shareholder return of the Corporation compared to that of a peer group designated by the Committee. Depending on the level of achievement with respect to the Corporate Goal under the MIP, for 2005 the Chief Executive Officer could earn a target equity-based award of up to 52.5% of his base salary as of January 1, 2005 and the Chief Financial Officer and Chief Operating Officer could earn a target equity-based award of up to 45% of their base salaries as of

January 1, 2005. Based on the Corporation s performance as compared to the independent bank index reflected in the 5-Year Total Shareholder Return chart presented on page 18 of this proxy statement, the Chief Executive Officer received an equity-based award of 31.3% of his base salary for 2005 and the Chief Financial Officer and Chief Operating Officer each received an equity-based award of 35.2% of their base salaries. The Chief Executive Officer earned an equity-based award of 40.7% of his base salary in 2005 but elected to take less.

The President and Chief Executive Officer of the Mortgage Corporation s equity-based award for 2005 was based on a recommendation to the Compensation Committee by the Chief Executive Officer based on the performance of the Mortgage Corporation.

Deferred Compensation Plan

Each year, the Committee also considers additional retirement funding for executive officers under the Corporation s non-qualified defined contribution plan known as the Executive s Deferred Compensation Plan. These employer contributions are in the form of additional retirement contributions to make up for arbitrary limitations on covered compensation imposed by the Internal Revenue Code with respect to the Bank s Profit Sharing and 401(k) Plans and to enhance retirement benefits by providing supplemental contributions from time to time on such basis as the Committee and the Board determine. The Committee deemed it appropriate to contribute $29,900, $16,235, $15,500 for 2005 under the Executive s Deferred Compensation Plan for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, respectively. The President and Chief Executive Officer of the Mortgage Corporation received no contribution under the Executive s Deferred Compensation Plan for 2005.

U.S. Income Tax Limits on Deductibility

The Committee considered the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code that was enacted in 1993. Under this provision, beginning in 1994 a publicly-held corporation is not permitted to deduct compensation in excess of $1 million per year paid to the Chief Executive Officer or any one of the other named executive officers except to the extent the compensation was paid under compensation plans meeting certain tax code requirements. The Committee noted that the Corporation does not currently face the loss of this deduction for compensation. The Committee nevertheless determined that, in reviewing the design of and administering the executive compensation program, the Committee will continue in the future to preserve the Corporation s tax deductions for executive compensation unless this goal conflicts with the principal objectives of the Corporation s compensation program

Compensation Committee

J. P. Causey Jr., Chairman

Barry R. Chernack

James H. Hudson III

Compensation Committee Interlocks and Insider Participation

During 2005 and up to the present time, there were transactions between the Corporation s banking subsidiary and certain members of the Compensation Committee or their associates, all consisting of extensions of credit by the Bank in the ordinary course of business. Each transaction was made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with the general public. In the opinion of management and the Corporation s Board, none of the transactions involved more than the normal risk of collectibility or presented other unfavorable features.

None of the members of the Compensation Committee has served as an officer or employee of the Corporation or any of its affiliates. No director may serve as a member of the Compensation Committee if he is eligible to participate in the 2004 Incentive Stock Plan or was at any time within one year prior to his appointment to the Compensation Committee eligible to participate in the 2004 Incentive Stock Plan or the 1994 Incentive Stock Plan.

James H. Hudson III, a Class I director nominee, currently serves as a member of the Compensation Committee. The firm of Hudson & Bondurant, P.C., of which Mr. Hudson is a partner, was retained to perform legal services for the Corporation during fiscal year 2005. It is anticipated that the firm will continue to provide legal services to the Corporation during fiscal year 2006.

Report of the Audit Committee

The Audit Committee of the Board of Directors of the Corporation is currently comprised of three directors, all of whom satisfy all of the following criteria: (i) meet the independence requirements set forth in the NASDAQ listing standards definition of independent director, (ii) have not accepted directly or indirectly any consulting, advisory, or other compensatory fee from the Corporation or any of its subsidiaries, (iii) are not affiliated persons of the Corporation or any of its subsidiaries and (iv) are competent to read and understand financial statements. In addition, at least one member of the Audit Committee has past employment experience in finance or accounting or comparable experience which results in the individual s financial sophistication. The Board has determined that the chairman of the Audit Committee, Mr. Barry R. Chernack, qualifies as an audit committee financial expert within the meaning of applicable regulations of the Securities and Exchange Commission (SEC) promulgated pursuant to the Sarbanes-Oxley Act. Mr. Chernack is independent of management based on the independence requirements set forth in the NASDAQ listing standards definition of independent director. The Audit Committee has furnished the following report:

The Audit Committee is appointed by the Corporation s Board of Directors to assist the Board in overseeing (1) the quality and integrity of the financial statements of the Corporation, (2) the independent registered public accountant s qualifications and independence, (3) the performance of the Corporation s internal audit function and independent registered public accountant and (4) the Corporation s compliance with legal and regulatory requirements. The authority and responsibilities of the Audit Committee are set forth in a written charter adopted by the Board and include sole responsibility for the appointment, compensation and evaluation of the Corporation s independent registered public accountant and the internal auditors for the Corporation, as well as establishing the terms of such engagements. The Audit Committee has the authority to retain the services of independent legal, accounting or other advisors as the Audit Committee deems necessary, with appropriate funding available from the Corporation, as determined by the Audit Committee, for such services. The Audit Committee reviews and reassesses its charter annually and recommends any changes to the Board for approval. A copy of the Audit Committee Charter was attached as Appendix A to the Corporation s 2004 Proxy Statement.

The Audit Committee is responsible for overseeing the Corporation s overall financial reporting process. In fulfilling its oversight responsibilities for the financial statements for fiscal year 2005, the Audit Committee:

Monitored the preparation of quarterly and annual financial reports by the Corporation s management;

Reviewed and discussed the annual audit process and the audited financial statements for the fiscal year ended December 31, 2005 with management and Yount, Hyde & Barbour, P.C. (YHB), the Corporation s independent registered public accountant;

Discussed with management, YHB and the Corporation s Director of Internal Audit the adequacy of the system of internal controls;

Discussed with YHB the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit; and

Received written disclosures and a letter from YHB regarding its independence as required by Independence Standards Board Standard No. 1. The Audit Committee discussed with YHB its independence.

The Audit Committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the Audit Committee determined appropriate. In addition, the Audit Committee s meetings included, when appropriate, executive sessions with the Corporation s independent registered public accountant and the Corporation s Director of Internal Audit, in each case without the presence of the Corporation s management.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. Also, in its oversight role, the Audit Committee relies on the work and assurances of the Corporation s management, which has the primary responsibility for financial statements and reports, and of the independent registered public accountant, who, in their report, express an opinion on the conformity of the Corporation s annual financial statements to accounting principles generally accepted in the United States of America.

Based on the Audit Committee s review of the audited financial statements and discussions with management and YHB, the Audit Committee recommended to the Board that the audited financial statements be included in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for filing with the SEC.

Audit Committee

Barry R. Chernack, Chairman

J. P. Causey Jr.

William E. O Connell Jr.

Independent Registered Public Accounting Firm

The Corporation s Audit Committee has appointed Yount, Hyde & Barbour, P.C. as independent registered public accountant for the current fiscal year ending December 31, 2006. Yount, Hyde & Barbour, P.C. also served as independent registered public accountant for the fiscal year ended December 31, 2005. A representative of Yount, Hyde & Barbour, P.C. will be present at the Annual Meeting and will be given the opportunity to make a statement and respond to appropriate questions from the shareholders.

Principal Accountant Fees

The following table presents the fees for professional audit services rendered by Yount, Hyde & Barbour, P.C. for the audit of the Corporation s annual financial statements for the years ended December 31, 2005 and 2004, and fees billed for other services rendered by Yount, Hyde & Barbour, P.C. during those periods. All such audit and non-audit services were pre-approved by the Audit Committee, which concluded that the provision of such services by Yount, Hyde & Barbour, P.C. was compatible with the maintenance of that firm s independence in the conduct of their auditing functions.

	Year Ended December 31, 2005	2004
Audit fees [1]	$ 114,400	$ 108,950
Audit-related fees [2]	25,588	27,400
Tax fees [3]	14,200	14,000
All other fees		
	$ 154,188	$ 150,350

(1) Audit fees consist of audit and review services, attestation report on internal controls under SEC rules, consents and review of documents filed with the SEC.

(2) Audit-related fees consist of employee benefit plan audits, HUD audits and consultation concerning financial accounting and reporting standards.

(3) Tax fees consist of preparation of federal and state tax returns and review of quarterly estimated tax payments.

Audit Committee Pre-Approval Policy

Pursuant to the terms of the Corporation s Audit Committee Charter, the Audit Committee is responsible for the appointment, compensation and oversight of the work performed by the Corporation s independent registered public accountant. The Audit Committee, or a designated member of the Audit Committee, must pre-approve all audit (including audit-related) and non-audit services performed by the independent registered public accountant in order to assure that the provision of such services does not impair the registered public accountant s independence. The Audit Committee has delegated interim pre-approval authority to Mr. Barry R. Chernack, Chairman of the Audit Committee. Any interim pre-approval of permitted non-audit services is required to be reported to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accountant to management.

The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. With respect to each proposed pre-approved service, the independent registered public accountant must provide detailed back-up documentation to the Audit Committee regarding the specific service to be provided pursuant to a given pre-approval of the Audit Committee. Requests or applications to provide services that require separate approval by the Audit Committee will be submitted to the Audit Committee by both the independent registered public accountant and the Corporation s Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC s rules on auditor independence.

Performance Graph

The following graph compares the yearly cumulative total shareholder return on the Corporation s common stock with (1) the yearly cumulative total shareholder return on stocks included in the NASDAQ Total Return Index and (2) the yearly cumulative total shareholder return on stocks included in the Independent Bank Index prepared by The Carson Medlin Company. The graph assumes $100 invested on December 31, 2000 in the Corporation, the NASDAQ Total Return Index and the Independent Bank Index and shows the total return on such an investment, assuming reinvestment of dividends, as of December 31, 2005. The Independent Bank Index is the compilation of the total return to shareholders over the past five years of a group of 25 independent community banks located in the southeastern states of Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

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.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers, and 10% beneficial owners of the Corporation s common stock to file reports concerning their ownership of and transactions in Corporation common stock. The Corporation believes that its officers and directors complied with all such filing requirements under Section 16(a) during 2005.

OTHER BUSINESS

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

SHAREHOLDER PROPOSALS FOR 2007 ANNUAL MEETING

If any shareholder intends to propose a matter for consideration at the Corporation s 2007 Annual Meeting (other than shareholder nominations, discussed on pages 4 through 5), notice of the proposal must be received in writing by the Corporation s Secretary by January 29, 2007. If any shareholder intends to present a proposal to be considered for inclusion in the Corporation s proxy materials in connection with the 2007 Annual Meeting, the proposal must be in proper form and must be received by the Corporation s Secretary, at the Corporation s principal office in West Point, Virginia, on or before November 15, 2006.

In addition, the proxy solicited by the Board of Directors for the 2007 Annual Meeting will confer discretionary authority to vote on any shareholder proposal presented at the meeting if the Corporation has not received notice of such proposal by January 29, 2007, in writing delivered to the Corporation s Secretary.

By Order of the Board of Directors,

/s/ Thomas F. Cherry
Thomas F. Cherry
Secretary

West Point, Virginia

March 15, 2006

A copy of the Corporation s Annual Report on Form 10-K (including exhibits) as filed with the Securities and Exchange Commission for the year ended December 31, 2005, will be furnished without charge to shareholders upon written request to Secretary, C&F Financial Corporation, 802 Main Street, P.O. Box 391, West Point, Virginia 23181. Copies of the Annual Report on Form 10-K may also be obtained without charge by visiting the Corporation s web site at http://www.cffc.com.