

WESTPAC BANKING CORP
Form 6-K
August 31, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

August 30, 2012

Commission File Number 1-10167

WESTPAC BANKING CORPORATION

(Translation of registrant's name into English)

275 KENT STREET, SYDNEY, NEW SOUTH WALES 2000, AUSTRALIA

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Act of 1934.

Yes No

If Yes is marked, indicate the file number assigned to the registrant in connection with Rule 12g3-2(b):82-

Index to Exhibits

The information contained in Exhibit 5.1 and 5.2 to this Report on Form 6-K shall be incorporated by reference in the prospectus relating to the Registrant's debt securities contained in the Registrant's Registration Statement on Form F-3 (File No. 333-172579), as such prospectus may be amended or supplemented from time to time.

Exhibit No.	Description
5.1	Opinion of Debevoise & Plimpton LLP
5.2	Opinion of King & Wood Mallesons

SIGNATURES

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

WESTPAC BANKING CORPORATION
(Registrant)

Date: August 30, 2012

By: /s/ Sean Crellin
Sean Crellin
Director, Legal

3

D>Attorney-at-Law Hudson & Bondurant, P.C.

C. Elis Olsson (44)

2007 Vice President and Director of Operations, Martinair, Inc.

Class II Directors

(Serving Until the 2010 Annual Meeting)

Audrey D. Holmes (51)

2007

Attorney-at-Law

Audrey D. Holmes, Attorney-at-Law

Joshua H. Lawson (67)

2000 President, Thrift Insurance Corporation

Paul C. Robinson (51)

2000 President, Francisco, Robinson & Associates, Inc., a real estate brokerage firm

Class III Directors

(Serving Until the 2011 Annual Meeting)

J. P. Causey Jr. (65)

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1984 Executive Vice President, Secretary & General Counsel of Chesapeake Corporation⁽²⁾

Barry R. Chernack (61)

2002 Retired January 2000 to present; Managing Partner, Pricewaterhouse- Coopers, LLP, Southern Virginia Practice prior to January 2000

William E. O Connell Jr. (71)

1997 Retired January 2005 to present; Chessie Professor of Business, The College of William and Mary prior to January 2005

- ⁽¹⁾ If prior to 1993, refers to the year the director joined the Board of Directors of the Bank, prior to the Corporation s becoming the holding company for the Bank.
- ⁽²⁾ Mr. Causey is an executive officer of Chesapeake Corporation. On December 29, 2008, Chesapeake Corporation agreed to sell all of its operating businesses as going concerns and, to facilitate this sale, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia, Richmond Division.

The Board of Directors of the Bank consists of the nine current members of the Corporation's Board listed above, as well as Bryan E. McKernon.

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

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

Director Independence

The Board has determined that all non-employee directors, who comprise a majority of the Corporation's Board, satisfy the independence requirements of the NASDAQ Stock Market (NASDAQ) listing standards. The Board has affirmatively determined that directors Causey, Chernack, Holmes, Hudson, Lawson, O'Connell, Olsson and Robinson are independent within the meaning of the NASDAQ listing standards. In conjunction with this determination, the Board considered the Corporation's relationships with Mr. Hudson and Mr. Lawson. The firm of Hudson & Bondurant, P.C., of which Mr. Hudson is a partner, was retained to perform legal services for the Corporation during fiscal year 2008 and in 2009. Thrift Insurance Corporation, of which Mr. Lawson is president, was the Corporation's insurance agency during fiscal year 2008 and in 2009. In each case, however, the Board determined that the relationship did not interfere with the director's ability to exercise independent judgment as a director of the Corporation. During 2008, the Board of Directors held four regularly-scheduled executive session meetings attended solely by its independent directors and over which Mr. Hudson presided.

Board Committees and Attendance

During 2008, there were 9 meetings of the Board of Directors of the Corporation. Each director attended at least 75% of all meetings of the Board and Board committees on which he or she served.

The Corporation has not adopted a formal policy on Board members' attendance at its Annual Meeting of shareholders, although all Board members are encouraged to attend and historically most have done so. All Board members attended the Corporation's 2008 Annual Meeting of Shareholders.

The Board of Directors of the Corporation has an Audit Committee and a Compensation 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 or 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 three times in 2008.

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 2010 Annual Meeting proxy statement in order to be considered by the independent directors for the annual election of directors in 2010. 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.

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 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. With the exception of directors who were serving as directors of the Bank on December 31, 1984, no person elected after February 1, 1995 who has reached the age of 72 prior to the date of the annual meeting will be eligible for election or re-election to the Board.

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 elected, sufficient background information with respect to the nominee including, but not limited to, the nominee's name and address, the amount and nature of the nominee's beneficial ownership of the Corporation's securities, his or her principal occupation for the past five years 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 14, 2010 for the annual election of directors in 2010. 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.

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's responsibilities include, among other duties, the responsibility to recommend 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, directors and employees eligible to participate in such plans. The Board has adopted a charter for the Compensation Committee which is posted on the Corporation's website at www.cffc.com under About C&F/C&F Financial Corporation/Corporate Governance. The Compensation Committee met seven times during 2008.

Current members of the Corporation's Audit Committee are Messrs. Causey, Chernack, O'Connell and Olsson, each of whom is independent for this purpose according to NASDAQ listing standards and the regulations of the Securities and Exchange Commission (the SEC). 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 accounting firm and the internal auditor, and issues reports to the Board of Directors periodically. The Board has adopted a charter for the Audit Committee which is posted on the Corporation's website at www.cffc.com under About C&F/C&F Financial Corporation/Corporate Governance. The Audit Committee met ten times during 2008. See Report of the Audit Committee on pages 27 through 28.

Shareholder Communications with the Corporation's Board of Directors

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

Director Compensation

The following table provides compensation information for the year ended December 31, 2008 for each non-employee director of the Corporation's Board of Directors.

Director Compensation Table for 2008

Name ¹	Fees Earned or Paid in	Stock	Option	Non-Equity	Change in Pension Value and Nonqualified Deferred Compensation	All Other	Total
	Cash ²	Awards ³	Awards ^{4,5}	Incentive Plan Compensation	Earnings	Compensation ⁶	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
J.P. Causey Jr.	\$ 19,850	\$ 2,700	\$ 4,528			\$ 295	\$ 27,373
Barry R. Chernack	\$ 20,850	\$ 2,700	\$ 4,528			\$ 295	\$ 28,373
Audrey D. Holmes	\$ 14,500	\$ 2,700	\$ 4,528			\$ 295	\$ 22,023
James H. Hudson III	\$ 16,500	\$ 2,700	\$ 4,528			\$ 295	\$ 24,023
Joshua H. Lawson	\$ 14,000	\$ 2,700	\$ 4,528			\$ 295	\$ 21,523
William E. O'Connell Jr.	\$ 17,750	\$ 2,700	\$ 4,528			\$ 295	\$ 25,273
C. Elis Olsson	\$ 17,250	\$ 2,700	\$ 4,528			\$ 295	\$ 24,773
Paul C. Robinson	\$ 14,500	\$ 2,700	\$ 4,528			\$ 295	\$ 22,023

¹ Larry G. Dillon, the Corporation's Chairman of the Board, President and Chief Executive Officer is not included in this table as he is an employee of the Corporation and thus receives no compensation for his services as a director. The compensation received by Mr. Dillon as an employee of the Corporation is shown in the Summary Compensation Table on page 22.

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

³ Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-based Payment, for restricted stock awards granted under the Amended and Restated C&F Financial Corporation 2004 Incentive Stock Plan (the 2004 Incentive Stock Plan). The grant date fair value of the restricted stock granted to each non-employee director in 2008, computed in accordance with SFAS 123(R), was \$13,252.50 per director. Assumptions used in the calculation of these amounts are included in note 12 to the Corporation's audited financial statements for the fiscal year ended December 31, 2008 included in the Corporation's Annual Report on Form 10-K filed with the SEC on March 9, 2009. At December 31, 2008, each non-employee director had 475 shares of restricted stock outstanding.

⁴ Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with SFAS 123(R). The amounts presented in this table include the amounts attributable only to awards granted in 2007 pursuant to the Amended and Restated C&F Financial Corporation 1998 Non-Employee Director Stock Compensation Plan (the Director Plan). Each director received 1,500 stock option shares with one-year vesting.

as of May 1, 2007. Assumptions used in the calculation of these amounts are included in note 12 to the Corporation's audited financial statements for the fiscal year ended December 31, 2008 included in the Corporation's Annual Report on Form 10-K filed with the SEC on March 9, 2009.

⁵ As of December 31, 2008, Messrs. Causey, Hudson, Lawson, O'Connell and Robinson each had 13,250 stock options outstanding; Mrs. Holmes and Mr. Olsson each had 7,500 stock options outstanding; and Mr. Chernack had 10,500 stock options outstanding.

⁶ The amounts represent dividends paid on unvested restricted stock awards pursuant to the 2004 Incentive Stock Plan.

The Compensation Committee, appointed by the Board of Directors, annually reviews and evaluates the compensation of the Board, including the appropriate mix of cash and equity compensation. The Compensation Committee recommends changes in compensation to the Board of Directors for approval. In 2007, the Compensation Committee engaged Mercer Human Resource Consulting to conduct a study of director compensation to maintain competitiveness with entities of similar size and operations to the Corporation. Based on the results of the study, the Compensation Committee found that overall compensation for directors was comparable to entities of similar size and operations as the Corporation. However, Mercer Human Resource Consulting recommended replacing the annual stock option grant with an annual grant of restricted stock. The use of restricted stock is to further align the interests of directors with shareholders. The Compensation Committee recommended and the Board of Directors approved making a change to grant an annual award of restricted stock to the non-employee directors beginning in 2008. This change does not alter the overall value of annual compensation but simply changes the form of the equity component of compensation for directors.

Non-employee members of the Board of Directors of the Corporation each receive an annual retainer of \$6,000. In addition, Mr. Causey, as Chairman of the Corporation's Compensation Committee, and Mr. Chernack, as Chairman of the Corporation's Audit Committee, each receive an additional annual retainer of \$1,600. 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 became eligible to participate in the 2004 Incentive Stock Plan upon its approval by shareholders on April 15, 2008. Under the 2004 Incentive Stock Plan, directors are eligible to receive awards of restricted stock units, stock options, stock appreciation rights and restricted stock. On May 20, 2008, each non-employee director was granted 475 shares of restricted stock. The fair value of the restricted stock on the grant date was \$27.90. Prior to the approval of the 2004 Incentive Stock Plan, non-employee members of the Board of Directors of the Corporation participated in the Director Plan, which expired in 2008. Under the Director Plan, directors were granted annually a minimum of 1,000 and a maximum of 2,000 options to purchase the Corporation's common stock at a price equal to the fair market value of the Corporation's common stock at the date of grant. All options issued under the Director Plan expire ten years from the date of grant.

Interest of Management in Certain Transactions

As of December 31, 2008, the total maximum extensions of credit (including used and unused lines of credit) to policy-making officers, directors and their associates amounted to \$804,593, or 1.24% of total year-end capital. The maximum aggregate amount of such indebtedness outstanding during 2008 was \$792,778, or 1.22% 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 other unrelated parties, and in the opinion of management, 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.

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

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

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

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

Compensation Committee Interlocks and Insider Participation

During 2008 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. James H. Hudson III, a Class I director, currently serves as a member of the Compensation Committee. The firm of Hudson & Bondurant, P.C., of which Mr. Hudson is a partner, was retained to perform legal services for the Corporation during fiscal year 2008. It is anticipated that the firm will continue to provide legal services to the Corporation during fiscal year 2009.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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

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

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

Risk Assessment Review. The Corporation has participated in the Troubled Asset Relief Program (TARP) Capital Purchase Program (Capital Purchase Program) established by the U.S. Department of the Treasury (Treasury) as part of the Emergency Economic Stabilization Act of 2008 (EESA). On January 9, 2009, the Corporation issued and sold to Treasury shares of the Corporation's preferred stock and a warrant to purchase a certain amount of the Corporation's common stock. As a Capital Purchase Program participant, during the time that Treasury owns the preferred stock it purchased from the Corporation under the Capital Purchase Program (the TARP Period), the Corporation has an obligation under the EESA to comply with certain requirements regarding executive compensation, which were amended on February 17, 2009 by the American Recovery and Reinvestment Act of 2009 (the ARRA).

To comply with these requirements, the Committee is currently conducting the initial required risk assessment review of the incentive compensation of its senior executive officers as determined under the terms of the Capital Purchase Program. Currently the senior executive officers are Mr. Dillon, Mr. Cherry and Mr. McKernon. The purpose of the Committee's risk assessment review is to ensure that the Corporation's incentive compensation arrangements do not encourage Mr. Dillon, Mr. Cherry or Mr. McKernon to take unnecessary and excessive risks that threaten the Corporation's value. The Committee will perform such risk assessment reviews on an on-going basis during the TARP Period and will make changes to the Corporation's incentive compensation arrangements in the event it determines during its review that such changes are required to ensure that the Corporation's incentive compensation arrangements do not encourage these officers to take unnecessary or excessive risks. Upon completion of each required review, the Committee will make those certifications required by the executive compensation provisions applicable to Capital Purchase Program participants. To the extent the ARRA modifies or expands the requirement for performing this risk assessment, the Committee will perform its risk assessments in compliance with such requirements.

Establishing Executive Compensation. To achieve the aims of the overall compensation strategy, the Committee compensates executives and other selected senior managers through a combination of base salary, bonus, deferred and equity compensation designed to be competitive with comparable companies and to create alignment between executives' and shareholders' interests.

In making compensation decisions for 2007 the Committee engaged Mercer Human Resource Consulting (Mercer), an independent global human resources consulting firm, to conduct a review of the Corporation's total compensation program for key executives. Mercer provided the Committee with relevant market data and alternatives to consider when making compensation decisions for the CEO and other key executives in 2007 and beyond.

The report prepared by Mercer compared base salary, cash incentives and equity awards against a peer group of publicly-traded financial institutions located in the southeastern region of the United States. This peer group consisted of financial institutions against which the Committee believed the Corporation competed for executive talent and for shareholder investment. The criteria used to determine the peer group were financial institutions in Virginia ranging in asset size from \$500 million to \$2 billion and financial institutions in other southeastern region states whose asset size was between \$500 million to \$1 billion. The companies comprising this peer group in the Mercer study for 2006 included 11 financial institutions in Virginia and 26 financial institutions in other southeastern region states whose assets ranged from \$500 million to \$2 billion in size. For comparison purposes, the Corporation's asset size at the time of the report was slightly below the median for this peer group.

Based on the extensive review that Mercer performed in 2006 for compensation decisions in 2007, the Committee concluded that no substantive changes were required to the overall plan design for 2007 or 2008 and that cash incentive and equity award targets, retirement benefits and perquisites should remain generally the same. While there is no pre-established policy or target for the allocation between either cash and equity or short-term and long-term incentive compensation, the Committee utilized the information provided by Mercer in its 2006 review to determine the appropriate level and mix of base salary, cash incentives and equity compensation for 2007, and made no changes for 2008.

Base annual salary and short-term incentive compensation for the President and CEO of C&F Mortgage Corporation (the Mortgage Corporation) are established by an employment agreement entered into in 1995 and amended in 1998, 2002, 2007 and 2008. 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.

2008 Executive Compensation Components. For 2008, the principal components of compensation for named executive officers as defined in Item 402 of Regulation S-K were:

base salary,

performance-based incentive compensation,

equity compensation,

retirement and other benefits, and

perquisites.

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

Base Salaries. We provide named executive officers and other employees with base salaries to compensate them for services rendered during the fiscal year. Base salaries for named executive officers (with the exception of the President and CEO of the Mortgage Corporation) are determined for each executive based on his or her position and responsibility by using market data. Base salaries are generally targeted to be at the market medians of the peer group. The Committee targeted the market median for base salaries because the Committee believes a greater emphasis should be placed on performance-based compensation. Salary levels are considered annually as part of the Committee's performance review process as well as upon a promotion or other change in job responsibility. During its review of base salaries for executives, the Committee primarily considered:

Market data provided by Mercer in 2006;

Responsibilities of the executive;

Internal review of the executive's compensation relative to other officers; and

Individual performance of the executive.

For 2008, for the CEO, the Committee took into account the factors identified above and Mercer's 2006 study results that indicated the CEO median base salary for peer financial institutions was \$268,000 in 2006. At the CEO's request, his base salary was limited to \$238,000 in 2007 and increased to \$243,000 for 2008. Both the 2007 and 2008 amounts were below the median base salary for the peer financial institutions. For the Chief Financial Officer (CFO), the Committee, after taking into account the factors identified above, determined that his base salary should be increased to \$180,000 for 2008 from \$175,000 in 2007. Similar analyses were performed for all other senior officers.

Performance-Based Incentive Compensation. Short-term cash incentive compensation for the CEO and CFO is governed by the Corporation's Management Incentive Plan (MIP) adopted in 2005. Under the MIP, at the beginning of 2008 the Committee established performance objectives for the Corporation and the award formula or matrix by which all incentive awards were to be calculated. Executive officers were assigned a cash award target, to be paid if the Corporation achieved targeted performance goals in 2008.

For the named executive officers, with the exception of the President and CEO of the Mortgage Corporation, incentive compensation is designed to reward overall corporate performance by setting awards based on return on average equity (ROE) and return on average assets (ROA) compared to peer financial institutions selected by the Committee, based on the same criteria that was used in the Mercer study in 2006 to establish 2008 compensation levels for the CEO and CFO. The criteria for the peer group remains the same but the companies meeting this criteria, and thus comprising the peer group, may change from year to year, as the peer group is updated annually to account for changes in asset size due to mergers, acquisitions, or growth. For determining performance achievement for the 2008 incentive compensation awards under the MIP, the updated peer group included 20 financial institutions in Virginia and 29 financial institutions in other southeastern region states whose assets range from \$500 million to \$2 billion in size. For comparison purposes, the Corporation's asset size was slightly below the median for this peer group. The cash incentive compensation for the President and CEO of the Mortgage Corporation is set forth in his employment agreement and is based solely on a percentage of income before taxes generated by the Mortgage Corporation.

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

As in 2007, for 2008, the cash award targets for the CEO and CFO were based solely on achievement of a corporate goal, which was a weighted measure of the Corporation's ROE and ROA for 2008 compared to the peer group of financial institutions selected by the Committee. This measure is the combined ranking of ROE and ROA of the peer group of financial institutions, placing twice the weight on ROE ranking. Depending on the level of achievement with respect to the corporate goal under the MIP, for 2008 the CEO could earn a cash award of up to 90% of his base salary as of January 1, 2008 and the CFO could earn a cash award of up to 70% of his base salary as of January 1, 2008. The Committee chose these award levels so that the maximum awards would be paid when the Corporation has performed the best in Virginia and at or above the 90th percentile of the other financial institutions in the peer group based on combined ROE and ROA performance, while performance below the 40th percentile would result in no incentive payment. Based on the Corporation's ROE and ROA for 2008, in which the Corporation achieved results in excess of the 48th percentile of the peer group of financial institutions selected by the Committee under the MIP, the CEO was entitled to a cash bonus of 31.41% of his base salary for 2008 but based on a recommendation from the CEO, the Committee awarded him 9.05%. The CFO was entitled to a cash bonus of 24.43% of his base salary for 2008 but based on his recommendation the Committee awarded him 12.22%.

All short-term incentive payments to the President and CEO of the Mortgage Corporation for 2008 were made in accordance with his employment agreement and related directly to the profitability of the Mortgage Corporation.

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

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

Historically, the primary form of equity compensation awarded by the Corporation was incentive and non-qualified stock options. This form was selected because of the favorable accounting and tax treatments received. However, beginning in 2006 the accounting treatment for stock options changed as a result of SFAS 123(R), making the accounting treatment of stock options less attractive. Consequently, certain changes were made to the equity award program. First, the form of equity award was changed to restricted stock. Second, a holding period and minimum stock ownership requirement was established for equity awards.

Under the MIP, executive officers may be awarded equity-based awards under the 2004 Incentive Stock Plan if the executive achieves targeted performance goal(s). For 2008, the equity-based award targets for the named executive officers were based solely on achievement of one corporate goal, which was five-year total shareholder return of the Corporation compared to the NASDAQ Bank Index. The Committee chose this longer-term measure since the Committee wanted to reward sustained performance. If the corporate goal is achieved under the MIP, for 2008 the CEO could earn a target equity-based award of 45% of his base salary as of January 1, 2008 and the CFO could earn a target equity-based award of 35% of his base salary as of January 1, 2008. These targets were selected to maintain overall compensation competitiveness if the Corporation shows sustained total shareholder return. The MIP does not provide a formula for a scaled payout based on performance that is higher or lower than the target.

If the target performance under the MIP is not achieved, no equity-based award is earned, unless the Committee determines to award annual equity incentive compensation in the exercise of its discretion under the MIP. If the target goal is met, the executive will receive an award equal to the target percentage of his base salary, unless the Committee exercises its discretion to reduce or increase the award. The Committee may reduce the award to 0% or increase it up to 200% of the executive's base salary.

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

For 2008, the corporate goal of the five-year total shareholder return of the Corporation compared to the NASDAQ Bank Index was not met. As permitted by the MIP, the Committee can award equity incentive compensation at its discretion even if the target goal is not met. Exercising its discretion, the Committee granted 1,000, 750, and 750 shares of restricted stock to the CEO, CFO and President and CEO of the Mortgage

Corporation, respectively, which amounted to 5.30%, 5.36% and 4.95% of the CEO's, CFO's and the Mortgage Corporation's President and CEO's respective base salary as of January 1, 2008. Although the specific goal for equity grants was not met, it was the recommendation of the Committee that the Board of Directors award long-term incentive bonuses to these executives to reward them for their individual performance and for additional responsibilities assumed in 2008 in light of a difficult economic environment. The Committee also considered the retention factor that granting these awards would afford the Corporation. The amount of each award was based primarily on the executive officer's performance, the level of his responsibilities, and internal equity considerations.

The Corporation's practice is to determine the dollar amount of equity compensation that is to be awarded and then to grant a number of shares of restricted stock that have a fair market value equal to that amount on the date of grant. The fair market value is determined based on the closing price of the stock on the date of grant. With the exception of significant promotions and new hires, awards are generally made at the December meeting of the Board of Directors each year. However, because the target goal was not met in 2008, the Committee delayed the equity compensation award for the MIP participants until February 2009, by which time the Corporation's 2008 financial results could be further evaluated for discretionary award consideration. Restricted stock awards may be both performance and time based. In order for the restricted stock to be earned or vest, the employee must remain employed for a period of five years after the date of grant. Once restricted stock awards vest, employees may not sell more than 50% of the award until a minimum level of stock ownership by the employee is achieved. Minimum ownership levels range from three times annual base salary for the CEO, one and one-half times annual base salary for the other named executive officers, one times annual base salary for other senior officers, and for other selected officers one-half of such officer's annual base salary.

Retirement and Other Benefits. Throughout 2008, the Bank had a tax-qualified, non-contributory defined benefit retirement plan known as the VBA Master Defined Benefit Plan for Citizens and Farmers Bank (the Retirement Plan) covering substantially all Bank employees who had reached the age of 21 and had been fully employed for at least one year. The Retirement Plan historically provided participants with retirement benefits based on a benefit formula related to salary and years of credited service. Effective December 31, 2008, the Retirement Plan was converted to a tax-qualified cash balance pension plan, whereby benefits earned by participants under the Retirement Plan through December 31, 2008 were converted to an opening account balance for each participant. The opening account balance was calculated based on IRS mandated assumptions for lump sum payouts. The Corporation converted the Retirement Plan to a cash balance pension plan because of the reduction in plan expense.

Under the cash balance plan, each participant's account receives two forms of credits: compensation credits and interest credits. Compensation credits equal a percentage of each participant's compensation. Compensation for this purpose includes both salary and bonus, subject to the compensation limit applicable to tax-qualified plans, which limit was \$230,000 for 2008. The applicable compensation credit percentage ranges between 1% and 12% depending on the participant's combined age and years of credited service at the end of each plan year. Interest credits are equal to an amount established each year by the Committee. For 2009, this amount will be based on the average yield on 30-year Treasuries during December 2008 plus 150 basis points.

Upon termination of employment and after having completed at least three years of service, a participant will receive the amount then credited to the participant's cash balance account in an actuarially equivalent joint and survivor annuity (if married) or single life annuity (if not married). The participant may also choose from other optional forms of benefit, including a lump sum payment in the amount of the cash balance account. The Retirement Plan does not cover non-employee directors. The amount expensed for the Retirement Plan during the year ended December 31, 2008 was \$701,000. The Retirement Plan allows for early retirement at the age of 55. The amount available at this age will be the amount then credited to the participant's cash balance account. Mr. Dillon is eligible for early retirement under the Retirement Plan and was entitled to a payment of \$858,796 as of December 31, 2008.

The Bank maintains a tax-qualified 401(k) plan known as the Virginia Bankers Association Master Defined Contribution Plan for Citizens and Farmers Bank (the Savings Plan), pursuant to which all Bank employees, including the CEO and CFO, may make pre-tax contributions to the plan of up to 95% of covered

compensation, subject to certain limitations on the amount under federal law. The Bank will match 100% of the first 5% of pay that is contributed to the Savings Plan, subject to statutory limitations. All employee contributions to the Savings Plan are fully vested upon contribution and Bank matching contributions vest at 20% annually beginning after two years of service and are fully vested at six years of service, or earlier in the event of retirement, death or attainment of age 65 while an employee.

In addition, each plan year, the Bank may make a profit sharing contribution to the Savings Plan. The amount of such contribution, if any, is within the discretion of the Bank's Board of Directors and will be determined during each plan year. Such contributions are only allocated to covered participants, which designation is determined annually based on working at least 1,000 hours and being employed on the last day of the year (or ceasing employment due to retirement or death). The CEO and CFO were covered participants in 2008. For a covered participant, any profit sharing contribution is allocated to the employee's account based on the proportion of the employee's covered compensation to the covered compensation of all other covered participants. Profit sharing contributions are subject to the same vesting rules that apply to matching contributions under the Savings Plan. There was no profit sharing contribution to the Savings Plan for 2008.

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

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

- (1) Employee deferrals whereby certain employees are permitted to make deferrals of salary or cash incentive compensation. The CEO and CFO did not elect any deferral of salary or cash incentive compensation for 2008. However, the President and CEO of the Mortgage Corporation elected a deferral of \$16,548 for 2008.
- (2) Excess match deferrals whereby the Corporation contributes to the Nonqualified Plan the amount of employer matching contributions in excess of statutory limitations. Any matching amounts in excess of the maximum annual pre-tax contribution for qualified retirement plans allowed by the Internal Revenue Service are deposited in the Nonqualified Plan. For the CEO and CFO, the amounts accrued in 2008 were \$5,650 and \$1,750 respectively. The President and CEO of C&F Mortgage Corporation did not receive an excess match deferral for 2008.
- (3) Excess profit sharing deferrals whereby the Corporation contributes to the Nonqualified Plan the amount of discretionary employer profit sharing contributions in excess of statutory limitations. No employer profit sharing contribution was made for 2008.

(4) Supplemental retirement deferrals whereby the Corporation makes discretionary employer contributions for the CEO in recognition of his performance and service, and discretionary employer contributions for the CFO as a retention incentive consistent with the Corporation's overall compensation strategy. For the CEO and CFO, the amounts accrued in 2008 were \$24,300 and \$18,000, respectively. While the contributions for the CEO vest immediately, the contributions for the CFO do not vest until death, disability, retirement or change in control. The President and CEO of C&F Mortgage Corporation was not awarded a supplemental deferral for 2008.

Perquisites. The value of perquisites, including mandatory executive physicals every two years, use of an automobile, matching charitable contributions, country club dues and tax preparation assistance common among the Corporation's peer financial institutions, provided to the CEO and the CFO do not exceed \$10,000 in the aggregate for each individual annually. The CEO and the CFO also participate in other benefit plans on the same terms as other employees. These plans include medical, dental, life, and disability insurance.

The value of perquisites, including use of an automobile, matching charitable contributions and payments for medical and dental insurance in excess of those made for all salaried employees, provided to the President and CEO of the Mortgage Corporation are detailed in note 1 to the All Other Compensation Table for 2008 on page 23.

Employment and Change in Control Agreements. As is typical in the mortgage industry, Mr. McKernon is employed by the Mortgage Corporation under an employment agreement originally dated November 30, 1995 and amended in 1998, 2002, 2007 and 2008. Under the agreement, the Mortgage Corporation has employed Mr. McKernon as its President and CEO under a three-year evergreen agreement, which remains in effect at all times unless and until terminated as permitted by the agreement. Either party, by notice to the other at any time and for any reason, may give notice of an intention to terminate the agreement three years from the date notice is received by the other. Additionally, either party may terminate the agreement in the event the Mortgage Corporation fails to meet certain specified financial performance criteria for a stipulated period or of a stipulated amount within a prescribed time period. The agreement terminates upon the death or disability of Mr. McKernon, or upon the failure of either party to fulfill its obligations under the agreement. Under the agreement, the Mortgage Corporation in 2008 paid Mr. McKernon an annual base salary of \$195,000, 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 and terminate his employment based upon the Mortgage Corporation's financial performance. In the event of a buy out of the agreement and termination of his employment, 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 of the Mortgage Corporation and to life insurance equal to three times his base salary. The agreement also contains provisions requiring confidentiality of information regarding the Mortgage Corporation. Mr. McKernon may terminate his employment agreement upon an event of covered termination as defined in his change in control agreement. Any termination of the employment agreement also will terminate Mr. McKernon's change in control agreement except a termination of his employment agreement as described in the preceding sentence.

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

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

The agreements for the CFO and the President and CEO of the Mortgage Corporation provide certain payments and benefits in the event of a termination of their employment by the Corporation without cause, or by the CFO and the President and CEO of the Mortgage Corporation for good reason, 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, the CFO and the President and CEO of the Mortgage Corporation would each be entitled (i) to receive in a lump sum, two times his highest annual base salary during the 24-month period preceding the change in control date and (ii) for a period of two years following termination, to receive continuing health insurance, life insurance, and similar benefits under the Corporation's welfare benefit plans and to have the two-year period credited as service towards completion of any service requirement for retiree coverage under the Corporation's welfare benefit plans. In addition, the CFO would be entitled to two times his highest annual bonus for the three fiscal years preceding the change in control date.

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

As a condition to closing the transaction under the Capital Purchase Program, on January 9, 2009, the Corporation executed a Capital Purchase Program Agreement Regarding Executive Compensation Limitations (the Omnibus Benefit Plan Amendment) to modify the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements of the Corporation to comply with the executive compensation provisions of the EESA, which were subsequently amended on February 17, 2009 by the ARRA. Also on January 9, 2009, each of Mr. Dillon, Mr. Cherry and Mr. McKernon executed a consent to the Omnibus Benefit Plan Amendment, including any future amendments necessary to comply with the EESA, as it may be amended, and executed a waiver voluntarily waiving any claim against Treasury or the Corporation for any changes to his compensation or benefits that are required by the executive compensation provisions applicable to Capital Purchase Program participants. These executive compensation provisions generally impose limitations on bonuses, retention awards, incentive compensation and golden parachute payments during the TARP Period. The Committee is still determining what other impact these provisions may have on its compensation arrangements in light of the recent changes to these limitations imposed by the ARRA.

The Corporation does not provide for payments upon termination outside of the change in control agreements, but may negotiate individual severance packages with departing executives on a case-by-case basis. For terminations due to retirement, early retirement, disability and death, vesting of any unvested stock options,

restricted stock and retirement benefits occur at the date of termination. Assuming termination for any of these reasons had occurred on December 31, 2008, because all outstanding stock options were already fully vested, these types of terminations would only trigger additional vesting of restricted stock and retirement benefits. The value of restricted stock vesting would have been \$63,000 for the CEO and \$55,125 for each of the other named executive officers. The value of retirement benefits vesting would have been \$99,641, for the CFO. The CEO and the President and CEO of the Mortgage Corporation would not have experienced any additional vesting with respect to retirement benefits because they are fully vested.

The following table shows the potential payments upon termination, including following a change of control of the Corporation, for the named executive officers. The amounts in this table are calculated assuming the termination event occurred on December 31, 2008 and all executives were paid in a lump sum payment.

Executive Payments and Benefits upon Termination Table⁽⁹⁾

Name and Principal Position	Severance Compensation		Benefits and Perquisites				280G Tax Gross-ups ^{5,6}	Total
	Severance	Performance - Unvested and Based Incentive Compensation	Accelerated Restricted Stock	Welfare Benefits	Supplemental Retirement Benefits			
Larry G. Dillon								
<i>Chairman/President/Chief Executive Officer</i>								
Voluntary Termination ¹								
By Company without Cause ¹								
By Company with Cause ¹								
Change in Control ²								
By Company without Cause	\$ 607,500	\$ 300,000	\$ 63,000	\$ 95,890				\$ 1,066,390
By Executive with Good Reason	\$ 607,500	\$ 300,000	\$ 63,000	\$ 95,890				\$ 1,066,390
Retirement			\$ 63,000					\$ 63,000
Disability ⁸			\$ 63,000					\$ 63,000
Death ⁸			\$ 63,000					\$ 63,000
Thomas F. Cherry								
<i>Executive Vice President/ Chief Financial Officer/ Secretary</i>								
Voluntary Termination ¹								
By Company without Cause ¹								
By Company with Cause ¹								
Change in Control ³								
By Company without Cause	\$ 360,000	\$ 202,126	\$ 55,125	\$ 66,261	\$ 99,641	\$ 282,474		\$ 1,065,627
By Executive with Good Reason	\$ 360,000	\$ 202,126	\$ 55,125	\$ 66,261	\$ 99,641	\$ 282,474		\$ 1,065,627
Retirement ⁷								
Disability ⁸			\$ 55,125		\$ 99,641			\$ 154,766
Death ⁸			\$ 55,125		\$ 99,641			\$ 154,766
Bryan E. McKernon								
<i>President/Chief Executive Officer of C&F Mortgage</i>								
Voluntary Termination ¹								
By Company without Cause ¹	\$ 146,250							\$ 146,250
By Company with Cause ¹								
Change in Control ⁴								
By Company without Cause	\$ 390,000		\$ 55,125	\$ 58,256				\$ 503,381
By Executive with Good Reason	\$ 390,000		\$ 55,125	\$ 58,256				\$ 503,381
Retirement ⁷								
Disability ⁸			\$ 55,125					\$ 55,125
Death ⁸			\$ 55,125					\$ 55,125

- 1 There are no payments due for the CEO or CFO under separation of service voluntarily by the executive or by the Corporation with or without cause. The President and CEO of the Mortgage Corporation would receive a severance payment equal to nine months of his base salary if the Corporation elected to terminate his services without cause.
- 2 The severance and performance based incentive compensation upon change in control for the CEO represents two and one-half times his highest annual base salary during the 24 months preceding the assumed change in control date and two and one-half times his highest annual bonus in the three years preceding the assumed change in control date. The equity amounts represent the fair market value of 4,000 shares of restricted stock that would immediately vest on the change in control date. (The closing price of the Corporation's stock was \$15.75 per share on December 31, 2008.) The welfare benefits represent the net present value of the benefits costs for three years after the assumed change in control date. No value has been assigned to the CEO's right to have his primary residence acquired for its appraised fair market value due to the inability to estimate such an expense.
- 3 The severance and performance-based incentive compensation upon change in control for the CFO represents two times the highest annual base salary during the 24 months preceding the assumed change in control date and two times the highest annual bonus in the three years preceding the assumed change in control date. The equity amounts represent the fair market value of 3,500 shares of restricted stock that would immediately vest on the change in control date. (The closing price of the Corporation's stock was \$15.75 per share on December 31, 2008.) The welfare benefits represent the net present value of the benefits costs for two years after the assumed change in control date. The retirement benefits represent the supplemental retirement benefit that would vest immediately upon change in control.
- 4 The severance upon change in control for the President and CEO of C&F Mortgage Corporation represents two times the highest annual base salary during the 24 months preceding the assumed change in control date. The equity amount represents the fair market value of 3,500 shares of restricted stock that would immediately vest on the change in control date. (The closing price of the Corporation's stock was \$15.75 per share on December 31, 2008.) The welfare benefits represent the net present value of the benefits costs for two years after the assumed change in control date.
- 5 If any payments to or benefits under (collectively, "payments") the change in control agreements would be subject to excise tax as an "excess parachute payment" under federal income tax rules, the Corporation has agreed to pay the CEO, CFO, and the President and CEO of the Mortgage Corporation additional amounts ("gross-up payments") to cover the excise tax liability and the taxes on the gross-up payment (provided the net after-tax benefit to the executive is at least \$25,000 greater than providing no gross-up payment and cutting the payments back to the maximum on which no excise tax would be due). Amount shown represents the estimated amount of tax gross-up payment for the CFO.
- 6 The CEO and President and CEO of the Mortgage Corporation would not have been subject to excise taxes on these change in control payments.
- 7 The CFO and President and CEO of the Mortgage Corporation were not eligible for retirement on December 31, 2008.
- 8 Payments for separation of service due to disability or death include accelerated vesting of restricted stock for the CEO, CFO, and President and CEO of the Mortgage Corporation. In addition, the CFO would be immediately vested in supplemental retirement benefits of \$99,641.
- 9 Effective January 9, 2009, in connection with the Corporation's participation in the Capital Purchase Program, the Committee approved the Omnibus Benefit Plan Amendment to modify the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements of the Corporation to comply with the executive compensation provisions of the EESA, which were subsequently amended on February 17, 2009 by the ARRA. As a result of the Omnibus Benefit Plan Amendment, certain of the payments reflected in this table and referenced above could be limited during the TARP Period. In connection with the enactment of the ARRA, additional limitations on these payments are expected to apply during the TARP Period. The Corporation is still determining the additional impact the ARRA provisions will have on these and any other of the Corporation's compensation arrangements, but it appears that the ARRA amends the EESA to prohibit any payment during the TARP Period to a senior executive officer or any of the next five most highly-compensated employees upon termination of employment for any reason. If the types of payments described in this table are triggered while the Corporation is still subject to the EESA's executive compensation restrictions and the officer is still a named executive officer, then the named executive officer will receive the lesser of the amount allowed under EESA or under the relevant agreement.

Board Compensation Process. The Committee determines and recommends to the Board of Directors the compensation of the CEO. The Committee also approves all compensation of the Corporation's executive officers and certain other senior officers of the Corporation and its subsidiaries, which include the CFO, Senior Vice President of Retail, Chief Credit Officer, Regional Presidents, and the Senior Vice President of Human Resources.

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

The Committee, on its own initiative, reviews the performance and compensation of each of these senior officers and following discussions with the CEO and, as it deems appropriate, a compensation consultant or other appropriate advisors, establishes the senior officers' compensation levels. For the remaining officers, the CEO makes recommendations to the Committee that, generally with minor adjustments, are approved.

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

The Committee also acts as the Incentive Stock Committee for the Corporation's stock incentive plans and recommends awards to the Board of Directors for approval, including stock options, restricted stock awards, performance stock awards, restricted stock units or other similar awards as provided in the 2004 Incentive Stock Plan, to any executive officer, officer or employee of the Corporation.

Tax and Accounting Implications. As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code, which provides that the Corporation may not deduct non-performance-based compensation of more than \$1,000,000 that is paid to certain individuals. The Corporation has established and operated the MIP without regard to deductibility under Section 162(m) of the Code of compensation payable pursuant to it. For 2008, all compensation paid by the Corporation was fully deductible for federal income tax purposes. In the future, the Corporation may pay compensation that will not be deductible under Section 162(m) of the Code in order to ensure competitive levels of total compensation for its executive officers. As a Capital Purchase Program participant, the Corporation may not deduct compensation of more than \$500,000 paid to its senior executive officers each year during the TARP Period. This limitation applies to deferred compensation, commission pay and performance-based compensation. The Corporation may pay compensation to the affected executive officers during the TARP Period without regard to this limitation, consistent with its goal of ensuring competitive levels of total compensation.

Omnibus Amendment to Benefit Plans. As a condition to closing the transaction under the Capital Purchase Program, on January 9, 2009, the Corporation executed the Omnibus Benefit Plan Amendment to modify the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements of the Corporation to comply with the executive compensation provisions of the EESA, which were subsequently amended on February 17, 2009 by the ARRA. Also on January 9, 2009, each of Mr. Dillon, Mr. Cherry and Mr. McKernon executed a consent to the Omnibus Benefit Plan Amendment, including any future amendments necessary to comply with the EESA, as it may be amended, and executed a waiver voluntarily waiving any claim against Treasury or the Corporation for any changes to his compensation or benefits that are required by the executive compensation provisions applicable to Capital Purchase Program participants. These executive compensation provisions generally impose limitations on bonuses, retention awards, incentive compensation and golden parachute payments during the TARP Period. The Committee is still determining what other impact these provisions may have on its compensation arrangements in light of the recent changes to these limitations imposed by the ARRA.

Future Compliance with Requirements of Capital Purchase Program. In light of the recent enactment of the ARRA, the Committee is still reviewing what additional changes may be required to comply with the executive compensation provisions applicable to Capital Purchase Program participants. The ARRA directs the Treasury to issue regulations implementing the new legislation, and the Committee expects that this additional guidance will help it determine what additional changes may be necessary with respect to 2009 executive compensation.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Corporation has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee of the Corporation is currently conducting the initial required risk assessment review of the incentive compensation of its senior executive officers and, upon completion of this review within the timeframe permitted, will make those certifications required by the executive compensation provisions applicable to Capital Purchase Program participants.

Compensation Committee

J.P. Causey Jr.

Barry R. Chernack

James H. Hudson III

Summary Compensation Table for 2008

The table below summarizes the total compensation paid or earned by each of the Corporation's named executive officers for the fiscal years ended December 31, 2008, 2007 and 2006.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards ¹ (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation ² (\$)	Change in Pension Value and	All Other Compensation ⁴ (\$)	Total (\$)
							Nonqualified Deferred Compensation Earnings ³ (\$)		
Larry G. Dillon <i>Chairman/President/Chief Executive Officer</i>	2008	\$ 243,000		\$ 28,204		\$ 22,000	\$ 90,281	\$ 46,410	\$ 429,895
	2007	\$ 238,000		\$ 16,122		\$ 100,000	\$ 67,391	\$ 43,560	\$ 465,073
	2006	\$ 228,000		\$ 513		\$ 120,000	\$ 27,614	\$ 48,150	\$ 424,277
Thomas F. Cherry <i>Executive Vice President/Chief Financial Officer/Secretary</i>	2008	\$ 180,000		\$ 25,054		\$ 22,000	\$ 21,704	\$ 35,590	\$ 284,348
	2007	\$ 175,000		\$ 15,922		\$ 85,000	\$ 14,983	\$ 33,163	\$ 324,068
	2006	\$ 165,000		\$ 513		\$ 101,063	\$ 9,698	\$ 34,978	\$ 311,252
Bryan E. McKernon <i>President/Chief Executive Officer of C&F Mortgage</i>	2008	\$ 195,000		\$ 25,054		\$ 442,147		\$ 25,932	\$ 688,133
	2007	\$ 195,000		\$ 15,922		\$ 512,202		\$ 25,934	\$ 749,058
	2006	\$ 150,000		\$ 513		\$ 686,367		\$ 19,046	\$ 855,926

¹ The amounts in this column reflect the dollar amount expensed for financial statement reporting purposes for the fiscal years ended December 31, 2008, 2007 and 2006, respectively, in accordance with SFAS No. 123(R) for stock awards pursuant to the 2004 Incentive Stock Plan. Assumptions used in the calculation of these amounts are included in note 12 to the Corporation's audited financial statements for the fiscal year ended December 31, 2008 included in the Corporation's Annual Report on Form 10-K filed with the SEC on March 9, 2009.

² The amounts in this column reflect the annual cash awards earned by the CEO and CFO un