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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2024

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-23423

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**C&F FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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Virginia  
(State or other jurisdiction of incorporation or organization)

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

3600 La Grange Parkway Toano, VA  
(Address of principal executive offices)

23168  
(Zip Code)

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Smaller reporting company  Emerging growth company

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

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

At May 3, 2024, the latest practicable date for determination, 3,357,838 shares of common stock, \$1.00 par value, of the registrant were outstanding.

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**Part I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Uaudited)  
(Dollars in thousands, except per share amounts)

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
<b>Assets</b>		
Cash and due from banks	\$ 15,904	\$ 16,382
Interest-bearing deposits in other banks	<u>39,303</u>	<u>58,777</u>
Total cash and cash equivalents	<u>55,207</u>	<u>75,159</u>
Securities—available for sale at fair value, amortized cost of \$464,684 and \$494,092, respectively	430,421	462,444
Loans held for sale, at fair value	22,622	14,176
Loans, net of allowance for credit losses of \$40,200 and \$39,651, respectively	<u>1,777,227</u>	<u>1,702,488</u>
Restricted stock, at cost	3,592	2,925
Corporate premises and equipment, net	41,549	41,914
Accrued interest receivable	10,595	10,398
Goodwill	25,191	25,191
Other intangible assets, net	1,342	1,407
Bank-owned life insurance	21,586	21,464
Net deferred tax asset	19,253	18,731
Other assets	61,166	62,201
Total assets	<u>\$ 2,469,751</u>	<u>\$ 2,438,498</u>
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand deposits	\$ 535,048	\$ 549,367
Savings and interest-bearing demand deposits	<u>816,714</u>	<u>843,564</u>
Time deposits	<u>736,170</u>	<u>673,199</u>
Total deposits	<u>2,087,932</u>	<u>2,066,130</u>
Short-term borrowings	27,805	58,223
Long-term borrowings	68,339	25,894
Trust preferred capital notes	25,431	25,422
Accrued interest payable	4,644	3,493
Other liabilities	38,651	41,820
Total liabilities	<u>2,252,802</u>	<u>2,220,982</u>
Commitments and contingent liabilities (Note 11)		
<b>Equity</b>		
Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,367,619 and 3,374,098 shares issued and outstanding, respectively, includes 121,238 and 135,694 of unvested shares, respectively)	3,246	3,238
Additional paid-in capital	6,084	6,567
Retained earnings	<u>235,679</u>	<u>233,760</u>
Accumulated other comprehensive loss, net	<u>(28,669)</u>	<u>(26,687)</u>
Equity attributable to C&F Financial Corporation	<u>216,340</u>	<u>216,878</u>
Noncontrolling interest	609	638
Total equity	<u>216,949</u>	<u>217,516</u>
Total liabilities and equity	<u>\$ 2,469,751</u>	<u>\$ 2,438,498</u>

*See notes to consolidated interim financial statements.*

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**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Uaudited)  
(Dollars in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Interest income</b>		
Interest and fees on loans	\$ 29,586	\$ 26,060
Interest on interest-bearing deposits and federal funds sold	259	176
Interest and dividends on securities		
U.S. treasury, government agencies and corporations	602	1,035
Mortgage-backed securities	886	947
Tax-exempt obligations of states and political subdivisions	883	618
Taxable obligations of states and political subdivisions	184	184
Corporate and other	308	285
Total interest income	<u>32,708</u>	<u>29,305</u>
<b>Interest expense</b>		
Savings and interest-bearing deposits	1,614	1,209
Time deposits	6,916	1,820
Borrowings	722	1,025
Trust preferred capital notes	298	293
Total interest expense	<u>9,550</u>	<u>4,347</u>
Net interest income	<u>23,158</u>	<u>24,958</u>
Provision for credit losses	<u>3,500</u>	<u>2,050</u>
Net interest income after provision for credit losses	<u>19,658</u>	<u>22,908</u>
<b>Noninterest income</b>		
Gains on sales of loans	1,288	1,794
Interchange income	1,475	1,520
Service charges on deposit accounts	1,047	1,048
Investment income from other equity interests	167	113
Mortgage banking fee income	479	494
Wealth management services income, net	731	614
Mortgage lender services income	503	451
Other service charges and fees	396	391
Net losses on sales, maturities and calls of available for sale securities	—	(5)
Other income, net	<u>1,406</u>	<u>1,217</u>
Total noninterest income	<u>7,492</u>	<u>7,637</u>
<b>Noninterest expenses</b>		
Salaries and employee benefits	14,252	13,898
Occupancy	2,132	2,044
Data processing	2,829	2,682
Professional fees	915	595
Insurance expense	406	396
Marketing and advertising expenses	168	401
Mortgage banking loan processing expenses	184	258
Other	2,264	2,321
Total noninterest expenses	<u>23,150</u>	<u>22,595</u>
Income before income taxes	<u>4,000</u>	<u>7,950</u>
Income tax expense	<u>565</u>	<u>1,453</u>
Net income	<u>3,435</u>	<u>6,497</u>
Less net income attributable to noncontrolling interest	<u>34</u>	<u>56</u>
Net income attributable to C&F Financial Corporation	<u>\$ 3,401</u>	<u>\$ 6,441</u>
Net income per share - basic and diluted	<u>\$ 1.01</u>	<u>\$ 1.86</u>

*See notes to consolidated interim financial statements.*

**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(Dollars in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net income	\$ 3,435	\$ 6,497
Other comprehensive (loss) income, net of tax:		
Securities available for sale	(2,066)	5,281
Defined benefit plan	7	17
Cash flow hedges	77	(263)
Other comprehensive (loss) income, net of tax	(1,982)	5,035
Comprehensive income	<u>1,453</u>	<u>11,532</u>
Less comprehensive income attributable to noncontrolling interest	34	56
Comprehensive income attributable to C&F Financial Corporation	<u><u>\$ 1,419</u></u>	<u><u>\$ 11,476</u></u>

*See notes to consolidated interim financial statements.*

**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
(Uaudited)  
(Dollars in thousands, except per share amounts)

	Attributable to C&F Financial Corporation						Total Equity
	Common Stock	Additional Paid - In Capital	Retained Earnings	Comprehensive Loss, Net	Noncontrolling Interest		
Balance December 31, 2023	\$ 3,238	\$ 6,567	\$ 233,760	\$ (26,687)	\$ 638	\$ 217,516	
Comprehensive income:							
Net income	—	—	3,401	—	34	3,435	
Other comprehensive loss	—	—	—	(1,982)	—	(1,982)	
Share-based compensation	—	510	—	—	—	510	
Restricted stock vested	26	(26)	—	—	—	—	
Common stock issued	1	45	—	—	—	46	
Common stock purchased	(19)	(1,012)	—	—	—	(1,031)	
Cash dividends declared (\$0.44 per share)	—	—	(1,482)	—	—	(1,482)	
Distributions to noncontrolling interest	—	—	—	—	(63)	(63)	
Balance March 31, 2024	<u>\$ 3,246</u>	<u>\$ 6,084</u>	<u>\$ 235,679</u>	<u>\$ (28,669)</u>	<u>\$ 609</u>	<u>\$ 216,949</u>	

	Attributable to C&F Financial Corporation						Total Equity
	Common Stock	Additional Paid - In Capital	Retained Earnings	Comprehensive Loss, Net	Noncontrolling Interest		
Balance December 31, 2022	\$ 3,331	\$ 12,047	\$ 217,214	\$ (36,958)	\$ 599	\$ 196,233	
Adoption of new accounting standard							
—	—	—	(1,072)	—	—	(1,072)	
Comprehensive income:							
Net income	—	—	6,441	—	56	6,497	
Other comprehensive income	—	—	—	5,035	—	5,035	
Share-based compensation	—	474	—	—	—	474	
Restricted stock vested	19	(19)	—	—	—	—	
Common stock issued	1	46	—	—	—	47	
Common stock purchased	(42)	(2,413)	—	—	—	(2,455)	
Cash dividends declared (\$0.44 per share)	—	—	(1,521)	—	—	(1,521)	
Distributions to noncontrolling interest	—	—	—	—	(54)	(54)	
Balance March 31, 2023	<u>\$ 3,309</u>	<u>\$ 10,135</u>	<u>\$ 221,062</u>	<u>\$ (31,923)</u>	<u>\$ 601</u>	<u>\$ 203,184</u>	

*See notes to consolidated interim financial statements.*

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**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Uaudited)  
(Dollars in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Operating activities:</b>		
Net income	\$ 3,435	\$ 6,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,500	2,050
Accretion of certain acquisition-related discounts, net	(155)	(228)
Share-based compensation	510	474
Depreciation and amortization	937	988
Amortization of premiums and accretion of discounts on securities, net	397	281
Reversal of provision for indemnifications	(140)	—
Income from bank-owned life insurance	(106)	(83)
Pension expense	226	236
Proceeds from sales of loans held for sale	87,479	105,023
Origination of loans held for sale	(94,769)	(115,734)
Gains on sales of loans held for sale	(1,288)	(1,794)
Other gains, net	194	328
Change in other assets and liabilities:		
Accrued interest receivable	(197)	126
Other assets	2,347	2,317
Accrued interest payable	1,151	662
Other liabilities	(2,626)	(978)
Net cash provided by operating activities	<u>895</u>	<u>165</u>
<b>Investing activities:</b>		
Proceeds from sales, maturities and calls of securities available for sale and payments on mortgage-backed securities	37,324	19,729
Purchases of securities available for sale	(8,313)	(14,364)
Purchases of time deposits, net	491	(744)
Repayments on loans held for investment by non-bank affiliates	45,387	39,057
Purchases of loans held for investment by non-bank affiliates	(49,842)	(41,904)
Net increase in community banking loans held for investment	(73,617)	(36,068)
Purchases of corporate premises and equipment	(485)	(515)
Proceeds from sales of other real estate owned	—	29
Other investing activities, net	(566)	(4,714)
Net cash used in investing activities	<u>(49,621)</u>	<u>(39,494)</u>
<b>Financing activities:</b>		
Net decrease in demand and savings deposits	(41,169)	(122,178)
Net increase in time deposits	62,971	114,116
Net (decrease) increase in short-term borrowings	(30,418)	108,987
Proceeds from long-term borrowings	40,000	—
Repurchases of common stock	(1,031)	(2,455)
Cash dividends paid	(1,482)	(1,521)
Other financing activities, net	(97)	(61)
Net cash provided by financing activities	<u>28,774</u>	<u>96,888</u>
Net (decrease) increase in cash and cash equivalents	<u>(19,952)</u>	<u>57,559</u>
Cash and cash equivalents at beginning of period	75,159	26,661
Cash and cash equivalents at end of period	<u>\$ 55,207</u>	<u>\$ 84,220</u>
<b>Supplemental cash flow disclosures:</b>		
Interest paid	\$ 8,390	\$ 3,683
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Adoption of new accounting standard	—	1,072
Liabilities assumed to acquire right of use assets under operating leases	<u>2,487</u>	<u>—</u>

*See notes to consolidated interim financial statements.*

**C&F FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1: Summary of Significant Accounting Policies**

**Principles of Consolidation:** The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (the SEC). They do not include all of the information and notes required by GAAP for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2023 (2023 Annual Report). The accounting and reporting policies of the Corporation conform to GAAP and to predominant practices within the banking industry and are primarily disclosed in the 2023 Annual Report, except as described below related to the adoption of new accounting standards.

The unaudited consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation), its direct wholly-owned subsidiary, Citizens and Farmers Bank (the Bank or C&F Bank) and indirect subsidiaries that are wholly-owned or controlled. Subsidiaries that are less than wholly owned are fully consolidated if they are controlled by the Corporation or one of its subsidiaries, and the portion of any subsidiary not owned by the Corporation is reported as noncontrolling interest. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, the Corporation owns all of the common stock of C&F Financial Statutory Trust I, C&F Financial Statutory Trust II and Central Virginia Bankshares Statutory Trust I, all of which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as liabilities of the Corporation.

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

C&F Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (C&F Wealth Management), C&F Insurance Services, Inc. (C&F Insurance) and CVB Title Services, Inc. (CVB Title), all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, originates and sells residential mortgages, provides mortgage loan origination services to third-party lenders and, through its subsidiary Certified Appraisals LLC, provides ancillary mortgage loan production services for residential appraisals. C&F Mortgage owns a 51 percent interest in C&F Select LLC, which was organized in January 2019 and is also engaged in the business of originating and selling residential mortgages. C&F Finance, acquired in September 2002, is a finance company purchasing automobile, marine and recreational vehicle (RV) loans through indirect lending programs. C&F Wealth Management, organized in April 1995, is a full-service brokerage firm offering a comprehensive range of wealth management services and insurance products through third-party service providers. C&F Insurance and CVB Title were organized for the primary purpose of owning equity interests in an independent insurance agency and a full service title and settlement agency, respectively. Business segment data is presented in Note 10.

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

**Reclassification:** Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. None of these reclassifications are considered material and did not affect net income or total equity.

**Derivative Financial Instruments:** The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the Consolidated Balance Sheets. The Corporation's derivative financial instruments include (1) interest rate swaps that qualify and are designated as cash flow hedges on the Corporation's trust preferred capital notes, (2) interest rate swaps with certain qualifying commercial loan customers and dealer counterparties and (3) interest rate contracts arising from mortgage banking activities, including interest rate lock commitments (IRLCs) on mortgage loans. The gain or loss on the Corporation's cash flow hedges is reported as a component of other comprehensive income (loss), net of deferred income taxes, and reclassified into earnings in the same period(s) during which the hedged transactions affect earnings. IRLCs and interest rate swaps with loan customers and dealer counterparties are not designated as hedging instruments, and therefore changes in the fair value of these instruments are reported as noninterest income. The Corporation's derivative financial instruments are described more fully in Note 12.

**Recent Significant Accounting Pronouncements:** In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, "Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures." The amendments in ASU 2023-07 require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, require other segment items by reportable segment to be disclosed and a description of their composition, and require disclosure of the title and position of the chief operating decision maker and an explanation of how they use the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources. The amendments apply to all public entities that are required to report segment information in accordance with Topic 280, "Segment Reporting," and are effective for fiscal years beginning after December 15, 2023, and interim periods with fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments are to be applied retrospectively to all prior periods presented. The Corporation does not expect the adoption of ASU 2023-07 to have a material effect on its consolidated financial statements.

In November 2023, FASB issued ASU 2023-09, "Income Taxes (Topic 740) – Improvements to Income Tax Disclosures." The amendments in ASU 2023-09 require that a public entity disclose, on an annual basis, specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, the amount of income taxes paid disaggregated by federal, state and foreign taxes, and the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than five percent of total income taxes paid. The amendments also require that entities disclose income from continuing operations before income tax expense disaggregated between domestic and foreign, as well as income tax expense from continuing operations disaggregated by federal, state and foreign. The amendments apply to all public entities that are subject to Topic 740, "Income Taxes," and are effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments are to be applied on a prospective basis; however, retrospective application is permitted. The Corporation does not expect the adoption of ASU 2023-09 to have a material effect on its consolidated financial statements.

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

**NOTE 2: Securities**

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

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 28,944	\$ —	\$ (638)	\$ 28,306
U.S. government agencies and corporations	84,380	—	(9,662)	74,718
Mortgage-backed securities	176,686	52	(17,550)	159,188
Obligations of states and political subdivisions	149,497	1,640	(4,486)	146,651
Corporate and other debt securities	25,177	—	(3,619)	21,558
	<b>\$ 464,684</b>	<b>\$ 1,692</b>	<b>\$ (35,955)</b>	<b>\$ 430,421</b>

<i>(Dollars in thousands)</i>	<b>December 31, 2023</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 45,883	\$ —	\$ (780)	\$ 45,103
U.S. government agencies and corporations	96,407	—	(9,313)	87,094
Mortgage-backed securities	177,734	185	(16,223)	161,696
Obligations of states and political subdivisions	148,875	2,280	(4,044)	147,111
Corporate and other debt securities	25,193	—	(3,753)	21,440
	<b>\$ 494,092</b>	<b>\$ 2,465</b>	<b>\$ (34,113)</b>	<b>\$ 462,444</b>

The amortized cost and estimated fair value of securities at March 31, 2024, by the earlier of contractual maturity or expected maturity, are shown below. The Corporation has elected to exclude accrued interest receivable, totaling \$ 2.76 million at March 31, 2024, from the amortized cost basis of securities. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 90,655	\$ 87,601
Due after one year through five years	174,821	159,652
Due after five years through ten years	127,667	114,580
Due after ten years	71,541	68,588
	<b>\$ 464,684</b>	<b>\$ 430,421</b>

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The following table presents the gross realized gains and losses on and the proceeds from the sales, maturities and calls of securities. During the three months ended March 31, 2024 and 2023 there were no sales of securities.

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Realized gains from sales, maturities and calls of securities:		
Gross realized gains	\$ —	\$ —
Gross realized losses	—	(5)
Net realized losses	\$ —	\$ (5)
Proceeds from sales, maturities, calls and paydowns of securities	<b>\$ 37,324</b>	<b>\$ 19,730</b>

The Corporation pledges securities primarily to secure municipal deposits, repurchase agreements and lines of credit that provide liquidity to the Corporation and C&F Bank. Securities with an aggregate amortized cost of \$205.65 million and an aggregate fair value of \$187.13 million were pledged at March 31, 2024. Securities with an aggregate amortized cost of \$215.97 million and an aggregate fair value of \$198.85 million were pledged at December 31, 2023.

Securities in an unrealized loss position at March 31, 2024, by duration of the period of the unrealized loss, are shown below.

<b>(Dollars in thousands)</b>	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
U.S. Treasury securities	\$ —	—	\$ 28,306	\$ 638	\$ 28,306	\$ 638
U.S. government agencies and corporations	—	—	74,718	9,662	74,718	9,662
Mortgage-backed securities	<b>6,491</b>	<b>119</b>	<b>147,290</b>	<b>17,431</b>	<b>153,781</b>	<b>17,550</b>
Obligations of states and political subdivisions	<b>14,416</b>	<b>183</b>	<b>64,810</b>	<b>4,303</b>	<b>79,226</b>	<b>4,486</b>
Corporate and other debt securities	<b>2,672</b>	<b>328</b>	<b>18,886</b>	<b>3,291</b>	<b>21,558</b>	<b>3,619</b>
Total	<b>\$ 23,579</b>	<b>\$ 630</b>	<b>\$ 334,010</b>	<b>\$ 35,325</b>	<b>\$ 357,589</b>	<b>\$ 35,955</b>

There were 513 debt securities with a fair value below the amortized cost basis, totaling \$ 357.59 million of aggregate fair value as of March 31, 2024. The Corporation concluded that a credit loss did not exist in its securities portfolio at March 31, 2024, and no impairment loss has been recognized based on the fact that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Corporation intends to hold these investments in debt securities to maturity and it is more-likely-than-not that the Corporation will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Corporation's mortgage-backed securities are entirely issued by either U.S. government agencies or U.S. government-sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

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Securities in an unrealized loss position at December 31, 2023, by duration of the period of the unrealized loss, are shown below.

<i>(Dollars in thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	\$ —	—	\$ 45,103	\$ 780	\$ 45,103	\$ 780
U.S. government agencies and corporations	—	—	87,094	9,313	87,094	9,313
Mortgage-backed securities	5,528	68	150,023	16,155	155,551	16,223
Obligations of states and political subdivisions	4,659	72	65,630	3,972	70,289	4,044
Corporate and other debt securities	3,386	364	18,054	3,389	21,440	3,753
Total	<u>\$ 13,573</u>	<u>\$ 504</u>	<u>\$ 365,904</u>	<u>\$ 33,609</u>	<u>\$ 379,477</u>	<u>\$ 34,113</u>

The Corporation's investment in restricted stock totaled \$3.59 million at March 31, 2024 and \$2.93 million at December 31, 2023 and consisted of Federal Home Loan Bank of Atlanta (FHLB) stock. Restricted stock is generally viewed as a long-term investment, which is carried at cost because there is no market for the stock other than the FHLBs. Therefore, when evaluating restricted stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing any temporary decline in value. The Corporation did not consider its investment in restricted stock to be impaired at March 31, 2024 and no impairment has been recognized.

**NOTE 3: Loans**

The Corporation's loans are stated at their face amount, net of deferred fees and costs and discounts, and consist of the classes of loans included in the table below. The Corporation has elected to exclude accrued interest receivable, totaling \$7.83 million at March 31, 2024, from the recorded balance of loans.

<i>(Dollars in thousands)</i>	March 31, 2024	December 31, 2023
	\$	\$
Commercial real estate	\$ 693,603	\$ 668,122
Commercial business	116,236	115,348
Construction - commercial real estate	96,916	69,768
Land acquisition and development	29,644	29,064
Builder lines	28,363	24,668
Construction - consumer real estate	12,471	11,223
Residential mortgage	300,178	293,256
Equity lines	54,463	51,592
Other consumer	9,450	10,588
Consumer finance - automobiles	407,280	401,276
Consumer finance - marine and recreational vehicles	68,823	67,234
Subtotal	<u>1,817,427</u>	<u>1,742,139</u>
Less allowance for credit losses	<u>(40,200)</u>	<u>(39,651)</u>
Loans, net	<u>\$ 1,777,227</u>	<u>\$ 1,702,488</u>

Other consumer loans included \$180,000 and \$228,000 of demand deposit overdrafts at March 31, 2024 and December 31, 2023, respectively.

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The following table shows the aging of the Corporation's loan portfolio, by class, at March 31, 2024:

(Dollars in thousands)	30-59 Days	60-89 Days	90+ Days	Total	Current <sup>1</sup>	Total Loans	90+ Days Past Due and Accruing
	Past Due	Past Due	Past Due	Past Due			
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 693,603	\$ 693,603	\$ —
Commercial business	9	—	—	9	116,227	116,236	—
Construction - commercial real estate	—	—	—	—	96,916	96,916	—
Land acquisition and development	—	—	—	—	29,644	29,644	—
Builder lines	—	—	—	—	28,363	28,363	—
Construction - consumer real estate	—	—	—	—	12,471	12,471	—
Residential mortgage	780	—	216	996	299,182	300,178	216
Equity lines	457	—	161	618	53,845	54,463	62
Other consumer	78	—	9	87	9,363	9,450	—
Consumer finance - automobiles	10,782	1,330	705	12,817	394,463	407,280	—
Consumer finance - marine and recreational vehicles	385	—	36	421	68,402	68,823	—
Total	<u>\$ 12,491</u>	<u>\$ 1,330</u>	<u>\$ 1,127</u>	<u>\$ 14,948</u>	<u>\$ 1,802,479</u>	<u>\$ 1,817,427</u>	<u>\$ 278</u>

<sup>1</sup> For the purposes of the table above, "Current" includes loans that are 1-29 days past due.

The table above includes nonaccrual loans that are current of \$ 155,000, 30-59 days past due of \$ 286,000 and 90+ days past due of \$850,000.

The following table shows the aging of the Corporation's loan portfolio, by class, at December 31, 2023:

(Dollars in thousands)	30-59 Days	60-89 Days	90+ Days	Total	Current <sup>1</sup>	Total Loans	90+ Days Past Due and Accruing
	Past Due	Past Due	Past Due	Past Due			
Commercial real estate	\$ 92	\$ —	\$ —	\$ 92	\$ 668,030	\$ 668,122	\$ —
Commercial business	—	—	1	1	115,347	115,348	1
Construction - commercial real estate	—	—	—	—	69,768	69,768	—
Land acquisition and development	—	—	—	—	29,064	29,064	—
Builder lines	—	—	—	—	24,668	24,668	—
Construction - consumer real estate	—	—	—	—	11,223	11,223	—
Residential mortgage	1,643	387	273	2,303	290,953	293,256	89
Equity lines	215	103	115	433	51,159	51,592	38
Other consumer	3	—	9	12	10,576	10,588	—
Consumer finance - automobiles	15,263	2,628	892	18,783	382,493	401,276	—
Consumer finance - marine and recreational vehicles	282	115	—	397	66,837	67,234	—
Total	<u>\$ 17,498</u>	<u>\$ 3,233</u>	<u>\$ 1,290</u>	<u>\$ 22,021</u>	<u>\$ 1,720,118</u>	<u>\$ 1,742,139</u>	<u>\$ 128</u>

<sup>1</sup> For the purposes of the table above, "Current" includes loans that are 1-29 days past due.

The table above includes nonaccrual loans that are current of \$ 113,000, 60-89 days past due of \$ 22,000 and 90+ days past due of \$1.16 million.

The following table shows the Corporation's recorded balance of loans on nonaccrual status as of March 31, 2024 and December 31, 2023. The Corporation recognized \$3,000 in interest income on loans on nonaccrual status as of March 31, 2024 and had no reversals of interest income upon placing loans on nonaccrual status during the three months ended March 31, 2024. All nonaccrual loans at March 31, 2024 had an allowance for credit losses.

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<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Residential mortgage	\$ 441	\$ 320
Equity lines	99	77
Other consumer	10	9
Consumer finance - automobiles	705	892
Consumer finance - marine and recreational vehicles	36	—
Total	<b>\$ 1,291</b>	<b>\$ 1,298</b>

Occasionally, the Corporation modifies loans to borrowers experiencing financial difficulties by providing principal forgiveness, term extensions, interest rate reductions or other-than-insignificant payment delays. As the effect of most modifications is already included in the allowance for credit losses due to the measurement methodologies used in its estimate, the allowance for credit losses is typically not adjusted upon modification. When principal forgiveness is provided at modification, the amount forgiven is charged against the allowance for credit losses. In some cases, the Corporation may provide multiple types of modifications on one loan and when multiple types of modifications occur within the same period, the combination of modifications is separately reported.

The following table presents the amortized cost basis of loans as of March 31, 2024 and 2023 that were both experiencing financial difficulty and modified during the three months ended March 31, 2024 and 2023.

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31, 2024</b>		<b>Three Months Ended March 31, 2023</b>	
	<b>Amortized Cost</b>	<b>% of Total Class of Financing Receivable</b>	<b>Amortized Cost</b>	<b>% of Total Class of Financing Receivable</b>
<b>Term Extension</b>				
Residential mortgage	\$ 341	0.1 %	\$ —	— %
Total Term Extension	<b>\$ 341</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>
<b>Combination Term Extension and Interest Rate Reduction</b>				
Commercial real estate	\$ —	— %	\$ 47	— %
Residential mortgage	19	—	—	—
Total Combination Term Extension and Interest Rate Reduction	<b>\$ 19</b>	<b>\$ 47</b>	<b>47</b>	<b>— %</b>
Total	<b>\$ 360</b>	<b>0.1 %</b>	<b>\$ 47</b>	<b>— %</b>

The following table presents the financial effects of the loan modifications presented above to borrowers experiencing financial difficulty for the three months ended March 31, 2024 and 2023.

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31, 2024</b>		<b>Three Months Ended March 31, 2023</b>	
	<b>Weighted- Average Interest Rate Reduction</b>	<b>Weighted- Average Term Extension (in years)</b>	<b>Weighted- Average Interest Rate Reduction</b>	<b>Weighted- Average Term Extension (in years)</b>
Commercial real estate	— %	—	0.75 %	4.9
Residential mortgage	1.51	6.9	—	—
Total	<b>1.51 %</b>	<b>6.9</b>	<b>0.75 %</b>	<b>4.9</b>

The Corporation closely monitors the performance of modified loans to understand the effectiveness of its modification efforts. Upon the determination that all or a portion of a modified loan is uncollectible, that amount is charged against the allowance for credit losses. There were no payment defaults during the three months ended March 31, 2024 and 2023 of modified loans that were modified during the previous twelve months and all were current as of March 31, 2024.

**NOTE 4: Allowance for Credit Losses**

The Corporation conducts an analysis of the collectability of the loan portfolio on a regular basis and uses this analysis to assess the sufficiency of the allowance for credit losses on loans and to determine the necessary provision for credit losses. The Corporation segmented the loan portfolio into three loan portfolios based on common risk characteristics. The Commercial portfolio consists of commercial real estate loans, commercial business loans, commercial and consumer real estate construction loans, land acquisition and development loans, and builder lines. The Consumer portfolio consists of residential mortgage loans, equity lines, and other consumer loans. The Consumer Finance portfolio consists of automobile and marine and RV loans.

The following table shows the allowance for credit losses activity by loan portfolio for the three months ended March 31, 2024 and 2023:

<i>(Dollars in thousands)</i>	Commercial	Consumer	Consumer Finance	Total
Allowance for credit losses:				
Balance at December 31, 2023	\$ 12,315	\$ 3,758	\$ 23,578	\$ 39,651
Provision charged to operations	535	65	3,000	3,600
Loans charged off	—	(101)	(4,103)	(4,204)
Recoveries of loans previously charged off	9	53	1,091	1,153
Balance at March 31, 2024	<u>\$ 12,859</u>	<u>\$ 3,775</u>	<u>\$ 23,566</u>	<u>\$ 40,200</u>

<i>(Dollars in thousands)</i>	Commercial	Consumer	Consumer Finance	Total
Allowance for credit losses:				
Balance at December 31, 2022	\$ 11,219	\$ 3,330	\$ 25,969	\$ 40,518
Impact of ASC 326 adoption on non-PCD loans	(617)	98	406	(113)
Impact of ASC 326 adoption on PCD loans	595	9	—	604
Provision charged to operations	233	117	1,600	1,950
Loans charged off	(16)	(89)	(3,108)	(3,213)
Recoveries of loans previously charged off	35	45	1,008	1,088
Balance at March 31, 2023	<u>\$ 11,449</u>	<u>\$ 3,510</u>	<u>\$ 25,875</u>	<u>\$ 40,834</u>

The following table presents a breakdown of the provision for credit losses for the periods indicated.

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Provision for credit losses:		
Provision for loans	\$ 3,600	\$ 1,950
Provision for unfunded commitments	(100)	100
Total	<u>\$ 3,500</u>	<u>\$ 2,050</u>

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The table below details the recorded balance of the classes of loans within the commercial and consumer loan portfolios by loan rating, which is reviewed on a quarterly basis, and year of origination as of March 31, 2024:

(Dollars in thousands)	Term Loans Recorded Balance by Origination Year						Revolving Loans Recorded Balance	Revolving Loans Converted to Term <sup>1</sup>	Total
	2024	2023	2022	2021	2020	Prior			
<b>Commercial real estate:</b>									
Loan Rating									
Pass	\$ 43,928	\$ 80,300	\$ 124,273	\$ 153,348	\$ 114,997	\$ 169,989	\$ —	\$ 116	\$ 686,951
Special Mention	—	—	—	5,699	—	953	—	—	6,652
Total	<u>\$ 43,928</u>	<u>\$ 80,300</u>	<u>\$ 124,273</u>	<u>\$ 159,047</u>	<u>\$ 114,997</u>	<u>\$ 170,942</u>	<u>\$ —</u>	<u>\$ 116</u>	<u>\$ 693,603</u>
<b>Commercial business:</b>									
Loan Rating									
Pass	\$ 2,533	\$ 16,156	\$ 18,358	\$ 16,552	\$ 11,782	\$ 27,633	\$ 22,967	\$ 169	\$ 116,150
Special Mention	27	59	—	—	—	—	—	—	86
Total	<u>\$ 2,560</u>	<u>\$ 16,215</u>	<u>\$ 18,358</u>	<u>\$ 16,552</u>	<u>\$ 11,782</u>	<u>\$ 27,633</u>	<u>\$ 22,967</u>	<u>\$ 169</u>	<u>\$ 116,236</u>
<b>Construction - commercial real estate:</b>									
Loan Rating									
Pass	\$ 5,771	\$ 38,685	\$ 48,979	\$ —	\$ 3,481	\$ —	\$ —	\$ —	\$ 96,916
Total	<u>\$ 5,771</u>	<u>\$ 38,685</u>	<u>\$ 48,979</u>	<u>\$ —</u>	<u>\$ 3,481</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 96,916</u>
<b>Land acquisition and development:</b>									
Loan Rating									
Pass	\$ 265	\$ 5,959	\$ 4,251	\$ 9,176	\$ 9,993	\$ —	\$ —	\$ —	\$ 29,644
Total	<u>\$ 265</u>	<u>\$ 5,959</u>	<u>\$ 4,251</u>	<u>\$ 9,176</u>	<u>\$ 9,993</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,644</u>
<b>Builder lines:</b>									
Loan Rating									
Pass	\$ 8,790	\$ 16,055	\$ 3,020	\$ 94	\$ —	\$ 404	\$ —	\$ —	\$ 28,363
Total	<u>\$ 8,790</u>	<u>\$ 16,055</u>	<u>\$ 3,020</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ 404</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,363</u>
<b>Construction - consumer real estate:</b>									
Loan Rating									
Pass	\$ 456	\$ 9,976	\$ 1,651	\$ —	\$ —	\$ —	\$ 388	\$ —	\$ 12,471
Total	<u>\$ 456</u>	<u>\$ 9,976</u>	<u>\$ 1,651</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 388</u>	<u>\$ —</u>	<u>\$ 12,471</u>
<b>Residential mortgage:</b>									
Loan Rating									
Pass	\$ 13,949	\$ 60,002	\$ 88,854	\$ 43,262	\$ 38,608	\$ 54,635	\$ —	\$ —	\$ 299,310
Special Mention	—	—	—	—	—	43	—	—	43
Substandard	—	—	—	—	103	281	—	—	384
Substandard Nonaccrual	134	—	—	—	—	307	—	—	441
Total	<u>\$ 14,083</u>	<u>\$ 60,002</u>	<u>\$ 88,854</u>	<u>\$ 43,262</u>	<u>\$ 38,711</u>	<u>\$ 55,266</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 300,178</u>
<b>Equity lines:</b>									
Loan Rating									
Pass	\$ —	\$ —	\$ —	\$ —	\$ 70	\$ 850	\$ 53,048	\$ 329	\$ 54,297
Substandard	—	—	—	—	—	5	—	62	67
Substandard Nonaccrual	—	—	—	—	—	—	—	99	99
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 70</u>	<u>\$ 855</u>	<u>\$ 53,048</u>	<u>\$ 490</u>	<u>\$ 54,463</u>
<b>Other consumer:</b>									
Loan Rating									
Pass	\$ 1,101	\$ 4,394	\$ 2,389	\$ 516	\$ 219	\$ 770	\$ 51	\$ —	\$ 9,440
Substandard Nonaccrual	—	—	—	—	—	10	—	10	10
Total	<u>\$ 1,101</u>	<u>\$ 4,394</u>	<u>\$ 2,389</u>	<u>\$ 516</u>	<u>\$ 219</u>	<u>\$ 780</u>	<u>\$ 51</u>	<u>\$ —</u>	<u>\$ 9,450</u>
<b>Total:</b>									
Loan Rating									
Pass	\$ 76,793	\$ 231,527	\$ 291,775	\$ 222,948	\$ 179,150	\$ 254,281	\$ 76,454	\$ 614	\$ 1,333,542
Special Mention	27	59	—	5,699	—	996	—	—	6,781
Substandard	—	—	—	—	103	286	—	62	451
Substandard Nonaccrual	134	—	—	—	—	317	—	99	550
Total	<u>\$ 76,954</u>	<u>\$ 231,586</u>	<u>\$ 291,775</u>	<u>\$ 228,647</u>	<u>\$ 179,253</u>	<u>\$ 255,880</u>	<u>\$ 76,454</u>	<u>\$ 775</u>	<u>\$ 1,341,324</u>

<sup>1</sup> For the three months ended March 31, 2024, \$58,000 of equity lines revolving loans were converted to term.

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The table below details the recorded balance of the classes of loans within the commercial and consumer loan portfolios by loan rating, which is reviewed on a quarterly basis, and year of origination as of December 31, 2023:

(Dollars in thousands)	Term Loans Recorded Balance by Origination Year						Revolving Loans Recorded Balance	Revolving Loans Converted to Term <sup>1</sup>	Total
	2023	2022	2021	2020	2019	Prior			
<b>Commercial real estate:</b>									
Loan Rating									
Pass	\$ 81,324	\$ 125,278	\$ 155,805	\$ 121,365	\$ 37,383	\$ 140,158	\$ —	\$ 119	\$ 661,432
Special Mention	—	—	5,731	—	—	959	—	—	6,690
Total	<u>\$ 81,324</u>	<u>\$ 125,278</u>	<u>\$ 161,536</u>	<u>\$ 121,365</u>	<u>\$ 37,383</u>	<u>\$ 141,117</u>	<u>\$ —</u>	<u>\$ 119</u>	<u>\$ 668,122</u>
<b>Commercial business:</b>									
Loan Rating									
Pass	\$ 18,682	\$ 18,190	\$ 17,219	\$ 12,062	\$ 14,847	\$ 15,339	\$ 18,686	\$ 261	\$ 115,286
Special Mention	62	—	—	—	—	—	—	—	62
Total	<u>\$ 18,744</u>	<u>\$ 18,190</u>	<u>\$ 17,219</u>	<u>\$ 12,062</u>	<u>\$ 14,847</u>	<u>\$ 15,339</u>	<u>\$ 18,686</u>	<u>\$ 261</u>	<u>\$ 115,348</u>
<b>Construction - commercial real estate:</b>									
Loan Rating									
Pass	\$ 29,346	\$ 36,907	\$ —	\$ 3,515	\$ —	\$ —	\$ —	\$ —	\$ 69,768
Total	<u>\$ 29,346</u>	<u>\$ 36,907</u>	<u>\$ —</u>	<u>\$ 3,515</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 69,768</u>
<b>Land acquisition and development:</b>									
Loan Rating									
Pass	\$ 4,562	\$ 4,665	\$ 9,844	\$ 9,993	\$ —	\$ —	\$ —	\$ —	\$ 29,064
Total	<u>\$ 4,562</u>	<u>\$ 4,665</u>	<u>\$ 9,844</u>	<u>\$ 9,993</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,064</u>
<b>Builder lines:</b>									
Loan Rating									
Pass	\$ 17,919	\$ 5,124	\$ 1,221	\$ —	\$ 404	\$ —	\$ —	\$ —	\$ 24,668
Total	<u>\$ 17,919</u>	<u>\$ 5,124</u>	<u>\$ 1,221</u>	<u>\$ —</u>	<u>\$ 404</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 24,668</u>
<b>Construction - consumer real estate:</b>									
Loan Rating									
Pass	\$ 7,889	\$ 3,240	\$ —	\$ —	\$ —	\$ —	\$ 94	\$ —	\$ 11,223
Total	<u>\$ 7,889</u>	<u>\$ 3,240</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ 11,223</u>
<b>Residential mortgage:</b>									
Loan Rating									
Pass	\$ 59,441	\$ 91,086	\$ 44,292	\$ 40,089	\$ 11,524	\$ 46,192	\$ —	\$ —	\$ 292,624
Special Mention	—	—	—	—	—	44	—	—	44
Substandard	—	—	—	103	—	165	—	—	268
Substandard Nonaccrual	—	—	—	—	62	258	—	—	320
Total	<u>\$ 59,441</u>	<u>\$ 91,086</u>	<u>\$ 44,292</u>	<u>\$ 40,192</u>	<u>\$ 11,586</u>	<u>\$ 46,659</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 293,256</u>
<b>Equity lines:</b>									
Loan Rating									
Pass	\$ —	\$ —	\$ 34	\$ 70	\$ —	\$ 857	\$ 50,120	\$ 344	\$ 51,425
Special Mention	—	—	—	—	—	—	—	85	85
Substandard	—	—	—	—	5	—	—	—	5
Substandard Nonaccrual	—	—	—	—	—	9	—	68	77
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34</u>	<u>\$ 70</u>	<u>\$ 5</u>	<u>\$ 866</u>	<u>\$ 50,120</u>	<u>\$ 497</u>	<u>\$ 51,592</u>
<b>Other consumer:</b>									
Loan Rating									
Pass	\$ 6,263	\$ 2,762	\$ 606	\$ 282	\$ 101	\$ 519	\$ 46	\$ —	\$ 10,579
Substandard Nonaccrual	—	—	—	—	9	—	—	—	9
Total	<u>\$ 6,263</u>	<u>\$ 2,762</u>	<u>\$ 606</u>	<u>\$ 282</u>	<u>\$ 110</u>	<u>\$ 519</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 10,588</u>
<b>Total:</b>									
Loan Rating									
Pass	\$ 225,426	\$ 287,252	\$ 229,021	\$ 187,376	\$ 64,259	\$ 203,065	\$ 68,946	\$ 724	\$ 1,266,069
Special Mention	62	—	5,731	—	—	1,003	—	85	6,881
Substandard	—	—	—	103	5	165	—	—	273
Substandard Nonaccrual	—	—	—	—	71	267	—	68	406
Total	<u>\$ 225,488</u>	<u>\$ 287,252</u>	<u>\$ 234,752</u>	<u>\$ 187,479</u>	<u>\$ 64,335</u>	<u>\$ 204,500</u>	<u>\$ 68,946</u>	<u>\$ 877</u>	<u>\$ 1,273,629</u>

<sup>1</sup> All balances shown in this column were converted to term during the year ended December 31, 2023.

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The table below details the recorded balance of the classes of loans within the consumer finance loan portfolio by credit rating at the time of origination and year of origination as of March 31, 2024:

(Dollars in thousands)	Term Loans Recorded Balance by Origination Year						Revolving Loans	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
<b>Consumer finance - automobiles:</b>									
Credit rating									
Very good	\$ 9,080	\$ 13,972	\$ 11,117	\$ 3,764	\$ 866	\$ 232	\$ —	\$ —	\$ 39,031
Good	11,947	33,653	39,081	13,875	2,806	1,014	—	—	102,376
Fairly good	12,408	42,347	50,225	23,953	5,272	4,227	—	—	138,432
Fair	6,702	27,277	33,698	19,558	6,086	5,275	—	—	98,596
Marginal	1,489	5,980	8,042	6,980	2,828	3,526	—	—	28,845
Total	<u>\$ 41,626</u>	<u>\$123,229</u>	<u>\$142,163</u>	<u>\$ 68,130</u>	<u>\$ 17,858</u>	<u>\$ 14,274</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 407,280</u>
<b>Consumer finance - marine and recreational vehicles:</b>									
Credit rating									
Very good	\$ 3,529	\$ 7,171	\$ 14,336	\$ 9,388	\$ 9,454	\$ 4,650	\$ —	\$ —	\$ 48,528
Good	996	7,139	7,895	1,553	1,301	835	—	—	19,719
Fairly good	—	256	219	36	29	36	—	—	576
Total	<u>\$ 4,525</u>	<u>\$ 14,566</u>	<u>\$ 22,450</u>	<u>\$ 10,977</u>	<u>\$ 10,784</u>	<u>\$ 5,521</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 68,823</u>
<b>Total:</b>									
Credit rating									
Very good	\$ 12,609	\$ 21,143	\$ 25,453	\$ 13,152	\$ 10,320	\$ 4,882	\$ —	\$ —	\$ 87,559
Good	12,943	40,792	46,976	15,428	4,107	1,849	—	—	122,095
Fairly good	12,408	42,603	50,444	23,989	5,301	4,263	—	—	139,008
Fair	6,702	27,277	33,698	19,558	6,086	5,275	—	—	98,596
Marginal	1,489	5,980	8,042	6,980	2,828	3,526	—	—	28,845
Total	<u>\$ 46,151</u>	<u>\$137,795</u>	<u>\$164,613</u>	<u>\$ 79,107</u>	<u>\$ 28,642</u>	<u>\$ 19,795</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 476,103</u>

The table below details the recorded balance of the classes of loans within the consumer finance loan portfolio by credit rating at the time of origination and year of origination as of December 31, 2023:

(Dollars in thousands)	Term Loans Recorded Balance by Origination Year						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
<b>Consumer finance - automobiles:</b>									
Credit rating									
Very good	\$ 14,916	\$ 12,395	\$ 4,291	\$ 1,012	\$ 277	\$ 22	\$ —	\$ —	\$ 32,913
Good	35,203	42,800	15,530	3,338	1,090	325	—	—	98,286
Fairly good	44,227	54,968	26,645	6,186	3,984	1,470	—	—	137,480
Fair	28,779	36,794	22,266	7,014	4,808	1,908	—	—	101,569
Marginal	6,359	8,956	7,715	3,322	2,832	1,844	—	—	31,028
Total	<u>\$ 129,484</u>	<u>\$155,913</u>	<u>\$ 76,447</u>	<u>\$ 20,872</u>	<u>\$ 12,991</u>	<u>\$ 5,569</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 401,276</u>
<b>Consumer finance - marine and recreational vehicles:</b>									
Credit rating									
Very good	\$ 7,481	\$ 15,000	\$ 9,857	\$ 9,952	\$ 2,518	\$ 2,438	\$ —	\$ —	\$ 47,246
Good	7,419	8,130	1,602	1,384	410	453	—	—	19,398
Fairly good	265	221	37	30	—	37	—	—	590
Total	<u>\$ 15,165</u>	<u>\$ 23,351</u>	<u>\$ 11,496</u>	<u>\$ 11,366</u>	<u>\$ 2,928</u>	<u>\$ 2,928</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 67,234</u>
<b>Total:</b>									
Credit rating									
Very good	\$ 22,397	\$ 27,395	\$ 14,148	\$ 10,964	\$ 2,795	\$ 2,460	\$ —	\$ —	\$ 80,159
Good	42,622	50,930	17,132	4,722	1,500	778	—	—	117,684
Fairly good	44,492	55,189	26,682	6,216	3,984	1,507	—	—	138,070
Fair	28,779	36,794	22,266	7,014	4,808	1,908	—	—	101,569
Marginal	6,359	8,956	7,715	3,322	2,832	1,844	—	—	31,028
Total	<u>\$ 144,649</u>	<u>\$179,264</u>	<u>\$ 87,943</u>	<u>\$ 32,238</u>	<u>\$ 15,919</u>	<u>\$ 8,497</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 468,510</u>

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The following table details the current period gross charge-offs of loans by year of origination for the three months ended March 31, 2024:

<i>(Dollars in thousands)</i>	Current Period Gross Charge-offs by Origination Year						Revolving Loans		
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Converted to Term	Total
Residential mortgage	\$ 3	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3
Other consumer <sup>1</sup>	90	3	5	—	—	—	—	—	98
Consumer finance - automobiles	—	724	1,869	1,059	213	190	—	—	4,055
Consumer finance - marine and recreational vehicles	—	17	23	—	8	—	—	—	48
<b>Total</b>	<b>\$ 93</b>	<b>\$ 744</b>	<b>\$ 1,897</b>	<b>\$ 1,059</b>	<b>\$ 221</b>	<b>\$ 190</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,204</b>

<sup>1</sup> Gross charge-offs of other consumer loans for the three months ended March 31, 2024 included \$90,000 of demand deposit overdrafts that originated in 2024.

The following table details the current period gross charge-offs of loans by year of origination for the three months ended March 31, 2023:

<i>(Dollars in thousands)</i>	Current Period Gross Charge-offs by Origination Year						Revolving Loans		
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Total
Commercial business	\$ —	\$ 16	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16
Construction - consumer real estate	—	—	—	—	—	—	8	—	8
Other consumer <sup>1</sup>	81	—	—	—	—	—	—	—	81
Consumer finance - automobiles	—	1,384	938	320	135	285	—	—	3,062
Consumer finance - marine and recreational vehicles	—	46	—	—	—	—	—	—	46
<b>Total</b>	<b>\$ 81</b>	<b>\$ 1,446</b>	<b>\$ 938</b>	<b>\$ 320</b>	<b>\$ 135</b>	<b>\$ 285</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ 3,213</b>

<sup>1</sup> Gross charge-offs of other consumer loans for the three months ended March 31, 2023 included \$81,000 of demand deposit overdrafts that originated in 2023.

Gross charge-offs increased for the three months ended March 31, 2024 compared to the same period in 2023 due primarily to higher charge-offs within the consumer finance-automobile portfolio segment as a result of an increase in the number of delinquent loans and repossessions, which coupled with a decline in wholesale values of used automobiles, results in an increased charge-off amount on a per-unit basis.

As of March 31, 2024 and December 31, 2023, the Corporation had no collateral dependent loans for which repayment was expected to be derived substantially through the operation or sale of the collateral and where the borrower is experiencing financial difficulty.

**NOTE 5: Goodwill and Other Intangible Assets**

The carrying amount of goodwill was \$25.19 million at March 31, 2024 and December 31, 2023. There were no changes in the recorded balance of goodwill during the three months ended March 31, 2024 or 2023.

The Corporation had \$1.34 million and \$1.41 million of other intangible assets as of March 31, 2024 and December 31, 2023, respectively. Other intangible assets were recognized in connection with the core deposits acquired from Peoples Bankshares, Incorporated in 2020 and customer relationships acquired by C&F Wealth Management in 2016. The following table summarizes the gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	March 31,		December 31,	
	2024		2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Core deposit intangibles	\$ 1,711	\$ (616)	\$ 1,711	\$ (588)
Other amortizable intangibles	1,405	(1,158)	1,405	(1,121)
Total	\$ 3,116	\$ (1,774)	\$ 3,116	\$ (1,709)

Amortization expense was \$65,000 and \$68,000 for the three months ended March 31, 2024 and 2023, respectively.

**NOTE 6: Equity, Other Comprehensive Income (Loss) and Earnings Per Share****Equity and Noncontrolling Interest**

The Board of Directors authorized a program, effective January 1, 2024, to repurchase up to \$ 10.00 million of the Corporation's common stock through December 31, 2024 (the 2024 Repurchase Program). During the three months ended March 31, 2024, the Corporation repurchased \$516,000 of its common stock under the 2024 Repurchase Program. As of March 31, 2024, there was \$9.48 million remaining available for repurchases of the Corporation's common stock under the 2024 Repurchase Program.

The Corporation's previous share repurchase program, which was authorized by the Board of Directors in December 2022, expired on December 31, 2023. The Corporation repurchased \$2.06 million under the previous share repurchase program during the three months ended March 31, 2023.

Additionally during the three months ended March 31, 2024 and 2023, the Corporation withheld 9,151 shares and 6,257 shares of its common stock, respectively, from employees to satisfy tax withholding obligations upon vesting of restricted stock.

Noncontrolling interest represents an ownership interest in C&F Select LLC, a subsidiary of C&F Mortgage, held by an unrelated investor.

**Accumulated Other Comprehensive Income (Loss), Net**

Changes in each component of accumulated other comprehensive loss were as follows for the three months ended March 31, 2024 and 2023:

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<b>(Dollars in thousands)</b>	<b>Securities Available For Sale</b>	<b>Defined Benefit Plan</b>	<b>Cash Flow Hedges</b>	<b>Total</b>
Accumulated other comprehensive (loss) income at December 31, 2023	<u>\$ (25,002)</u>	<u>\$ (2,752)</u>	<u>\$ 1,067</u>	<u>\$ (26,687)</u>
Other comprehensive (loss) income arising during the period	<u>(2,615)</u>	<u>—</u>	<u>106</u>	<u>(2,509)</u>
Related income tax effects	<u>549</u>	<u>—</u>	<u>(27)</u>	<u>522</u>
	<u><u>(2,066)</u></u>	<u><u>—</u></u>	<u><u>79</u></u>	<u><u>(1,987)</u></u>
Reclassifications into net income	<u>—</u>	<u>9</u>	<u>(3)</u>	<u>6</u>
Related income tax effects	<u>—</u>	<u>(2)</u>	<u>1</u>	<u>(1)</u>
	<u><u>—</u></u>	<u><u>7</u></u>	<u><u>(2)</u></u>	<u><u>5</u></u>
Other comprehensive (loss) income, net of tax	<u>(2,066)</u>	<u>7</u>	<u>77</u>	<u>(1,982)</u>
Accumulated other comprehensive (loss) income at March 31, 2024	<u><u>\$ (27,068)</u></u>	<u><u>\$ (2,745)</u></u>	<u><u>\$ 1,144</u></u>	<u><u>\$ (28,669)</u></u>
<b>(Dollars in thousands)</b>	<b>Securities Available For Sale</b>	<b>Defined Benefit Plan</b>	<b>Cash Flow Hedges</b>	<b>Total</b>
Accumulated other comprehensive (loss) income at December 31, 2022	<u>\$ (35,184)</u>	<u>\$ (3,236)</u>	<u>\$ 1,462</u>	<u>\$ (36,958)</u>
Other comprehensive income (loss) arising during the period	<u>6,680</u>	<u>—</u>	<u>(353)</u>	<u>6,327</u>
Related income tax effects	<u>(1,403)</u>	<u>—</u>	<u>91</u>	<u>(1,312)</u>
	<u><u>5,277</u></u>	<u><u>—</u></u>	<u><u>(262)</u></u>	<u><u>5,015</u></u>
Reclassifications into net income	<u>5</u>	<u>21</u>	<u>(2)</u>	<u>24</u>
Related income tax effects	<u>(1)</u>	<u>(4)</u>	<u>1</u>	<u>(4)</u>
	<u><u>4</u></u>	<u><u>17</u></u>	<u><u>(1)</u></u>	<u><u>20</u></u>
Other comprehensive income (loss), net of tax	<u>5,281</u>	<u>17</u>	<u>(263)</u>	<u>5,035</u>
Accumulated other comprehensive (loss) income at March 31, 2023	<u><u>\$ (29,903)</u></u>	<u><u>\$ (3,219)</u></u>	<u><u>\$ 1,199</u></u>	<u><u>\$ (31,923)</u></u>

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The following table provides information regarding reclassifications from accumulated other comprehensive loss into net income for the three months ended March 31, 2024 and 2023:

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>		<b>Line Item In the Consolidated Statements of Income</b>
	<b>2024</b>	<b>2023</b>	
Securities available for sale:			Net losses on sales, maturities and calls of available for sale securities
Reclassification of net realized losses into net income	\$ —	\$ (5)	
Related income tax effects	—	1	Income tax expense
	—	(4)	Net of tax
Defined benefit plan: <sup>1</sup>			
Reclassification of recognized net actuarial losses into net income	(27)	(38)	Noninterest expenses - Other
Amortization of prior service credit into net income	18	17	Noninterest expenses - Other
Related income tax effects	2	4	Income tax expense
	(7)	(17)	Net of tax
Cash flow hedges:			
Amortization of hedging gains into net income	3	2	Interest expense - Trust preferred capital notes
Related income tax effects	(1)	(1)	Income tax expense
	2	1	Net of tax
<b>Total reclassifications into net income</b>	<b>\$ (5)</b>	<b>\$ (20)</b>	

<sup>1</sup> See "Note 8: Employee Benefit Plans," for additional information.

**Earnings Per Share (EPS)**

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

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net income attributable to C&F Financial Corporation	\$ 3,401	\$ 6,441
Weighted average shares outstanding—basic and diluted	3,370,934	3,464,895

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

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**NOTE 7: Share-Based Plans**

As permitted under the 2022 Stock and Incentive Compensation Plan, and previously under the 2013 Stock and Incentive Compensation Plan until April 19, 2022, the Corporation awards shares of restricted stock to certain key employees, non-employee directors and consultants. Restricted shares awarded to employees generally vest over periods up to five years, and restricted shares awarded to non-employee directors generally vest over periods up to three years. A summary of the activity for restricted stock awards for the periods indicated is presented below:

	2024		
	Shares	Weighted-Average Grant Date Fair Value	
Unvested, December 31, 2023	135,694	\$ 52.13	
Granted	11,775	52.93	
Vested	(26,096)	47.74	
Forfeited	(135)	58.42	
Unvested, March 31, 2024	<u>121,238</u>	<u>53.15</u>	

  

	2023		
	Shares	Weighted-Average Grant Date Fair Value	
Unvested, December 31, 2022	145,677	\$ 48.88	
Granted	10,655	59.00	
Vested	(19,408)	52.34	
Forfeited	(1,170)	50.54	
Unvested, March 31, 2023	<u>135,754</u>	<u>49.16</u>	

Share-based compensation expense, net of forfeitures, for the three months ended March 31, 2024 was \$ 510,000 (\$313,000 after tax) for restricted stock granted during 2019 through 2024. Share-based compensation expense, net of forfeitures, for the three months ended March 31, 2023 was \$474,000 (\$296,000 after tax) for restricted stock granted during 2018 through 2023. As of March 31, 2024, there was \$3.78 million of total unrecognized compensation expense related to unvested restricted stock that will be recognized over the remaining requisite service periods.

**NOTE 8: Employee Benefit Plans**

The following table summarizes the components of net periodic benefit cost for the Bank's non-contributory cash balance pension plan.

	Three Months Ended March 31,	
	2024	2023
<b>(Dollars in thousands)</b>		
Components of net periodic benefit cost:		
Service cost, included in salaries and employee benefits	\$ 369	\$ 358
Other components of net periodic benefit cost:		
Interest cost	189	182
Expected return on plan assets	(341)	(325)
Amortization of prior service credit	(18)	(17)
Recognized net actuarial losses	27	38
Other components of net periodic benefit cost, included in other noninterest expense	(143)	(122)
Net periodic benefit cost	<u>\$ 226</u>	<u>\$ 236</u>

#### **NOTE 9: Fair Value of Assets and Liabilities**

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

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

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

#### ***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

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

**Securities available for sale.** The Corporation primarily values its investment portfolio using Level 2 fair value measurements, but may also use Level 1 or Level 3 measurements if required by the composition of the portfolio. At March 31, 2024 and December 31, 2023, the Corporation's entire securities portfolio was comprised of investments in debt securities classified as available for sale, which were valued using Level 2 fair value measurements. The Corporation has contracted with third party portfolio accounting service vendors for valuation of its securities portfolio. The vendors' sources for security valuation are ICE Data Services (ICE), Refinitiv, and Bloomberg Valuation Service (BVAL). Each source provides opinions, known as evaluated prices, as to the value of individual securities based on model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. ICE provides evaluated prices for the Corporation's obligations of states and political subdivisions category of securities. ICE uses proprietary pricing models and pricing systems, mathematical tools and judgment to determine an evaluated price for a security based upon a hierarchy of market information regarding that security or securities with similar characteristics. Refinitiv and BVAL provide evaluated prices for the Corporation's U.S. treasury, government agencies and corporations, mortgage-backed, and corporate categories of securities. U.S. treasury securities and fixed-rate callable securities of U.S. government agencies and corporations are individually evaluated on an option adjusted spread basis for callable issues or on a nominal spread basis incorporating the term structure of agency market spreads and the appropriate risk free benchmark curve for non-callable issues. Pass-through mortgage-backed securities (MBS) in the mortgage-backed category are grouped into aggregate categories defined by issuer program, weighted average coupon, and weighted average maturity. Each aggregate is benchmarked to relative to-be-announced mortgage-backed securities (TBA securities) or other benchmark prices. TBA securities prices are obtained from market makers and live trading systems. Collateralized mortgage obligations in the mortgage-backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Each evaluation is determined using an option adjusted spread and

prepayment model based on volatility-driven, multi-dimensional spread tables. Fixed-rate securities issued by the Small Business Association in the mortgage backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics.

**Other investments.** The Corporation holds equity investments in funds that provide debt and equity financing to small businesses. These investments are recorded at fair value and included in other assets in the Consolidated Balance Sheets. Changes in fair value are recognized in net income. The funds are managed by investment companies, and the net asset value of each fund is reported regularly by the investment companies. At March 31, 2024 and December 31, 2023, the combined fair value of these investments was \$1.84 million and \$1.93 million, respectively.

These investments, measured at net asset value, are not presented in the tables below related to fair value measurements. Changes in fair value of these investments resulted in the recognition of unrealized gains of \$20,000 and \$123,000 for the three months ended March 31, 2024 and 2023, respectively.

The Corporation also holds certain equity investments consisting of equity interests in an independent insurance agency and a full service title and settlement agency (collectively, the agencies). These investments are subject to contractual sale restrictions that only permit the sale of the investments back to the agencies themselves. These investments are recorded at fair value and included in other assets in the Consolidated Balance Sheets. At March 31, 2024 and December 31, 2023, the fair value of these investments was \$3.65 million and \$3.75 million, respectively. These investments are recorded at fair value based on the contractual redemption value of the Corporation's proportionate share of the agencies' equity. Changes in fair value are recognized in net income and resulted in the recognition of an unrealized gain of \$148,000 and an unrealized loss of \$11,000 for the three months ended March 31, 2024 and 2023, respectively. The Corporation's investments in these agencies are classified as Level 2.

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

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

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

**Derivative asset/liability – cash flow hedges.** The Corporation recognizes cash flow hedges at fair value. The Corporation has contracted with a third party vendor to provide valuations for these cash flow hedges using the discounted cash flow method. All of the Corporation's cash flow hedges are classified as Level 2.

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The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis. The fair value of forward sales of mortgage loans were not material to the consolidated financial statements of the Corporation at March 31, 2024 or December 31, 2023.

(Dollars in thousands)	March 31, 2024			Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
	Fair Value Measurements Classified as			
<b>Assets:</b>				
Securities available for sale				
U.S. Treasury securities	\$ —	\$ 28,306	\$ —	\$ 28,306
U.S. government agencies and corporations	—	74,718	—	74,718
Mortgage-backed securities	—	159,188	—	159,188
Obligations of states and political subdivisions	—	146,651	—	146,651
Corporate and other debt securities	—	21,558	—	21,558
Total securities available for sale	—	430,421	—	430,421
Loans held for sale	—	22,622	—	22,622
Other investments	—	3,653	—	3,653
Derivatives				
IRLC	—	740	—	740
Interest rate swaps on loans	—	6,287	—	6,287
Cash flow hedges	—	1,521	—	1,521
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 465,244</b>	<b>\$ —</b>	<b>\$ 465,244</b>
<b>Liabilities:</b>				
Derivatives				
Interest rate swaps on loans	\$ —	\$ 6,287	\$ —	\$ 6,287
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 6,287</b>	<b>\$ —</b>	<b>\$ 6,287</b>
 <b>December 31, 2023</b>				
(Dollars in thousands)	Fair Value Measurements Classified as			Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
	Fair Value Measurements Classified as			
<b>Assets:</b>				
Securities available for sale				
U.S. Treasury securities	\$ —	\$ 45,103	\$ —	\$ 45,103
U.S. government agencies and corporations	—	87,094	—	87,094
Mortgage-backed securities	—	161,696	—	161,696
Obligations of states and political subdivisions	—	147,111	—	147,111
Corporate and other debt securities	—	21,440	—	21,440
Total securities available for sale	—	462,444	—	462,444
Loans held for sale	—	14,176	—	14,176
Other investments	—	3,751	—	3,751
Derivatives				
IRLC	—	335	—	335
Interest rate swaps on loans	—	6,110	—	6,110
Cash flow hedges	—	1,415	—	1,415
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 488,231</b>	<b>\$ —</b>	<b>\$ 488,231</b>
<b>Liabilities:</b>				
Derivatives				
Interest rate swaps on loans	\$ —	\$ 6,110	\$ —	\$ 6,110
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 6,110</b>	<b>\$ —</b>	<b>\$ 6,110</b>

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

The Corporation may be required, from time to time, to measure and recognize certain assets at fair value on a nonrecurring basis in accordance with GAAP. As of March 31, 2024 and December 31, 2023, the Corporation had no assets or liabilities recorded at fair value on a nonrecurring basis.

**Fair Value of Financial Instruments**

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

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

<i>(Dollars in thousands)</i>	Carrying Value	Fair Value Measurements at March 31, 2024 Classified as			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and short-term investments	\$ 56,960	\$ 55,207	\$ 1,753	\$ —	\$ 56,960
Securities available for sale	430,421	—	430,421	—	430,421
Loans, net	1,777,227	—	—	1,719,470	1,719,470
Loans held for sale	22,622	—	22,622	—	22,622
Other investments	3,653	—	3,653	—	3,653
<b>Derivatives</b>					
IRLC	740	—	740	—	740
Interest rate swaps on loans	6,287	—	6,287	—	6,287
Cash flow hedges	1,521	—	1,521	—	1,521
Bank-owned life insurance	21,586	—	21,586	—	21,586
Accrued interest receivable	10,595	10,595	—	—	10,595
<b>Financial liabilities:</b>					
Demand and savings deposits	1,351,762	1,351,762	—	—	1,351,762
Time deposits	736,170	—	733,161	—	733,161
Borrowings	113,214	—	100,121	—	100,121
<b>Derivatives</b>					
Interest rate swaps on loans	6,287	—	6,287	—	6,287
Accrued interest payable	4,644	4,644	—	—	4,644

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<i>(Dollars in thousands)</i>	Carrying Value	Fair Value Measurements at December 31, 2023 Classified as			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and short-term investments	\$ 77,403	\$ 75,159	\$ 2,244	\$ —	\$ 77,403
Securities available for sale	462,444	—	462,444	—	462,444
Loans, net	1,702,488	—	—	1,643,462	1,643,462
Loans held for sale	14,176	—	14,176	—	14,176
Other investments	3,751	—	3,751	—	3,751
<b>Derivatives</b>					
IRLC	335	—	335	—	335
Interest rate swaps on loans	6,110	—	6,110	—	6,110
Cash flow hedges	1,415	—	1,415	—	1,415
Bank-owned life insurance	21,464	—	21,464	—	21,464
Accrued interest receivable	10,398	10,398	—	—	10,398
<b>Financial liabilities:</b>					
Demand and savings deposits	1,392,931	1,392,931	—	—	1,392,931
Time deposits	673,199	—	668,965	—	668,965
Borrowings	103,618	—	90,120	—	90,120
<b>Derivatives</b>					
Interest rate swaps on loans	6,110	—	6,110	—	6,110
Accrued interest payable	3,493	3,493	—	—	3,493

**NOTE 10: Business Segments**

The Corporation operates in a decentralized fashion in three business segments: community banking, mortgage banking and consumer finance. The community banking segment comprises C&F Bank, C&F Wealth Management, C&F Insurance and CVB Title. Revenues from community banking operations consist primarily of net interest income related to investments in loans and securities and outstanding deposits and borrowings, fees earned on deposit accounts, debit card interchange activity, and net revenues from offering wealth management services and insurance products through third-party service providers. Through C&F Mortgage, mortgage banking operating revenues consist principally of gains on sales of loans in the secondary market, mortgage banking fee income related to loan originations, fees earned by providing mortgage loan origination functions to third-party lenders, and net interest income on mortgage loans held for sale. Revenues from consumer finance operations through C&F Finance consist primarily of net interest income earned on purchased retail installment sales contracts.

The standalone Corporation's revenues and expenses are comprised primarily of interest expense associated with the Corporation's trust preferred capital notes and subordinated debt, general corporate expenses, and changes in the value of the rabbi trust and deferred compensation liability related to its nonqualified deferred compensation plan. The results of the Corporation, which includes funding and operating costs that are not allocated to the business segments, are included in the column labeled "Other" in the tables below.

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Three Months Ended March 31, 2024						
(Dollars in thousands)	Community Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Interest income	\$ 26,169	\$ 281	\$ 12,025	\$ —	\$ (5,767)	\$ 32,708
Interest expense	9,005	44	5,803	545	(5,847)	9,550
Net interest income	17,164	237	6,222	(545)	80	23,158
Gain on sales of loans	—	1,481	—	—	(193)	1,288
Other noninterest income	4,110	1,048	255	840	(49)	6,204
Net revenue	<u>21,274</u>	<u>2,766</u>	<u>6,477</u>	<u>295</u>	<u>(162)</u>	<u>30,650</u>
Provision for loan losses	500	—	3,000	—	—	3,500
Noninterest expense	15,916	2,373	3,560	1,317	(16)	23,150
Income (loss) before taxes	4,858	393	(83)	(1,022)	(146)	4,000
Income tax expense (benefit)	846	99	(20)	(328)	(32)	565
Net income (loss)	<u>\$ 4,012</u>	<u>\$ 294</u>	<u>\$ (63)</u>	<u>\$ (694)</u>	<u>\$ (114)</u>	<u>\$ 3,435</u>
Other data:						
Capital expenditures	\$ 293	\$ 81	\$ 111	\$ —	\$ —	\$ 485
Depreciation and amortization	\$ 838	\$ 14	\$ 85	\$ —	\$ —	\$ 937
Three Months Ended March 31, 2023						
(Dollars in thousands)	Community Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Interest income	\$ 23,131	\$ 296	\$ 11,508	\$ —	\$ (5,630)	\$ 29,305
Interest expense	3,743	62	5,607	603	(5,668)	4,347
Net interest income	19,388	234	5,901	(603)	38	24,958
Gain on sales of loans	—	1,857	—	—	(63)	1,794
Other noninterest income	3,910	1,001	233	757	(58)	5,843
Net revenue	<u>23,298</u>	<u>3,092</u>	<u>6,134</u>	<u>154</u>	<u>(83)</u>	<u>32,595</u>
Provision for loan losses	450	—	1,600	—	—	2,050
Noninterest expense	14,935	2,798	3,828	1,050	(16)	22,595
Income (loss) before taxes	7,913	294	706	(896)	(67)	7,950
Income tax expense (benefit)	1,495	67	197	(287)	(19)	1,453
Net income (loss)	<u>\$ 6,418</u>	<u>\$ 227</u>	<u>\$ 509</u>	<u>\$ (609)</u>	<u>\$ (48)</u>	<u>\$ 6,497</u>
Other data:						
Capital expenditures	\$ 515	\$ —	\$ —	\$ —	\$ —	\$ 515
Depreciation and amortization	\$ 864	\$ 24	\$ 100	\$ —	\$ —	\$ 988
(Dollars in thousands)	Community Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Total assets at March 31, 2024	\$ 2,351,463	\$ 31,538	\$ 483,674	\$ 34,453	\$ (431,377)	\$ 2,469,751
Total assets at December 31, 2023	\$ 2,319,810	\$ 22,177	\$ 476,671	\$ 35,581	\$ (415,741)	\$ 2,438,498

The community banking segment extends two warehouse lines of credit to the mortgage banking segment, providing a portion of the funds needed to originate mortgage loans. The community banking segment charges the mortgage banking segment interest at the daily FHLB advance rate plus a spread ranging from 50 basis points to 175 basis points. The community banking segment also provides the consumer finance segment with a portion of the funds needed to purchase loan contracts by means of variable rate notes that carry interest at one-month term SOFR plus 211.5 basis points, with a floor of 3.5 percent and a ceiling of 6.0 percent, and fixed rate notes that carry interest at rates ranging from 3.5 percent to 5.1 percent. The community banking segment acquires certain residential real estate loans from the mortgage banking segment at prices similar to those paid by third-party investors. These transactions are eliminated to reach consolidated totals. In addition to unallocated expenses recorded by the holding company, certain overhead costs are incurred by the community banking segment and are not allocated to the mortgage banking and consumer finance segments.

**NOTE 11: Commitments and Contingent Liabilities**

The Corporation enters into commitments to extend credit in the normal course of business to meet the financing needs of its customers, including loan commitments and standby letters of credit. These instruments involve elements of credit and interest rate risk in excess of the amounts recorded on the Consolidated Balance Sheets. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral is obtained based on management's credit assessment of the customer.

Loan commitments are agreements to extend credit to a customer provided that there are no violations of the terms of the contract prior to funding. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Because many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of loan commitments at the Bank was \$400.59 million at March 31, 2024 and \$413.53 million at December 31, 2023, which does not include IRLCs at the mortgage banking segment, which are discussed in Note 12.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The total contract amount of standby letters of credit, whose contract amounts represent credit risk, was \$9.00 million at March 31, 2024 and \$ 7.91 million at December 31, 2023.

The mortgage banking segment sells the majority of the residential mortgage loans it originates to third-party investors. Additionally, the community banking segment purchases residential mortgage loans from the mortgage banking segment under terms and conditions similar to third-party investors. As is customary in the industry, the agreements with these investors require the mortgage banking segment to extend representations and warranties with respect to program compliance, borrower misrepresentation, fraud, and early payment performance. Under the agreements, the investors are entitled to make loss claims and repurchase requests of the mortgage banking segment for loans that contain covered deficiencies. The mortgage banking segment has obtained early payment default recourse waivers for a portion of its business. Recourse periods for early payment default for the remaining investors vary from 90 days up to one year. Recourse periods for borrower misrepresentation or fraud, or underwriting error do not have a stated time limit. The mortgage banking segment maintains an allowance for indemnifications that represents management's estimate of losses that are probable of arising under these recourse provisions. As performance data for loans that have been sold is not made available to the mortgage banking segment by the investors, the estimate of potential losses is inherently subjective and is based on historical indemnification payments and management's assessment of current conditions that may contribute to indemnified losses on mortgage loans that have been sold in the secondary market. For the three months ended March 31, 2024 the Corporation recorded a net reversal of provision for indemnifications of \$140,000 and recorded no provision for indemnifications for the three months ended March 31, 2023, which is included in "Noninterest Expenses – Other" on the Consolidated Statements of Income. No indemnification payments were made during the three months ended March 31, 2024 and 2023. The allowance for indemnifications was \$1.67 million and \$1.81 million at March 31, 2024 and December 31, 2023.

**NOTE 12: Derivative Financial Instruments**

The Corporation uses derivative financial instruments primarily to manage risks to the Corporation associated with changing interest rates, and to assist customers with their risk management objectives. The Corporation designates certain interest rate swaps as hedging instruments in qualifying cash flow hedges. The changes in fair value of these designated hedging instruments is reported as a component of other comprehensive income (loss). Derivative contracts that are not designated in a qualifying hedging relationship include customer accommodation loan swaps and contracts related to mortgage banking activities.

**Cash flow hedges.** The Corporation designates interest rate swaps as cash flow hedges when they are used to manage exposure to variability in cash flows on variable rate borrowings such as the Corporation's trust preferred capital notes.

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These interest rate swaps are derivative financial instruments that manage the risk of variability in cash flows by exchanging variable-rate interest payments on a notional amount of the Corporation's borrowings for fixed-rate interest payments. Interest rate swaps designated as cash flow hedges are expected to be highly effective in offsetting the effect of changes in interest rates on the amount of variable-rate interest payments, and the Corporation assesses the effectiveness of each hedging relationship quarterly. If the Corporation determines that a cash flow hedge is no longer highly effective, future changes in the fair value of the hedging instrument would be reported in earnings. As of March 31, 2024, the Corporation has designated cash flow hedges to manage its exposure to variability in cash flows on certain variable rate borrowings for periods that end between June 2024 and June 2029.

All interest rate swaps were entered into with counterparties that met the Corporation's credit standards and the agreements contain collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in these derivative contracts is not significant.

Unrealized gains or losses recorded in other comprehensive income (loss) related to cash flow hedges are reclassified into earnings in the same period(s) during which the hedged interest payments affect earnings. When a designated hedging instrument is terminated and the hedged interest payments remain probable of occurring, any remaining unrecognized gain or loss in other comprehensive income (loss) is reclassified into earnings in the period(s) during which the forecasted interest payments affect earnings. Amounts reclassified into earnings and interest receivable or payable under designated interest rate swaps are reported in interest expense. The Corporation does not expect any unrealized losses related to cash flow hedges to be reclassified into earnings in the next twelve months.

**Loan swaps.** The Bank also enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These back-to-back loan swaps are derivative financial instruments and are reported at fair value in "other assets" and "other liabilities" in the Consolidated Balance Sheets. Changes in the fair value of loan swaps are recorded in other noninterest income and sum to zero because of the offsetting terms of swaps with borrowers and swaps with dealer counterparties.

**Mortgage banking.** The mortgage banking segment enters into IRLCs with customers to originate loans for which the interest rates are determined (or "locked") prior to funding. The mortgage banking segment is exposed to interest rate risk through fixed-rate IRLCs and mortgage loans from the time that interest rates are locked until the loans are sold in the secondary market. The mortgage banking segment mitigates this interest rate risk by entering into forward sales contracts with investors, which at times includes the community banking segment, at the time that interest rates are locked for mortgage loans to be delivered on a best efforts basis. IRLCs are derivative financial instruments and are reported at fair value in other assets and other liabilities in the Consolidated Balance Sheets, along with the changes in fair value of the related forward sales of loans. Changes in the fair value of mortgage banking derivatives are recorded as a component of gains on sales of loans.

At March 31, 2024, the mortgage banking segment had \$ 55.76 million of IRLCs and \$ 24.51 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$80.27 million in mortgage loans.

At December 31, 2023, the mortgage banking segment had \$ 26.15 million of IRLCs and \$ 14.44 million of unpaid principal on mortgage loans held for sale for which it managed interest rate risk using best-efforts forward sales contracts for \$40.59 million in mortgage loans.

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The following tables summarize key elements of the Corporation's derivative instruments.

<i>(Dollars in thousands)</i>	March 31, 2024		
	Notional Amount	Assets	Liabilities
<b>Cash flow hedges:</b>			
Interest rate swap contracts	\$ 25,000	\$ 1,521	\$ —
<b>Not designated as hedges:</b>			
Customer-related interest rate swap contracts:			
Matched interest rate swaps with borrower	109,255	785	5,502
Matched interest rate swaps with counterparty	109,255	5,502	785
Mortgage banking contracts:			
IRLCs	55,759	740	—
December 31, 2023			
<i>(Dollars in thousands)</i>	Notional Amount	Assets	Liabilities
<b>Cash flow hedges:</b>			
Interest rate swap contracts	\$ 25,000	\$ 1,415	\$ —
<b>Not designated as hedges:</b>			
Customer-related interest rate swap contracts:			
Matched interest rate swaps with borrower	109,638	1,611	4,499
Matched interest rate swaps with counterparty	109,638	4,499	1,611
Mortgage banking contracts:			
IRLCs	26,152	335	—

The Corporation and the Bank are required to maintain cash collateral with dealer counterparties for interest rate swap relationships in a loss position. At both March 31, 2024 and December 31, 2023, there was no cash collateral maintained with dealer counterparties.

**NOTE 13: Other Noninterest Expenses**

The following table presents the significant components in the Consolidated Statements of Income line "Noninterest Expenses-Other."

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Telecommunication expenses	\$ 391	\$ 275
Travel and educational expenses	289	348
Licenses and taxes expense	236	202
Provision for indemnifications	(140)	—
Other components of net periodic pension cost	(143)	(122)
All other noninterest expenses	1,631	1,618
<b>Total other noninterest expenses</b>	<b>\$ 2,264</b>	<b>\$ 2,321</b>

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

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

**OVERVIEW**

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

The following table presents selected financial performance highlights for the periods indicated:

**TABLE 1: Financial Performance Highlights**

<i>(Dollars in thousands, except for per share data)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net Income (Loss):		
Community Banking	\$ 4,012	\$ 6,418
Mortgage Banking	294	227
Consumer Finance	(63)	509
Other	(808)	(657)
Consolidated net income	<u>\$ 3,435</u>	<u>\$ 6,497</u>
Earnings per share - basic and diluted	\$ 1.01	\$ 1.86
Annualized return on average equity	6.33 %	12.87 %
Annualized return on average assets	0.57 %	1.10 %
Annualized return on average tangible common equity (ROTCE) <sup>1</sup>	7.30 %	14.93 %

<sup>1</sup> Refer to "Use of Certain Non-GAAP Financial Measures," below, for information about these non-GAAP financial measures, including a quantitative reconciliation to the most directly comparable financial measures calculated in accordance with GAAP.

Consolidated net income decreased \$3.1 million for the first quarter of 2024 compared to the same period in 2023 due primarily to lower net income of the community banking segment and consumer finance segment, partially offset by higher net income of the mortgage banking segment.

A discussion of the performance of our business segments is included under the heading "Business Segments" in the "Results of Operations" section of this discussion and analysis.

Key highlights for the first quarter of 2024 are as follows.

- Community banking segment loans grew \$67.7 million, or 21.3 percent annualized, compared to December 31, 2023;
- Consumer finance segment loans grew \$7.6 million, or 6.5 percent annualized, compared to December 31, 2023;
- Deposits increased \$21.8 million, or 4.2 percent annualized, compared to December 31, 2023;
- Consolidated annualized net interest margin was 4.09 percent for the first quarter of 2024 compared to 4.52 percent for the first quarter of 2023 and 4.17 percent in the fourth quarter of 2023;
- The consumer finance segment recorded provision for credit losses of \$3.0 million for the first quarter of 2024 compared to \$1.6 million for the first quarter of 2023 and \$2.4 million for the fourth quarter of 2023;
- The consumer finance segment experienced net charge-offs at an annualized rate of 2.54 percent of average total loans for the first quarter of 2024 compared to 1.77 percent for the first quarter of 2023 and 2.72 percent for the fourth quarter of 2023;
- Mortgage banking segment loan originations were \$94.3 million for the first quarter of 2024, a decrease of \$21.5 million, or 18.5 percent, and \$3.9 million, or 4.0 percent, compared to the first quarter of 2023 and the fourth quarter of 2023, respectively.

#### **Capital Management and Dividends**

Total equity was \$216.9 million at March 31, 2024, compared to \$217.5 million at December 31, 2023. Under regulatory capital standards, the Corporation's tier 1 risk-based capital and total risk-based capital ratios at March 31, 2024 were 12.2 percent and 14.5 percent, respectively, compared to 12.6 percent and 14.8 percent, respectively, at December 31, 2023. The decrease in the Corporation's tier 1 risk-based capital and total risk-based capital ratios at March 31, 2024 compared to December 31, 2023 was due primarily to growth in risk-weighted assets resulting from higher balances of loans outpacing growth in equity. At March 31, 2024, the book value per share of the Corporation's common stock was \$64.24, and tangible book value per share, which is a non-GAAP financial measure, was \$56.36, compared to \$64.28 and \$56.40, respectively, at December 31, 2023.

Total equity decreased \$567,000 at March 31, 2024 compared to December 31, 2023, due primarily to higher unrealized losses in the market value of securities available for sale, which are recognized as a component of other comprehensive income, share repurchases and dividends paid on the Corporation's common stock, the significant majority of which was offset by net income. The Corporation's securities available for sale are fixed income debt securities, and their unrealized loss position is a result of rising market interest rates since they were purchased. The Corporation expects to recover its investments in debt securities through scheduled payments of principal and interest, and unrealized losses are not expected to affect the earnings or regulatory capital of the Corporation or the Bank. The accumulated other comprehensive loss related to the Corporation's securities available for sale increased to \$27.1 million at March 31, 2024, compared to \$25.0 million at December 31, 2023, as a result of an increase in debt security market interest rates.

The Corporation declared a quarterly cash dividend of 44 cents per share during the first quarter of 2024, which was paid on April 1, 2024. This dividend represents a payout ratio of 43.6 percent of earnings per share for the first quarter of 2024. The Board of Directors of the Corporation continually reviews the amount of cash dividends per share and the resulting dividend payout ratio in light of changes in economic conditions, current and future capital levels and requirements and expected future earnings. In making its decision on the payment of dividends on the Corporation's common stock, the Corporation's Board of Directors considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns, and other factors.

The Corporation has a share repurchase program that was authorized by the Board of Directors and effective January 1, 2024, to repurchase up to \$10.0 million of the Corporation's common stock through December 31, 2024. During the first quarter of 2024, the Corporation repurchased 9,654 shares, or \$516,000, of its common stock under this share repurchase program.

## CRITICAL ACCOUNTING ESTIMATES

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

**Allowance for Credit Losses:** We establish the allowance for credit losses through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the allowance for credit losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. The measurement of the allowance for credit losses on commercial and consumer loans is based in part on forecasts of the national unemployment rate, which we believe to be indicative of risk factors related to the collectability of commercial and consumer loans. In addition, management's estimate of expected credit losses is based on the remaining life of loans held for investment, and changes in expected prepayment behavior may result in changes in the remaining life of loans and expected credit losses. Management also assesses the risk of credit losses arising from changes in general market, economic and business conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances and the value of underlying collateral in determining the recorded balance of the allowance for credit losses. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available. In evaluating the level of the allowance, we consider a range of possible assumptions and outcomes related to the various factors identified above. The level of the allowance is particularly sensitive to changes in the actual and forecasted national unemployment rate and changes in current conditions or reasonably expected future conditions affecting the collectability of loans.

**Goodwill:** The Corporation's goodwill was recognized in connection with past business combinations and is reported at the community banking segment and the consumer finance segment. The Corporation reviews the carrying value of goodwill at least annually or more frequently if certain impairment indicators exist. In testing goodwill for impairment, the Corporation may first consider qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then no further testing is required and the goodwill of the reporting unit is not impaired. If the Corporation elects to bypass the qualitative assessment or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the fair value of the reporting unit is compared with its carrying value to determine whether an impairment exists. In the last evaluation of goodwill at the community banking segment and the consumer finance segment, which was the annual evaluation in the fourth quarter of 2023, the Corporation concluded that no impairment existed based on an assessment of qualitative factors.

For further information concerning accounting policies, refer to Item 8. "Financial Statements and Supplementary Data," under the heading "Note 1: Summary of Significant Accounting Policies" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023.

## RESULTS OF OPERATIONS

### NET INTEREST INCOME

The following table shows the average balance sheets, the amounts of interest earned on earning assets, with related yields, and interest expense on interest-bearing liabilities, with related rates, for the three months ended March 31, 2024 and 2023. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield as if income taxes were paid) using the federal corporate income tax rate of 21 percent that was applicable for all periods presented. Average balances of securities

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available for sale are included at amortized cost. Loans include loans held for sale. Loans placed on a nonaccrual status are included in the balances and are included in the computation of yields, but had no material effect.

**TABLE 2: Average Balances, Income and Expense, Yields and Rates**

(Dollars in thousands)	Three Months Ended March 31,					
	2024			2023		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Assets</b>						
Securities:						
Taxable	\$ 365,244	\$ 1,980	2.17 %	\$ 462,200	\$ 2,451	2.12 %
Tax-exempt	120,920	1,118	3.70	98,854	781	3.16
Total securities	<u>486,164</u>	<u>3,098</u>	<u>2.55</u>	<u>561,054</u>	<u>3,232</u>	<u>2.30</u>
Loans:						
Community banking segment	1,302,260	17,331	5.35	1,172,164	14,302	4.95
Mortgage banking segment	17,700	281	6.39	19,076	296	6.29
Consumer finance segment	473,848	12,024	10.21	475,225	11,509	9.82
Total loans	<u>1,793,808</u>	<u>29,636</u>	<u>6.64</u>	<u>1,666,465</u>	<u>26,107</u>	<u>6.35</u>
Interest-bearing deposits in other banks	28,417	259	3.67	25,911	176	2.75
Total earning assets	<u>2,308,389</u>	<u>32,993</u>	<u>5.75</u>	<u>2,253,430</u>	<u>29,515</u>	<u>5.30</u>
Allowance for credit losses	(40,292)			(41,044)		
Total non-earning assets	<u>156,800</u>			<u>154,990</u>		
Total assets	<u><u>\$ 2,424,897</u></u>			<u><u>\$ 2,367,376</u></u>		
<b>Liabilities and Equity</b>						
Interest-bearing deposits:						
Interest-bearing demand deposits	\$ 335,570	553	0.66	\$ 384,493	583	0.61
Money market deposit accounts	298,886	1,030	1.39	348,524	592	0.69
Savings accounts	185,759	31	0.07	225,411	34	0.06
Certificates of deposit	705,167	6,916	3.94	434,801	1,820	1.70
Total interest-bearing deposits	<u>1,525,382</u>	<u>8,530</u>	<u>2.25</u>	<u>1,393,229</u>	<u>3,029</u>	<u>0.88</u>
Borrowings:						
Repurchase agreements	27,997	111	1.59	35,260	81	0.92
Other borrowings	78,445	909	4.64	105,421	1,237	4.69
Total borrowings	<u>106,442</u>	<u>1,020</u>	<u>3.83</u>	<u>140,681</u>	<u>1,318</u>	<u>3.75</u>
Total interest-bearing liabilities	<u>1,631,824</u>	<u>9,550</u>	<u>2.35</u>	<u>1,533,910</u>	<u>4,347</u>	<u>1.14</u>
Noninterest-bearing demand deposits	531,885			591,709		
Other liabilities	44,125			39,901		
Total liabilities	<u>2,207,834</u>			<u>2,165,520</u>		
Equity	217,063			201,856		
Total liabilities and equity	<u><u>\$ 2,424,897</u></u>			<u><u>\$ 2,367,376</u></u>		
Net interest income	<u><u>\$ 23,443</u></u>			<u><u>\$ 25,168</u></u>		
Interest rate spread		<u><u>3.40 %</u></u>			<u><u>4.16 %</u></u>	
Interest expense to average earning assets		<u><u>1.66 %</u></u>			<u><u>0.78 %</u></u>	
Net interest margin		<u><u>4.09 %</u></u>			<u><u>4.52 %</u></u>	

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

**TABLE 3: Rate-Volume Recap**

(Dollars in thousands)	Three Months Ended March 31, 2024 from 2023					
	Increase (Decrease)		Total			
	Rate	Volume	Increase (Decrease)			
<b>Interest income:</b>						
Loans:						
Community banking segment	\$ 1,276	\$ 1,753	\$ 3,029			
Mortgage banking segment	5	(20)	(15)			
Consumer finance segment	543	(28)	515			
Securities:						
Taxable	56	(527)	(471)			
Tax-exempt	146	191	337			
Interest-bearing deposits in other banks	64	19	83			
Total interest income	2,090	1,388	3,478			
<b>Interest expense:</b>						
Interest-bearing deposits:						
Interest-bearing demand deposits	46	(76)	(30)			
Money market deposit accounts	533	(95)	438			
Savings accounts	5	(8)	(3)			
Certificates of deposit	3,462	1,634	5,096			
Total interest-bearing deposits	4,046	1,455	5,501			
Borrowings:						
Repurchase agreements	50	(20)	30			
Other borrowings	(13)	(315)	(328)			
Total interest expense	4,083	1,120	5,203			
Change in net interest income	\$ (1,993)	\$ 268	\$ (1,725)			

Net interest income, on a taxable-equivalent basis, for the first quarter of 2024 decreased to \$23.4 million, compared to \$25.2 million for the first quarter of 2023. The decrease in net interest income for the first quarter of 2024 as compared to the first quarter of 2023 was due primarily to a decrease in net interest margin, partially offset by higher average balances of earning assets. Annualized net interest margin decreased 43 basis points to 4.09 percent for the first quarter of 2024 compared to the first quarter of 2023 due primarily to an increase in costs of interest-bearing deposits and borrowings and a shift to higher cost deposits, partially offset by an increase in yields of earning assets. The Federal Reserve Bank (FRB) increased the target federal funds interest rate from an upper limit of 4.50 percent at December 31, 2022 to 5.00 percent by March 31, 2023 and to 5.50 percent by the end of 2023, where it remained unchanged through the first quarter of 2024. The yield on interest-earning assets increased by 45 basis points for the first quarter of 2024 compared to the same period in 2023. The cost of interest-bearing liabilities increased by 121 basis points for the first quarter of 2024 compared to the same period of 2023. Average earning assets increased \$55.0 million for the first quarter of 2024 compared to the same period in 2023. Average interest-bearing liabilities increased \$97.9 million for the first quarter of 2024 compared to the same period in 2023. Average noninterest-bearing demand deposits decreased \$59.8 million for the first quarter of 2024 compared to the same period in 2023.

Average loans, which includes both loans held for investment and loans held for sale, increased \$127.3 million to \$1.8 billion for the first quarter of 2024 compared to the same period in 2023. Average loans at the community banking segment increased \$130.1 million, or 11.1 percent, for the first quarter of 2024 compared to the same period in 2023 due primarily to growth in the commercial real estate, construction, and residential mortgage segments of the loan portfolio. Average loans at the consumer finance segment decreased \$1.4 million, or less than one percent, for the first quarter of 2024 compared to the same period in 2023 due primarily to a decrease in the automobile segment of the loan portfolio. Average loans at the mortgage banking segment, which consist of loans held for sale, decreased \$1.4 million, or 7.2 percent, for the first quarter of 2024 compared to the same period in 2023 due primarily to lower mortgage loan production volume as a result of conditions in the housing markets and higher interest rates on mortgage loans.

The community banking segment average loan yield increased 40 basis points to 5.35 percent for the first quarter of 2024 compared to the same period in 2023 due primarily to the effects of the higher interest rate environment. The consumer finance segment average loan yield increased 39 basis points to 10.21 percent for the first quarter of 2024 compared to the same period in 2023 due primarily to the effects of the higher interest rate environment, which were partially offset by the

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effects of purchasing higher credit quality loan contracts which have lower yields. The mortgage banking segment average loan yield increased 10 basis points to 6.39 percent for the first quarter of 2024 compared to the same period in 2023 due to the effects of the higher interest rate environment.

Average securities available for sale decreased \$74.9 million for the first quarter of 2024 compared to the same period in 2023 due primarily to maturities and paydowns of government agencies, treasuries, and mortgage-backed securities outpacing purchases. The average yield on the securities portfolio on a taxable-equivalent basis increased 25 basis points to 2.55 percent for the first quarter of 2024 compared to the same period in 2023 due primarily to rising interest rates and the maturity of lower-yielding securities.

Average interest-bearing deposits in other banks, consisting primarily of excess cash reserves maintained at the FRB, increased \$2.5 million for the first quarter of 2024 compared to the same period of 2023. The average yield on interest-bearing deposits in other banks increased 92 basis points for the first quarter of 2024 compared to the same period in 2023 due to rising interest rates.

Average money market, savings and interest-bearing demand deposits combined and average non-interest bearing demand deposits decreased \$138.2 million and \$59.8 million, respectively, for the first quarter of 2024 compared to the same period in 2023 due primarily to customers seeking higher yielding opportunities as a result of higher interest rates paid on time deposits. Average time deposits increased \$270.4 million for the first quarter of 2024 compared to the same period in 2023. The average cost of interest-bearing deposits increased 137 basis points for the first quarter of 2024 compared to the same period in 2023 due primarily to higher rates on money market and time deposits and a shift in composition towards time deposits amid the higher interest rate environment and increased competition for deposits.

Average borrowings decreased \$34.2 million for the first quarter of 2024 compared to the same period in 2023 due primarily to decreases in short-term Federal Home Loan Bank of Atlanta (FHLB) advances. The average cost of borrowings increased 8 basis points for the first quarter of 2024 compared to the same period in 2023 due primarily to the effects of rising interest rates and a shift in the mix of borrowings from lower cost repurchase agreements to FHLB borrowings.

The Corporation believes that higher interest rates will continue to have a positive effect on yields of new loan originations, renewals of fixed rate loans originated during periods of lower interest rates, and purchases of securities available for sale. The Corporation also expects the cost of deposits may continue to rise, albeit at a decelerating rate, amid competition for deposits and due to repricing of time deposits upon maturity, and that a portion of the Corporation's funding will continue to be drawn from borrowings in the near term, which may result in a higher cost of funds. The effect of these factors on the Corporation's net interest margin will depend on a number of factors, including the Corporation's ability to grow loans at the community banking segment and consumer finance segment, to compete for deposits, and to the extent of its reliance on borrowings. The Corporation can give no assurance as to the timing or extent of changes in market interest rates or the impact of those changes or any other factor on the Corporation's ability to compete for loans and deposits or on its net interest margin. If market interest rates begin to decline, the Corporation's net interest margin could be adversely affected as its assets typically reprice downward more quickly than its deposits and borrowings. Alternatively, if market interest rates were to rise, net interest margin could be positively impacted as the Corporation generally expects its assets to reprice upward more quickly than its deposits and borrowings.

**Noninterest Income**

**TABLE 4: Noninterest Income**

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Interchange income	\$ 1,475	\$ 1,520
Gains on sales of loans	1,288	1,794
Service charges on deposit accounts	1,047	1,048
Unrealized gain on investments held in rabbi trust	840	767
Wealth management services income, net	731	614
Mortgage lender services income	503	451
Mortgage banking fee income	479	494
Other service charges and fees	396	391
Investment income from other equity interests	167	113
Net losses on sales, maturities and calls of available for sale securities	—	(5)
Other income, net	566	450
Total noninterest income	<u>\$ 7,492</u>	<u>\$ 7,637</u>

Total noninterest income decreased \$145,000, or 1.9 percent, for the first quarter of 2024 compared to the first quarter of 2023 due primarily to lower volume of mortgage loan production, which resulted in lower gains on sales of loans and mortgage banking fee income, partially offset by higher wealth management services income, fluctuations in unrealized gains on the rabbi trust, higher investment income in other equity investments and higher mortgage lender services income, as a result of an increase in the number of institutional customers and the types of services provided.

The Corporation uses a rabbi trust to fund liabilities under its nonqualified deferred compensation plan. Unrealized gains and losses on investments held in the Corporation's rabbi trust are offset by changes in deferred compensation liabilities, recorded in salaries and employee benefits expense.

**Noninterest Expense**

**TABLE 5: Noninterest Expense**

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Salaries and employee benefits:		
Compensation, payroll taxes and employee benefits	\$ 13,422	\$ 13,131
Increase in nonqualified deferred compensation plan liabilities	830	767
Total salaries and employee benefits	<u>14,252</u>	<u>13,898</u>
Occupancy expense	2,132	2,044
Data processing	2,829	2,682
Professional fees	915	595
Insurance expense	406	396
Marketing and advertising expenses	168	401
Mortgage banking loan processing expenses	184	258
Other expenses:		
Other components of net periodic pension cost	(143)	(122)
Provision for indemnifications	(140)	—
Other expenses	<u>2,547</u>	<u>2,443</u>
Total other noninterest expenses	<u>2,264</u>	<u>2,321</u>
Total noninterest expense	<u>\$ 23,150</u>	<u>\$ 22,595</u>

Total noninterest expenses increased \$555,000, or 2.5 percent, in the first quarter of 2024 compared to the same period in 2023 due primarily to increases in compensation, payroll taxes and employee benefits at the community banking segment, which have generally increased in line with employment market conditions, higher professional fees, and higher data processing fees, partially offset by lower marketing and advertising expense and expenses tied to mortgage loan production volume at the mortgage banking segment, reported in compensation, payroll taxes and benefits and mortgage banking loan

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processing expenses. Additionally, the mortgage banking segment recorded a net reversal of provision for indemnifications for the first quarter of 2024 compared to no provision for indemnifications expense in the first quarter of 2023.

Changes in deferred compensation liabilities are offset by unrealized gains and losses on investments held in the Corporation's rabbi trust and are recorded in noninterest income.

**Income Taxes**

The Corporation's consolidated effective income tax rate was 14.1 percent and 18.3 percent for the first quarter of 2024 and 2023, respectively. The Corporation's consolidated effective tax rate for the first quarter of 2024 was lower compared to the same period in 2023 primarily as a result of a lower share of income at the consumer finance and mortgage banking segments, which are subject to state income taxes.

**Business Segments**

The Corporation operates in a decentralized manner in three business segments: community banking, mortgage banking and consumer finance. An overview of the financial results for each of the Corporation's business segments is presented below.

**Community Banking:** The community banking segment comprises C&F Bank, C&F Wealth Management, C&F Insurance and CVB Title. The following table presents the community banking segment operating results for the periods indicated.

**TABLE 6: Community Banking Segment Operating Results**

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Interest income	\$ 26,169	\$ 23,131
Interest expense	9,005	3,743
Net interest income	17,164	19,388
Provision for credit losses	500	450
Net interest income after provision for credit losses	16,664	18,938
Noninterest income:		
Interchange income	1,475	1,520
Service charges on deposit accounts	1,061	1,062
Wealth management services income, net	731	614
Investment income from other equity interests	167	113
Other income, net	676	601
Total noninterest income	4,110	3,910
Noninterest expense:		
Salaries and employee benefits	9,443	8,926
Occupancy expense	1,743	1,621
Data processing	2,231	2,119
Other expenses	2,499	2,269
Total noninterest expenses	15,916	14,935
Income before income taxes	4,858	7,913
Income tax expense	846	1,495
Net income	\$ 4,012	\$ 6,418

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The community banking segment reported net income of \$4.0 million for the first quarter of 2024 compared to \$6.4 million for the same period in 2023 due primarily to:

- higher interest expense due primarily to higher rates on deposits and higher balances of interest-bearing deposits; and
- higher salaries and employee benefits expense, which have generally increased in line with employment market conditions; partially offset by:
  - higher interest income resulting from the effects of the higher interest rate environment on asset yields and higher average balances of loans, offset in part by lower average balances of securities.

Net interest income for the community banking segment decreased by \$2.2 million to \$17.2 million for the first quarter of 2024 compared to the same period in 2023. Included in net interest income is interest income on variable rate loans to the consumer finance and mortgage banking segments. Average loan yields were higher for the first quarter of 2024 compared to the same period of 2023 due primarily to the effects of the higher interest rate environment as market interest rates rose in 2023. Average costs of interest-bearing liabilities were higher for the first quarter of 2024 compared to the same period of 2023 due primarily to the effects of the higher interest rate environment and a shift in the mix from lower cost deposits to time deposits. The community banking segment expects both loan and investment yields and costs of interest-bearing deposits to continue to rise in 2024.

The community banking segment recorded \$500,000 and \$450,000 in provision for credit losses for the first quarter of 2024 and 2023, respectively, due primarily to growth in the loan portfolio. Noninterest income increased for the first quarter of 2024 compared to the same period in 2023 as a result of higher wealth management services income and higher investment income in other equity investments. Noninterest expenses increased during the first quarter of 2024 compared to the same period in 2023 due primarily to higher salaries and employee benefits and higher other expenses, due primarily to an increase in professional fees and data processing fees, partially offset by lower marketing and advertising expenses.

**Mortgage Banking:** The following table presents the mortgage banking operating results for the periods indicated.

TABLE 7: Mortgage Banking Segment Operating Results

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Interest income	\$ 281	\$ 296
Interest expense	44	62
Net interest income	237	234
Provision for credit losses	—	—
Net interest income after provision for credit losses	237	234
Noninterest income:		
Gains of sales of loans	1,481	1,857
Mortgage banking fee income	514	538
Mortgage lender services fee income	503	451
Other income	31	12
Total noninterest income	2,529	2,858
Noninterest expense:		
Salaries and employee benefits	1,598	1,740
Occupancy expense	232	261
Data processing	240	242
Other expenses	303	555
Total noninterest expenses	2,373	2,798
Income before income taxes	393	294
Income tax expense	99	67
Net income	\$ 294	\$ 227

The mortgage banking segment reported net income of \$294,000 for the first quarter of 2024 compared to \$227,000 for the same period in 2023 due primarily to:

- a net reversal of provision for indemnifications of \$140,000 for the first quarter of 2024 compared to no provision for indemnifications in the first quarter of 2023, which is included in other expenses;
  - lower variable expenses tied to mortgage loan origination volume such as commissions and bonuses, reported in salaries and employee benefits, as well as mortgage banking loan processing expenses and data processing expenses; and
  - lower salaries and employee benefits, occupancy expense and other expenses due to an effort to reduce overhead costs as mortgage loan origination volume has decreased;
- partially offset by:
- lower volume of mortgage loan originations.

The following table presents mortgage loan originations and mortgage loans sold for the periods indicated.

**TABLE 8: Mortgage Loan Originations**

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Mortgage loan originations:		
Purchases	\$ 86,760	\$ 101,838
Refinancings	7,586	13,977
Total mortgage loan originations <sup>1</sup>	\$ 94,346	\$ 115,815
Lock-adjusted originations <sup>2</sup>	\$ 120,400	\$ 140,681

<sup>1</sup> Total mortgage loan originations does not include mortgage lender services.

<sup>2</sup> Lock-adjusted originations includes an estimate of the effect of changes in the volume of mortgage loan applications in process that have not closed, net of volume not expected to close.

The sustained elevated level of mortgage interest rates, combined with higher home prices and lower levels of inventory, has led to a substantial decline in mortgage loan originations for the mortgage industry during 2024 and 2023. Mortgage loan originations for the mortgage banking segment decreased 18.5 percent for the first quarter of 2024 compared to the same period in 2023. Gains on sales of loans, while driven in part by mortgage loan originations, also includes the effects of changes in locked loan commitments, which reflect the volume of mortgage loan applications that are in process and have not closed. Lock-adjusted originations for the mortgage banking segment decreased 14.4 percent for the first quarter of 2024 compared to the same period in 2023. Locked loan commitments were \$55.8 million at March 31, 2024 compared to \$26.2 million and \$70.5 million at December 31, 2023 and March 31, 2023, respectively.

Mortgage lender services fee income is derived from providing mortgage origination functions to third-party mortgage lenders for a fee. Mortgage lender services fee income increased for the first quarter of 2024 compared to the same period in 2023 due primarily to an increase in the number of institutional customers and the types of services provided, partially offset by the negative impacts of reduced mortgage loan volume in the industry.

The mortgage banking segment recorded a net reversal of provision for indemnification losses of \$140,000 for the first quarter of 2024 compared to no provision for indemnification losses for the same period in 2023. The mortgage banking segment increased reserves for indemnification losses during 2020 based on widespread forbearance on mortgage loans and economic uncertainty related to the COVID-19 pandemic. The release of indemnification reserves in 2024 was due primarily to improvement in the mortgage banking segment's assessment of borrower payment performance and other factors affecting expected losses on mortgage loans sold in the secondary market, such as time since origination. Management believes that the indemnification reserve is sufficient to absorb losses related to loans that have been sold in the secondary market.

**Consumer Finance:** The following table presents the consumer finance operating results for the periods indicated.

**TABLE 9: Consumer Finance Segment Operating Results**

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Interest income	\$ 12,025	\$ 11,508
Interest expense	5,803	5,607
Net interest income	6,222	5,901
Provision for credit losses	3,000	1,600
Net interest income after provision for credit losses	3,222	4,301
Noninterest income	255	233
Noninterest expense:		
Salaries and employee benefits	2,144	2,253
Occupancy expense	157	161
Data processing	340	317
Other expenses	919	1,097
Total noninterest expenses	3,560	3,828
Income before income taxes	(83)	706
Income tax (benefit) expense	(20)	197
Net (loss) income	\$ (63)	\$ 509

The consumer finance segment reported a net loss of \$63,000 for the first quarter of 2024 compared to net income of \$509,000 for the same period in 2023 due primarily to:

- higher provision for credit losses due primarily to increased net charge-offs; and
  - higher interest expense on variable rate borrowings from the community banking segment as a result of increased market interest rates;
- partially offset by:
- higher interest income resulting from the effects of the higher interest rate environment on loan yields.

Average loan yields and average cost of borrowings were higher for the first quarter of 2024 compared to the same period of 2023 due primarily to the effects of the higher interest rate environment as market interest rates rose in 2023.

Provision for credit losses increased due primarily to increased net charge-offs. Net charge-offs increased due primarily to an increase in the number of delinquent loans and repossessions, which coupled with a decline in wholesale values of used automobiles, results in an increased charge-off amount on a per-unit basis. If loan performance deteriorates, resulting in continued elevated delinquencies or net charge-offs, or if values of used vehicles decline, provision for credit losses may increase in future periods.

#### **ASSET QUALITY**

##### *Allowance and Provision for Credit Losses*

The Corporation conducts an analysis of the collectability of the loan portfolio on a regular basis and uses this analysis to assess the sufficiency of the allowance for credit losses on loans and to determine the necessary provision for credit losses. The Corporation segmented the loan portfolio into three loan portfolios based on common risk characteristics.

Commercial and consumer loans are assigned loan classification ratings based on their credit quality and risk of loss. These loan ratings are reviewed on a quarterly basis and updated as new information becomes available. The characteristics of these loan ratings are as follows:

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

Loss rated loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

The Corporation monitors the consumer finance loan portfolio by past due status and by credit rating at the time of origination, which the Corporation believes serves as a relevant indicator of aggregate credit quality and risk of loan defaults in the portfolio based upon the use of Fair Isaac Corporation (FICO) Scores over time for loan approval decisions and through experience analyzing loss patterns. The characteristics of these credit ratings are as follows:

- Very Good and Good credit rated borrowers are near or above the average FICO Score of consumers. Borrowers generally have limited to no prior credit difficulties or have shown extensive creditworthiness over a recent period of time.
- Fairly Good and Fair credit rated borrowers are approaching or slightly below the average FICO Score of consumers but typically have a credit profile acceptable to most lenders. Borrowers may have experienced minor credit difficulties or have a relatively limited credit history.
- Marginal credit rated borrowers are well below the average FICO Score of consumers. Borrowers may have limited access to traditional financing due to having experienced prior credit difficulties or have a limited credit history. The risk of future charge-offs is higher.

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The allowance for credit losses represents an amount that, in our judgment, reduces the recorded investment in loans to the net amount expected to be collected. The provision for credit losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance.

The following tables present the Corporation's credit loss experience for the periods indicated.

**TABLE 10: Allowance for Credit Losses**

<i>(Dollars in thousands)</i>	<b>Commercial</b>	<b>Consumer<sup>1</sup></b>	<b>Consumer Finance</b>	<b>Total</b>
Balance at December 31, 2023	\$ 12,315	\$ 3,758	\$ 23,578	\$ 39,651
Provision charged to operations	535	65	3,000	3,600
Loans charged off	—	(101)	(4,103)	(4,204)
Recoveries of loans previously charged off	9	53	1,091	1,153
Balance at March 31, 2024	<b>\$ 12,859</b>	<b>\$ 3,775</b>	<b>\$ 23,566</b>	<b>\$ 40,200</b>
Average loans	\$ 946,621	\$ 357,796	\$ 473,848	\$ 1,778,265
Ratio of net (recoveries) charge-offs to average loans	(0.00)%	0.05 %	2.54 %	0.69 %

<sup>1</sup> Consumer loans includes provision, charge-offs and recoveries related to demand deposit overdrafts.

<i>(Dollars in thousands)</i>	<b>Commercial</b>	<b>Consumer<sup>1</sup></b>	<b>Consumer Finance</b>	<b>Total</b>
Balance at December 31, 2022	\$ 11,219	\$ 3,330	\$ 25,969	\$ 24,571
Impact of ASC 326 adoption on non-PCD loans	(617)	98	406	(113)
Impact of ASC 326 adoption on PCD loans	595	9	—	604
Provision charged to operations	233	117	1,600	1,950
Loans charged off	(16)	(89)	(3,108)	(3,213)
Recoveries of loans previously charged off	35	45	1,008	1,088
Balance at March 31, 2023	<b>\$ 11,449</b>	<b>\$ 3,510</b>	<b>\$ 25,875</b>	<b>\$ 40,834</b>
Average loans	\$ 854,550	\$ 319,740	\$ 475,225	\$ 1,649,515
Ratio of net (recoveries) charge-offs to average loans	(0.01)%	0.06 %	1.77 %	0.52 %

<sup>1</sup> Consumer loans includes provision, charge-offs and recoveries related to demand deposit overdrafts.

For further information regarding the adequacy of our allowance for credit losses, refer to "Table 15: Nonperforming Assets" and the accompanying disclosure below.

The allocation of the allowance for credit losses and the ratio of corresponding outstanding loan balances to total loans are as follows as of the dates indicated.

**TABLE 11: Allocation of Allowance for Credit Losses**

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Allocation of allowance for credit losses:		
Commercial	\$ 12,859	\$ 12,315
Consumer	3,775	3,758
Consumer Finance	23,566	23,578
Total allowance for credit losses	<b>\$ 40,200</b>	<b>\$ 39,651</b>
Ratio of loans to total period-end loans:		
Commercial	53 %	52 %
Consumer	21	21
Consumer Finance	26	27
	<b>100 %</b>	<b>100 %</b>

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Loans are required to be measured at amortized cost and to be presented at the net amount expected to be collected. Off balance sheet credit exposures, including loan commitments, are not recorded on balance sheet, but expected credit losses arising from off balance sheet credit exposures are recorded as a reserve for unfunded commitments and reported in Other Liabilities.

The following table presents a breakdown of the provision for credit losses for the periods indicated:

**TABLE 12: Provision for Credit Losses**

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Provision for credit losses:		
Provision for loans	\$ 3,600	\$ 1,950
Provision for unfunded commitments	(100)	100
Total	\$ 3,500	\$ 2,050

**TABLE 13: Credit Quality Indicators**

Loans by credit quality indicators as of March 31, 2024 were as follows:

<i>(Dollars in thousands)</i>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Substandard Nonaccrual</b>	<b>Total<sup>1</sup></b>
Commercial real estate	\$ 686,951	\$ 6,652	\$ —	\$ —	\$ 693,603
Commercial business	116,150	86	—	—	116,236
Construction - commercial real estate	96,916	—	—	—	96,916
Land acquisition and development	29,644	—	—	—	29,644
Builder lines	28,363	—	—	—	28,363
Construction - consumer real estate	12,471	—	—	—	12,471
Residential mortgage	299,310	43	384	441	300,178
Equity lines	54,297	—	67	99	54,463
Other consumer	9,440	—	—	10	9,450
	<b>\$ 1,333,542</b>	<b>\$ 6,781</b>	<b>\$ 451</b>	<b>\$ 550</b>	<b>\$ 1,341,324</b>

<i>(Dollars in thousands)</i>	<b>Very Good</b>	<b>Good</b>	<b>Fairly Good</b>	<b>Fair</b>	<b>Marginal</b>	<b>Total</b>
Consumer finance - automobiles	\$ 39,031	\$ 102,376	\$ 138,432	\$ 98,596	\$ 28,845	\$ 407,280
Consumer finance - marine and recreational vehicles	48,528	19,719	576	—	—	68,823
	<b>\$ 87,559</b>	<b>\$ 122,095</b>	<b>\$ 139,008</b>	<b>\$ 98,596</b>	<b>\$ 28,845</b>	<b>\$ 476,103</b>

<sup>1</sup> At March 31, 2024, the Corporation did not have any loans classified as Doubtful or Loss.

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Loans by credit quality indicators as of December 31, 2023 were as follows:

<i>(Dollars in thousands)</i>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Substandard Nonaccrual</b>	<b>Total<sup>1</sup></b>
Commercial real estate	\$ 661,432	\$ 6,690	\$ —	\$ —	\$ 668,122
Commercial business	115,286	62	—	—	115,348
Construction - commercial real estate	69,768	—	—	—	69,768
Land acquisition and development	29,064	—	—	—	29,064
Builder lines	24,668	—	—	—	24,668
Construction - consumer real estate	11,223	—	—	—	11,223
Residential mortgage	292,624	44	268	320	293,256
Equity lines	51,425	85	5	77	51,592
Other consumer	10,579	—	—	9	10,588
	<b>\$ 1,266,069</b>	<b>\$ 6,881</b>	<b>\$ 273</b>	<b>\$ 406</b>	<b>\$ 1,273,629</b>

<i>(Dollars in thousands)</i>	<b>Very Good</b>	<b>Good</b>	<b>Fairly Good</b>	<b>Fair</b>	<b>Marginal</b>	<b>Total</b>
Consumer finance - automobiles	\$ 32,913	\$ 98,286	\$ 137,480	\$ 101,569	\$ 31,028	\$ 401,276
Consumer finance - marine and recreational vehicles	47,246	19,398	590	—	—	67,234
	<b>\$ 80,159</b>	<b>\$ 117,684</b>	<b>\$ 138,070</b>	<b>\$ 101,569</b>	<b>\$ 31,028</b>	<b>\$ 468,510</b>

<sup>1</sup> At December 31, 2023, the Corporation did not have any loans classified as Doubtful or Loss.

Table 14 summarizes the Corporation's credit ratios on a consolidated basis and Table 15 summarizes nonperforming assets by principal business segment as of March 31, 2024 and December 31, 2023. The mortgage banking segment did not have any nonperforming assets as of March 31, 2024 or December 31, 2023.

**TABLE 14: Consolidated Credit Ratios**

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Total loans <sup>1</sup>	<b>\$ 1,817,427</b>	\$ 1,742,139
Nonaccrual loans	<b>\$ 1,291</b>	\$ 1,298
Allowance for credit losses (ACL)	<b>\$ 40,200</b>	\$ 39,651
Nonaccrual loans to total loans	<b>0.07 %</b>	0.07 %
ACL to total loans	<b>2.21 %</b>	2.28 %
ACL to nonaccrual loans	<b>3,113.87 %</b>	3,054.78 %

<sup>1</sup> Total loans does not include loans held for sale at the mortgage banking segment.

**TABLE 15: Nonperforming Assets**

**Community Banking Segment**

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Total loans	<b>\$ 1,341,324</b>	\$ 1,273,629
Nonaccrual loans	<b>\$ 550</b>	\$ 406
ACL	<b>\$ 16,634</b>	\$ 16,072
Nonaccrual loans to total loans	<b>0.04 %</b>	0.03 %
ACL to total loans	<b>1.24 %</b>	1.26 %
ACL to nonaccrual loans	<b>3,024.36 %</b>	3,958.62 %
Annualized year-to-date net charge-offs to average total loans	<b>0.01 %</b>	0.01 %

**Consumer Finance Segment**

<b>(Dollars in thousands)</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Total loans	\$ 476,103	\$ 468,510
Nonaccrual loans	\$ 741	\$ 892
Repossessed assets	\$ 544	\$ 646
ACL	\$ 23,566	\$ 23,579
Nonaccrual loans to total loans	0.16 %	0.19 %
ACL to total loans	4.95 %	5.03 %
ACL to nonaccrual loans	3,180.30 %	2,643.39 %
Annualized year-to-date net charge-offs to average total loans	2.54 %	1.99 %

The community banking segment's nonaccrual loans were \$550,000 at March 31, 2024 compared to \$406,000 at December 31, 2023. The community banking segment recorded \$600,000 and \$350,000 in provision for loans for the first quarter of 2024 and 2023, respectively, due primarily to growth in the loan portfolio. At March 31, 2024, the allowance for credit losses increased to \$16.6 million compared to an allowance for credit losses of \$16.1 million at December 31, 2023 due primarily to growth in the loan portfolio. Management believes that the level of the allowance for credit losses is adequate to reflect the net amount expected to be collected.

Nonaccrual loans at the consumer finance segment were \$741,000 at March 31, 2024 compared to \$892,000 at December 31, 2023. Nonaccrual consumer finance loans remain low relative to the allowance for credit losses and the total consumer finance loan portfolio because the consumer finance segment generally initiates repossession of loan collateral once a loan becomes more than 60 days delinquent. Repossessed vehicles of the consumer finance segment are classified as other assets and consist only of vehicles the Corporation has the legal right to sell. Prior to the reclassification from loans to repossession vehicles, the difference between the carrying amount of each loan and the fair value of each vehicle (i.e. the deficiency) is charged against the allowance for credit losses. At March 31, 2024, repossession vehicles available for sale totaled \$544,000 compared to \$646,000 at December 31, 2023.

The consumer finance segment experienced net charge-offs at an annualized rate of 2.54 percent of average total loans for the first quarter of 2024, compared to 1.77 percent for the first quarter of 2023 and 2.72 percent for the fourth quarter of 2023, due primarily to an increase in the number of delinquent loans and repossession, which coupled with a decline in wholesale values of used automobiles, results in an increased charge-off amount on a per-unit basis. At March 31, 2024, total delinquent loans as a percentage of total loans was 2.78 percent compared to 4.09 percent at December 31, 2023 and 2.33 percent at March 31, 2023. Delinquency and loss rates have returned to pre-pandemic levels due to the passage of time since the expiration of stimulus and enhanced unemployment benefits that benefitted borrowers. The allowance for credit losses was \$23.6 million at both March 31, 2024 and December 31, 2023. The allowance for credit losses as a percentage of total loans decreased to 4.95 percent at March 31, 2024 compared to an allowance for credit losses as a percentage of total loans of 5.03 percent at December 31, 2023 due primarily to growth in loans with stronger credit quality while balances of loans with lower credit quality declined.

The consumer finance segment at times offers payment deferrals to borrowers as a portfolio management technique to achieve higher ultimate cash collections on select loan accounts. A significant reliance on deferrals as a means of managing collections may result in a lengthening of the loss confirmation period, which would increase expectations of credit losses inherent in the portfolio. Average amounts of payment deferrals on a monthly basis, which are not included in delinquent loans, were 1.62 percent, 1.60 percent and 2.02 percent as a percentage of average automobile loans outstanding for the first quarter of 2024, the first quarter of 2023 and the fourth quarter of 2023, respectively.

The consumer finance segment is an indirect lender that provides automobile financing through lending programs that are designed to serve customers in both the prime and "non-prime" markets, including those who may have limited access to traditional automobile financing due to having experienced prior credit difficulties. The preferred automobile is a later model, low mileage used vehicle because the value of new vehicles typically depreciates rapidly. In addition to automobile financing, marine and RV loan contracts are also purchased on an indirect basis through a referral program administered

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by a third party. The marine and RV loan contracts are for prime loans averaging less than \$50,000 made to individuals with higher credit scores.

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

## FINANCIAL CONDITION

At March 31, 2024, the Corporation had total assets of \$2.5 billion, which was an increase of \$31.3 million since December 31, 2023. The increase was attributable primarily to growth in loans held for investment and loans held for sale, funded by maturities and paydowns of available for sale securities, increases in deposits, including brokered deposits, deployment of cash on hand, and long-term borrowings. The significant components of the Corporation's Consolidated Balance Sheets are discussed below.

### Loan Portfolio

Tables 16, 17 and 18 present information pertaining to the composition of loans held for investment, the composition of commercial real estate loans, and the maturity/repricing of certain loans held for investment, respectively.

**TABLE 16: Summary of Loans Held for Investment**

<b>(Dollars in thousands)</b>	<b>March 31, 2024</b>		<b>December 31, 2023</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Commercial real estate	\$ 693,603	38 %	\$ 668,122	38 %
Commercial business	116,236	6	115,348	7
Construction - commercial real estate	96,916	5	69,768	4
Land acquisition and development	29,644	1	29,064	1
Builder lines	28,363	2	24,668	1
Construction - consumer real estate	12,471	1	11,223	1
Residential mortgage	300,178	17	293,256	17
Equity lines	54,463	3	51,592	3
Other consumer	9,450	1	10,588	1
Consumer finance - automobiles	407,280	22	401,276	23
Consumer finance - marine and recreational vehicles	68,823	4	67,234	4
Subtotal	1,817,427	100 %	1,742,139	100 %
Less allowance for credit losses	(40,200)		(39,651)	
Loans, net	\$ 1,777,227		\$ 1,702,488	

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The increase in total loans from December 31, 2023 to March 31, 2024 was due primarily to growth in construction, commercial real estate, and residential mortgage lending at the community banking segment and an increase in automobile loans at the consumer finance segment.

**TABLE 17: Commercial Real Estate Loans**

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>		
	<b>Amount</b>	<b>% of Commercial Real Estate</b>	<b>% of Total</b>
Multifamily	\$ 131,966	19.0 %	7.3 %
Retail	121,965	17.6	6.7
Office	108,656	15.7	6.0
1-4 family investment properties	87,076	12.6	4.8
Industrial/warehouse	57,862	8.3	3.2
Hotels	59,834	8.6	3.3
Medical office	40,728	5.9	2.2
Mini-storage	10,967	1.6	0.6
Other	74,549	10.7	4.1
	<b>\$ 693,603</b>	<b>100 %</b>	<b>38.2 %</b>

  

<i>(Dollars in thousands)</i>	<b>December 31, 2023</b>		
	<b>Amount</b>	<b>% of Commercial Real Estate</b>	<b>% of Total</b>
Multifamily	\$ 132,883	19.9 %	7.6 %
Retail	107,883	16.1	6.2
Office	107,692	16.1	6.2
1-4 family investment properties	87,218	13.1	5.0
Industrial/warehouse	58,137	8.7	3.3
Hotels	53,206	8.0	3.1
Medical office	40,784	6.1	2.3
Mini-storage	9,766	1.5	0.6
Other	70,553	10.5	4.1
	<b>\$ 668,122</b>	<b>100 %</b>	<b>38.4 %</b>

**TABLE 18: Maturity/Repricing Schedule of Loans Held for Investment**

<i>(Dollars in thousands)</i>	<b>March 31, 2024</b>				
	<b>Commercial</b>	<b>Consumer</b>	<b>Consumer Finance</b>	<b>Total</b>	
Variable Rate:					
Within 1 year	\$ 242,858	\$ 55,393	\$ —	\$ 298,251	
1 to 5 years	105,165	1,024	—	106,189	
5 to 15 years	10,523	—	—	10,523	
After 15 years	—	—	—	—	
Fixed Rate:					
Within 1 year	\$ 38,663	\$ 19,381	\$ 5,242	\$ 63,286	
1 to 5 years	273,425	42,974	234,676	551,075	
5 to 15 years	278,923	215,234	236,185	730,342	
After 15 years	15,205	42,556	—	57,761	
	<b>\$ 964,762</b>	<b>\$ 376,562</b>	<b>\$ 476,103</b>	<b>\$ 1,817,427</b>	

**Securities**

The investment portfolio plays a primary role in the management of the Corporation's interest rate sensitivity. In addition, the portfolio serves as a source of liquidity and is used as needed to meet collateral requirements. The investment portfolio consists of securities available for sale, which may be sold in response to changes in market interest rates, changes in prepayment risk, increases in loan demand, general liquidity needs and other similar factors. These securities are carried at estimated fair value. At March 31, 2024 and December 31, 2023, all securities in the Corporation's investment portfolio were classified as available for sale.

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

**TABLE 19: Securities Available for Sale**

<b>(Dollars in thousands)</b>	<b>March 31, 2024</b>		<b>December 31, 2023</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
U.S. Treasury securities	\$ 28,306	7 %	\$ 45,103	10 %
U.S. government agencies and corporations	74,718	17	87,094	19
Mortgage-backed securities	159,188	37	161,696	35
Obligations of states and political subdivisions	146,651	34	147,111	31
Corporate and other debt securities	21,558	5	21,440	5
Total available for sale securities at fair value	<b>\$ 430,421</b>	<b>100 %</b>	<b>\$ 462,444</b>	<b>100 %</b>

Securities available for sale decreased by \$32.0 million to \$430.4 million at March 31, 2024 compared to \$462.4 million at December 31, 2023 due primarily to maturities, calls and paydowns of securities and increases in net unrealized losses in the market value of securities available for sale, as a result of increases in market interest rates. Net unrealized losses in the market value of securities available for sale increased to \$34.3 million at March 31, 2024 compared to net unrealized losses in the market value of securities available for sale of \$31.6 million at December 31, 2023.

For more information about the Corporation's securities available for sale, including information about securities in an unrealized loss position at March 31, 2024 and December 31, 2023, see Part I, Item 1, "Financial Statements" under the heading "Note 2: Securities" in this Quarterly Report on Form 10-Q.

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

**TABLE 20: Maturity of Securities**

<b>(Dollars in thousands)</b>	<b>March 31, 2024</b>	
	<b>Amortized Cost</b>	<b>Weighted Average Yield <sup>1</sup></b>
U.S. Treasury securities:		
Maturing within 1 year	\$ 23,962	2.39 %
Maturing after 1 year, but within 5 years	4,982	1.38
Total U.S. Treasury securities	<u>28,944</u>	2.21
U.S. government agencies and corporations:		
Maturing within 1 year	15,612	2.27
Maturing after 1 year, but within 5 years	32,444	1.15
Maturing after 5 years, but within 10 years	30,229	1.77
Maturing after 10 years	6,095	2.16
Total U.S. government agencies and corporations	<u>84,380</u>	1.65
Mortgage-backed securities:		
Maturing within 1 year	27,067	1.96
Maturing after 1 year, but within 5 years	80,508	1.96
Maturing after 5 years, but within 10 years	52,654	2.04
Maturing after 10 years	16,457	2.70
Total mortgage-backed securities	<u>176,686</u>	2.05
States and municipals: <sup>1</sup>		
Maturing within 1 year	22,247	3.67
Maturing after 1 year, but within 5 years	40,227	2.09
Maturing after 5 years, but within 10 years	38,034	3.11
Maturing after 10 years	48,989	4.39
Total states and municipals	<u>149,497</u>	3.34
Corporate and other debt securities:		
Maturing within 1 year	1,767	2.41
Maturing after 1 year, but within 5 years	16,660	4.20
Maturing after 5 years, but within 10 years	6,750	3.94
Total corporate and other debt securities	<u>25,177</u>	4.00
Total securities:		
Maturing within 1 year	90,655	2.56
Maturing after 1 year, but within 5 years	174,821	2.03
Maturing after 5 years, but within 10 years	127,667	2.40
Maturing after 10 years	71,541	3.81
Total securities	<u>\$ 464,684</u>	2.51

1. Yields on tax-exempt securities have been computed on a taxable-equivalent basis using the federal corporate income tax rate of 21 percent. The weighted average yield is calculated based on the relative amortized costs of the securities.

### Deposits

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

During the first quarter of 2024, deposits increased \$21.8 million to \$2.09 billion at March 31, 2024. Noninterest bearing demand deposits decreased \$14.3 million, savings and interest-bearing demand deposits decreased \$26.9 million, and time deposits increased \$63.0 million during the same period. The decrease in non-time deposits was due in part to a shift in balances toward time deposits amid a higher interest rate environment and to seasonal factors related to municipal deposits, which tend to increase with tax collections primarily in the fourth quarter of each year and decline with spending thereafter. The Corporation had \$140.5 million in municipal deposits at March 31, 2024 compared to \$167.9 million at December 31, 2023.

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The Corporation had \$35.0 million in brokered money market and time deposits outstanding at March 31, 2024 compared to \$25.0 million at December 31, 2023. The Corporation may continue to use brokered deposits on a limited basis as a means of maintaining and diversifying liquidity and funding sources.

### **Borrowings**

Borrowings increased to \$121.6 million at March 31, 2024 from \$109.5 million at December 31, 2023 due primarily to increased long-term borrowings from the FHLB to support lending activities and securities purchases.

### **Liquidity**

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

Liquid assets, which include cash and due from banks, interest-bearing deposits at other banks and nonpledged securities available for sale, totaled \$298.5 million at March 31, 2024 compared to \$338.8 million at December 31, 2023. The Corporation's funding sources, including capacity, amount outstanding and amount available at March 31, 2024 are presented in Table 21. The Corporation's capacity and amount available increased \$36.2 million and \$23.7 million, respectively, from December 31, 2023 as a result of pledging additional loans in order to increase funding capacity under secured funding arrangements with the FRB.

**TABLE 21: Funding Sources**

<b>(Dollars in thousands)</b>	<b>March 31, 2024</b>			<b>December 31, 2023</b>		
	<b>Capacity</b>	<b>Outstanding</b>	<b>Available</b>	<b>Capacity</b>	<b>Outstanding</b>	<b>Available</b>
Unsecured federal funds agreements <sup>1</sup>	\$ 75,000	\$ 2	\$ 74,998	\$ 95,000	\$ 18	\$ 94,982
Repurchase lines of credit <sup>1</sup>	—	—	—	35,000	—	35,000
Borrowings from FHLB	222,876	40,000	182,876	228,382	27,500	200,882
Borrowings from FRB	315,947	—	315,947	219,244	—	219,244
<b>Total</b>	<b>\$ 613,823</b>	<b>\$ 40,002</b>	<b>\$ 573,821</b>	<b>\$ 577,626</b>	<b>\$ 27,518</b>	<b>\$ 550,108</b>

<sup>1</sup>. Amounts include \$20.0 million and \$35.0 million of certain unsecured federal funds agreements and repurchase lines of credit, respectively, at December 31, 2023 that subsequently terminated in January 2024 when the corresponding third-party ended all federal funds agreements and repurchase lines of credit with all financial institutions.

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

Uninsured deposits represent an estimate of amounts above the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250,000. As of March 31, 2024, the Corporation's uninsured deposits were approximately \$560.3 million, or 26.8 percent of total deposits. Excluding intercompany cash holdings and municipal deposits which are secured with pledged securities, amounts uninsured were approximately \$408.3 million, or 19.6 percent of total deposits as of March 31, 2024 compared to 19.6 percent of total deposits as of December 31, 2023. The Corporation's liquid assets and borrowing availability as of March 31, 2024 totaled \$872.3 million, exceeding uninsured deposits, excluding intercompany cash holdings and secured municipal deposits, by \$464.0 million.

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The Corporation's internal policy limits brokered deposits to 20 percent of total deposits, representing approximately \$382.6 million of additional net availability for additional brokered deposits as of March 31, 2024.

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

**Capital Resources**

The assessment of capital adequacy depends on such factors as asset quality, liquidity, earnings performance, and changing competitive conditions and economic forces. We regularly review the adequacy of the Corporation's and the Bank's capital. We maintain a structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses. While we will continue to look for opportunities to invest capital in profitable growth, share repurchases are another tool that facilitates improving shareholder return, as measured by ROE and earnings per share.

The disclosure below presents the Corporation's and the Bank's actual capital amounts and ratios under currently applicable regulatory capital standards. Under the small bank holding company policy statement of the Federal Reserve Board, which applies to certain bank holding companies with consolidated total assets of less than \$3 billion, the Corporation is not subject to regulatory capital requirements. The table below reflects the Corporation's consolidated capital as determined under regulations that apply to bank holding companies that are not small bank holding companies and minimum capital requirements that would apply to the Corporation if it were not a small bank holding company. Although the minimum regulatory capital requirements are not applicable to the Corporation, the Corporation calculates these ratios for its own planning and monitoring purposes. Total risk-weighted assets at March 31, 2024 for the Corporation were \$2.01 billion and for the Bank were \$1.99 billion. Total risk-weighted assets at December 31, 2023 for the Corporation were \$1.95 billion and for the Bank were \$1.92 billion. As of March 31, 2024, the Bank met all capital adequacy requirements to which it is subject.

**TABLE 22: Regulatory Capital**

<i>(Dollars in thousands)</i>	March 31, 2024					
	Actual		Minimum Capital Requirements		Well Capitalized Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i><b>The Corporation</b></i>						
Total risk-based capital ratio	\$ 291,722	14.5 %	\$ 161,195	8.0 %	\$ N/A	N/A %
Tier 1 risk-based capital ratio	246,338	12.2	120,897	6.0	N/A	N/A
Common Equity Tier 1 capital ratio	221,338	11.0	90,672	4.5	N/A	N/A
Tier 1 leverage ratio	246,338	10.1	97,571	4.0	N/A	N/A
<i><b>The Bank</b></i>						
Total risk-based capital ratio	\$ 274,945	13.8 %	\$ 159,188	8.0 %	\$ 198,984	10.0 %
Tier 1 risk-based capital ratio	249,871	12.6	119,391	6.0	159,188	8.0
Common Equity Tier 1 capital ratio	249,871	12.6	89,543	4.5	129,340	6.5
Tier 1 leverage ratio	249,871	10.3	96,745	4.0	120,932	5.0

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(Dollars in thousands)	December 31, 2023					
	Actual		Minimum Capital Requirements		Well Capitalized Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b><i>The Corporation</i></b>						
Total risk-based capital ratio	\$ 289,396	14.8 %	\$ 155,927	8.0 %	\$ N/A	N/A %
Tier 1 risk-based capital ratio	244,830	12.6	116,945	6.0	N/A	N/A
Common Equity Tier 1 capital ratio	219,830	11.3	87,709	4.5	N/A	N/A
Tier 1 leverage ratio	244,830	10.1	97,449	4.0	N/A	N/A
<b><i>The Bank</i></b>						
Total risk-based capital ratio	\$ 271,952	14.1 %	\$ 153,816	8.0 %	\$ 192,270	10.0 %
Tier 1 risk-based capital ratio	247,712	12.9	115,362	6.0	153,816	8.0
Common Equity Tier 1 capital ratio	247,712	12.9	86,522	4.5	124,976	6.5
Tier 1 leverage ratio	247,712	10.3	96,655	4.0	120,819	5.0

The regulatory risk-based capital amounts presented above include: (1) common equity tier 1 capital (CET1) which consists principally of common stock (including surplus) and retained earnings with adjustments for goodwill and intangible assets; (2) Tier 1 capital which consists principally of CET1 plus the Corporation's "grandfathered" trust preferred securities; and (3) Tier 2 capital which consists principally of Tier 1 capital plus a limited amount of the allowance for credit losses and \$20.0 million of outstanding subordinated notes of the Corporation. The Corporation repaid \$4.0 million of subordinated notes during the second quarter of 2023. The Total Capital ratio, Tier 1 Capital ratio and CET1 ratio are calculated as a percentage of risk-weighted assets. The Tier 1 Leverage ratio is calculated as a percentage of average tangible assets. In addition, the Corporation has made the one-time irrevocable election to continue treating accumulated other comprehensive income (AOCI) under regulatory standards that were in place prior to the Basel III Final Rule in order to eliminate volatility of regulatory capital that can result from fluctuations in AOCI and the inclusion of AOCI in regulatory capital, as would otherwise be required under the Basel III Capital Rule. As a result of this election, changes in AOCI, including unrealized losses on securities available for sale, do not affect regulatory capital amounts shown in the table above for the Corporation or the Bank. For additional information about the Basel III Final Rules, see "Item 1. Business" under the heading "Regulation and Supervision" and "Item 8. Financial Statements and Supplementary Data," under the heading "Note 17: Regulatory Requirements and Restrictions" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023.

The Basel III rules established a "capital conservation buffer" of 2.5 percent above the regulatory minimum risk-based capital ratios, which is not included in the table above. Including the capital conservation buffer, the minimum ratios are a common equity Tier 1 risk-based capital ratio of 7.0 percent, a Tier 1 risk-based capital ratio of 8.5 percent, and a total risk-based capital ratio of 10.5 percent. The Corporation and the Bank exceeded these ratios at March 31, 2024 and December 31, 2023.

The Corporation's capital resources are impacted by its share repurchase programs. Under the 2024 Repurchase Program which was authorized by the Corporation's Board of Directors during the fourth quarter of 2023, the Corporation is authorized to purchase up to \$10.0 million of the Corporation's common stock. Repurchases under the 2024 Repurchase Program may be made through privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, (Exchange Act) and shares repurchased will be returned to the status of authorized and unissued shares of common stock. The timing, number and purchase price of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of the shares, general market and economic conditions, applicable legal requirements and other conditions, and there is no assurance that the Corporation will purchase any shares under the 2024 Repurchase Program. The 2024 Repurchase Program is authorized through December 31, 2024, and, as of March 31, 2024, there was \$9.5 million remaining available for repurchases of the Corporation's common stock under the 2024 Repurchase Program.

**USE OF CERTAIN NON-GAAP FINANCIAL MEASURES**

The accounting and reporting policies of the Corporation conform to GAAP in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of the Corporation's performance. These include net tangible income attributable to the Corporation, ROTCE, tangible book value per share, and the following fully-taxable equivalent (FTE) measures: interest income on loans-FTE, interest income on securities-FTE, total interest income-FTE and net interest income-FTE. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield as if income taxes were paid) using the federal corporate income tax rate of 21 percent that was applicable for all periods presented.

Management believes that the use of these non-GAAP measures provides meaningful information about operating performance by enhancing comparability with other financial periods, other financial institutions, and between different sources of interest income. The non-GAAP measures used by management enhance comparability by excluding the effects of balances of intangible assets, including goodwill, that vary significantly between institutions, and tax benefits that are not consistent across different opportunities for investment. These non-GAAP financial measures should not be considered an alternative to GAAP-basis financial statements, and other bank holding companies may define or calculate these or similar measures differently. A reconciliation of the non-GAAP financial measures used by the Corporation to evaluate and measure the Corporation's performance to the most directly comparable GAAP financial measures is presented below.

**TABLE 23: Non-GAAP Table**

<i>(Dollars in thousands except for per share data)</i>	For The Quarter Ended	
	March 31, 2024	March 31, 2023
<b>Reconciliation of Certain Non-GAAP Financial Measures</b>		
<b>Return on Average Tangible Common Equity</b>		
Average total equity, as reported	\$ 217,063	\$ 201,856
Average goodwill	(25,191)	(25,191)
Average other intangible assets	(1,366)	(1,640)
Average noncontrolling interest	(649)	(654)
Average tangible common equity	\$ 189,857	\$ 174,371
Net income	\$ 3,435	\$ 6,497
Amortization of intangibles	65	68
Net income attributable to noncontrolling interest	(34)	(56)
Net tangible income attributable to C&F Financial Corporation	\$ 3,466	\$ 6,509
Annualized return on average equity, as reported	6.33 %	12.87 %
Annualized return on average tangible common equity	7.30 %	14.93 %

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<i>(Dollars in thousands except for per share data)</i>	For The Quarter Ended	
	March 31, 2024	March 31, 2023
<b>Fully Taxable Equivalent Net Interest Income<sup>1</sup></b>		
Interest income on loans	\$ 29,586	\$ 26,060
FTE adjustment	<u>50</u>	<u>47</u>
FTE interest income on loans	<u><u>\$ 29,636</u></u>	<u><u>\$ 26,107</u></u>
Interest income on securities	\$ 2,863	\$ 3,069
FTE adjustment	<u>235</u>	<u>163</u>
FTE interest income on securities	<u><u>\$ 3,098</u></u>	<u><u>\$ 3,232</u></u>
Total interest income	\$ 32,708	\$ 29,305
FTE adjustment	<u>285</u>	<u>210</u>
FTE interest income	<u><u>\$ 32,993</u></u>	<u><u>\$ 29,515</u></u>
Net interest income	\$ 23,158	\$ 24,958
FTE adjustment	<u>285</u>	<u>210</u>
FTE net interest income	<u><u>\$ 23,443</u></u>	<u><u>\$ 25,168</u></u>

<sup>1</sup> Assuming a tax rate of 21%.

<i>(Dollars in thousands except for per share data)</i>	March 31, 2024	December 31, 2023
	2024	2023
<b>Tangible Book Value Per Share</b>		
Equity attributable to C&F Financial Corporation	\$ 216,340	\$ 216,878
Goodwill	<u>(25,191)</u>	<u>(25,191)</u>
Other intangible assets	<u>(1,342)</u>	<u>(1,407)</u>
Tangible equity attributable to C&F Financial Corporation	<u><u>\$ 189,807</u></u>	<u><u>\$ 190,280</u></u>
Shares outstanding	3,367,619	3,374,098
Book value per share	\$ 64.24	\$ 64.28
Tangible book value per share	\$ 56.36	\$ 56.40

#### **CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

This report contains statements concerning the Corporation's expectations, plans, objectives or beliefs regarding future financial performance and other statements that are not historical facts, which may constitute "forward-looking statements" as defined by federal securities laws. Forward-looking statements generally can be identified by the use of words such as "believe," "expect," "anticipate," "estimate," "plan," "may," "will," "intend," "should," "could," or similar expressions, are not statements of historical fact, and are based on management's beliefs, assumptions and expectations regarding future events or performance as of the date of this report, taking into account all information currently available.

These statements may include, but are not limited to: statements regarding expected future operations and financial performance; expected trends in yields on loans; expected future recovery of investments in debt securities; future dividend payments; deposit trends, charge-offs and delinquencies; changes in cost of funds and net interest margin and items affecting net interest margin; expected renewal of unsecured federal funds agreements; expected impact of unrealized losses on earnings and regulatory capital of the Corporation or the Bank; competition, our loan portfolio; our digital services; deposits; improving operational efficiencies; retention of qualified loan officers; higher quality automobile loan contracts, marine and RV lending; strategic business initiatives and the anticipated effects thereof on mortgage loan originations; technology initiatives; our diversified business strategy; asset quality; credit quality; adequacy of allowances for credit losses and the level of future charge-offs; market interest rates and housing inventory and resulting effects in mortgage loan origination volume; sources of liquidity; adequacy of the reserve for indemnification losses related to loans sold in the secondary market; capital levels; the effect of future market and industry trends; the effects of future interest rate levels and fluctuations; cybersecurity risks and inflation. These forward-looking statements are subject to significant risks and uncertainties due to factors that could have a material adverse effect on the operations and future prospects of the Corporation including, but not limited to, changes in:

- interest rates, such as volatility in short-term interest rates or yields on U.S. Treasury bonds, increases in interest rates following actions by the Federal Reserve and increases or volatility in mortgage interest rates
- general business conditions, as well as conditions within the financial markets
- general economic conditions, including unemployment levels, inflation rates, supply chain disruptions and slowdowns in economic growth
- general market conditions, including disruptions due to pandemics or significant health hazards, severe weather conditions, natural disasters, terrorist activities, financial crises, political crises, war and other military conflicts (including the ongoing military conflicts between Russia and Ukraine and in the Middle East) or other major events, or the prospect of these events
- average loan yields and average costs of interest-bearing deposits
- financial services industry conditions, including bank failures or concerns involving liquidity
- labor market conditions, including attracting, hiring, training, motivating and retaining qualified employees
- the legislative and regulatory climate, regulatory initiatives with respect to financial institutions, products and services, the Consumer Financial Protection Bureau (the CFPB) and the regulatory and enforcement activities of the CFPB
- monetary and fiscal policies of the U.S. Government, including policies of the FDIC, U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System (the Federal Reserve Board), and the effect of these policies on interest rates and business in our markets
- demand for financial services in the Corporation's market areas
- the value of securities held in the Corporation's investment portfolios
- the quality or composition of the loan portfolios and the value of the collateral securing those loans
- the inventory level, demand and fluctuations in the pricing of used automobiles, including sales prices of repossessed vehicles
- the level of automobile loan delinquencies or defaults and our ability to repossess automobiles securing delinquent automobile finance installment contracts
- the level of net charge-offs on loans and the adequacy of our allowance for credit losses
- the level of indemnification losses related to mortgage loans sold
- demand for loan products
- deposit flows
- the strength of the Corporation's counterparties

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- the availability of lines of credit from the FHLB and other counterparties
- the soundness of other financial institutions and any indirect exposure related to the closing of other financial institutions and their impact on the broader market through other customers, suppliers and partners, or that the conditions which resulted in the liquidity concerns experienced by closed financial institutions may also adversely impact, directly or indirectly, other financial institutions and market participants with which the Corporation has commercial or deposit relationships
- competition from both banks and non-banks, including competition in the automobile finance and marine and recreational vehicle finance markets
- services provided by, or the level of the Corporation's reliance upon third parties for key services
- the commercial and residential real estate markets, including changes in property values
- the demand for residential mortgages and conditions in the secondary residential mortgage loan markets
- the Corporation's technology initiatives and other strategic initiatives
- the Corporation's branch expansions and consolidations plans
- cyber threats, attacks or events
- C&F Bank's product offerings
- accounting principles, policies and guidelines, and elections made by the Corporation thereunder, including, for example, our adoption of the CECL methodology and the potential volatility in the Corporation's operating results due the application of the CECL methodology

These risks and uncertainties, and the risks discussed in more detail in Item 1A. "Risk Factors," of Part I of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023 should be considered in evaluating the forward-looking statements contained herein.

Readers should not place undue reliance on any forward-looking statement. There can be no assurance that actual results will not differ materially from historical results or those expressed in or implied by such forward-looking statements, or that the beliefs, assumptions and expectations underlying such forward-looking statements will be proven to be accurate. Forward-looking statements are made as of the date of this report and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which the statement was made, except as otherwise required by law.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

The Corporation's Asset/Liability Committee meets at least quarterly with the primary objective of maximizing current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent and appropriate. Thus the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level. The objective of the Corporation's liquidity management is to meet the Corporation's liquidity requirements by ensuring the continuous availability of funds to satisfy the credit needs of our customers and the demands of our depositors, creditors and investors. Stable core deposits and a strong capital position are the components of a solid foundation for the Corporation's liquidity position. Management continuously monitors cash flows, including deposit flows, loan fundings and draws, securities payments and borrowing maturities, and the impact of changes in interest rates on these cash flows. Additionally, management tracks uninsured deposits, unpledged securities and unpledged loans among other liquidity metrics.

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

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

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

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The simulation analysis results, based on a measurement date balance sheet as of March 31, 2024, for hypothetical changes in net interest income over the next twelve months are presented in the table below.

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

Assumed Market Interest Rate Shift	Hypothetical Change in Net Interest Income Over the Next Twelve Months as of			
	March 31, 2024		December 31, 2023	
	Dollars	Percentage	Dollars	Percentage
-300 BP shock	\$ (7,451)	(7.15)%	\$ (8,372)	(8.22)%
-200 BP shock	(4,575)	(4.39)	(5,137)	(5.04)
-100 BP shock	(1,991)	(1.91)	(2,352)	(2.31)
+100 BP shock	484	0.46	1,081	1.06
+200 BP shock	940	0.90	2,094	2.06
+300 BP shock	1,296	1.24	3,013	2.96

These results indicate that the Corporation would expect net interest income to decrease over the next twelve months assuming an immediate downward shift in market interest rates of 100 BP to 300 BP and to increase if rates shifted upward to the same degree. The simulation analysis results show the Corporation is less asset sensitive as of March 31, 2024 compared to the results as of December 31, 2023 due primarily to shifts in the mix of earnings assets and in the mix of deposits.

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

The EVE analysis results are presented in the table below.

**Static EVE Change (dollars in thousands)**

Assumed Market Interest Rate Shift	Hypothetical Change in EVE as of			
	March 31, 2024		December 31, 2023	
	Dollars	Percentage	Dollars	Percentage
-300 BP shock	\$ (25,287)	(6.64)%	\$ (28,719)	(7.51)%
-200 BP shock	(9,012)	(2.37)	(10,881)	(2.85)
-100 BP shock	21	0.01	(1,397)	(0.37)
+100 BP shock	(5,349)	(1.40)	(1,945)	(0.51)
+200 BP shock	(11,543)	(3.03)	(5,012)	(1.31)
+300 BP shock	(19,792)	(5.20)	(11,062)	(2.89)

These results as of March 31, 2024 indicate that the EVE would decrease assuming an immediate downward shift in market interest rates of 200 BP to 300 BP, would increase if rates shifted downward 100 BP and would decrease if rates shift upward 100 to 300 BP. As of March 31, 2024, the Corporation's EVE is less sensitive to decreases in rates and more sensitive to increases in rates compared to its position as of December 31, 2023 due primarily to the composition of its Consolidated Balance Sheets and the characteristics and assumptions of certain deposit accounts.

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Certain shortcomings are inherent in the methodology used in the above interest rate risk analyses. Modeling changes in forecasted cash flows and EVE requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates, and certain assumed scenarios may be impractical to model under different economic circumstances. In a falling rate environment, the analyses assume that rate-sensitive assets are repriced downward, subject to floors on certain loans, while certain deposit rates are not allowed to decrease below zero.

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

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

The Corporation's management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2024 to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Corporation's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Corporation or its subsidiary to disclose material information required to be set forth in the Corporation's periodic reports.

There were no changes in the Corporation's internal control over financial reporting during the three months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

The Corporation's Board of Directors authorized a program, effective January 1, 2024, to repurchase up to \$10.0 million of the Corporation's common stock through December 31, 2024 (the 2024 Repurchase Program). Repurchases under the 2024 Repurchase Program may be made through privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 under the Exchange Act and shares repurchased will be returned to the status of authorized and unissued shares of common stock. There were 9,654 shares repurchased under the 2024 Repurchase Program during the first quarter of 2024 for an aggregate cost of \$516,000 under the 2024 Repurchase Program.

The following table summarizes repurchases of the Corporation's common stock that occurred during the three months ended March 31, 2024.

	Total Number of Shares Purchased <sup>1</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2024 - January 31, 2024	—	\$ —	—	\$ 10,000,000
February 1, 2024 - February 29, 2024	13,114	\$ 55.62	6,520	\$ 9,650,823
March 1, 2024 - March 31, 2024	5,691	\$ 53.04	3,134	\$ 9,483,523
Total	<b>18,805</b>	<b>\$ 54.84</b>	<b>9,654</b>	

<sup>1</sup> During the three months ended March 31, 2024, 9,151 shares were withheld upon the vesting of restricted shares granted to employees of the Corporation and its subsidiaries in order to satisfy tax withholding obligations.

**ITEM 5. OTHER INFORMATION**

During the three months ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

**ITEM 6. EXHIBITS**

- 3.1 [Amended and Restated Articles of Incorporation of C&F Financial Corporation, effective March 7, 1994 \(incorporated by reference to Exhibit 3.1 to Form 10-Q filed November 8, 2017\)](#)
- 3.1.1 [Amendment to Articles of Incorporation of C&F Financial Corporation, effective January 8, 2009 \(incorporated by reference to Exhibit 3.1.1 to Form 8-K filed January 14, 2009\)](#)
- 3.2 [Amended and Restated Bylaws of C&F Financial Corporation, as adopted December 15, 2020 \(incorporated by reference to Exhibit 3.1 to Form 8-K filed December 17, 2020\)](#)
- 31.1 [Certification of CEO pursuant to Rule 13a-14\(a\)](#)
- 31.2 [Certification of CFO pursuant to Rule 13a-14\(a\)](#)
- 32 [Certification of CEO/CFO pursuant to 18 U.S.C. Section 1350](#)
- 101 The following financial statements from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in Inline XBRL, filed herewith: (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Income (unaudited), (iii) the Consolidated Statements of Comprehensive Income (unaudited), (iv) the Consolidated Statements of Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited) and (vi) the Notes to Consolidated Financial Statements (unaudited)
- 104 The cover page from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in Inline XBRL (included within Exhibit 101)

**SIGNATURES**

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

C&F FINANCIAL CORPORATION  
(Registrant)

Date: May 7, 2024

By: /s/ Thomas F. Cherry

Thomas F. Cherry  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 7, 2024

By: /s/ Jason E. Long

Jason E. Long  
Executive Vice President, Chief Financial Officer  
and Secretary  
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Thomas F. Cherry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of C&F Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date May 7, 2024

/s/ Thomas F. Cherry

Thomas F. Cherry, President and Chief Executive Officer

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CERTIFICATIONS

I, Jason E. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q of C&F Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date May 7, 2024

/s/ Jason E. Long

Jason E. Long, Executive Vice President,  
Chief Financial Officer and Secretary

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CERTIFICATION

The undersigned, as the chief executive officer and the chief financial officer of C&F Financial Corporation, respectively, certify that to the best of their knowledge and belief the Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of C&F Financial Corporation at the dates and for the periods indicated. The foregoing certification is made pursuant to §906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), and shall not be relied upon for any other purpose. The undersigned expressly disclaim any obligation to update the foregoing certification except as required by law.

Date May 7, 2024

/s/ Thomas F. Cherry

Thomas F. Cherry  
President and Chief Executive Officer

Date May 7, 2024

/s/ Jason E. Long

Jason E. Long  
Executive Vice President, Chief Financial Officer and  
Secretary

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