

CITY HOLDING CO  
Form 10-Q  
August 10, 2009

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Quarterly Period Ended June 30, 2009

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 0-11733

CITY HOLDING COMPANY

(Exact name of registrant as specified in its charter)

West Virginia 55-0619957  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) No.)

25 Gatewater Road  
Charleston, West Virginia 25313  
(Address of principal executive (Zip Code)  
offices)

(304) 769-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common stock, \$2.50 Par Value – 15,962,719 shares as of August 10, 2009.

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## FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Result of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such information involves risks and uncertainties that could result in the Company's actual results differing from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to: (1) the Company may incur additional loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company may experience increases in the default rates on previously securitized loans that would result in impairment losses or lower the yield on such loans; (4) the Company may not continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on these assets; (5) the Company could have adverse legal actions of a material nature; (6) the Company may face competitive loss of customers; (7) the Company may be unable to manage its expense levels; (8) the Company may have difficulty retaining key employees; (9) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (10) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (11) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (12) the Company may experience difficulties growing loan and deposit balances; (13) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (14) continued deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in the securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments; and (15) the Company may incur further expenses due to additional special assessments from the Federal Deposit Insurance Corporation ("FDIC") or increases in FDIC insurance premiums. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

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City Holding Company and Subsidiaries

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## PART I, ITEM 1 – FINANCIAL STATEMENTS

## Consolidated Balance Sheets

## City Holding Company and Subsidiaries

(in thousands)

	June 30 2009 (Unaudited)	December 31 2008 (Note A)
Assets		
Cash and due from banks	\$ 48,058	\$ 55,511
Interest-bearing deposits in depository institutions	4,912	4,118
Cash and Cash Equivalents	52,970	59,629
Investment securities available for sale, at fair value	502,286	424,214
Investment securities held-to-maturity, at amortized cost (approximate fair value at June 30, 2009 and December 31, 2008 - \$22,533 and \$22,050, respectively)	29,029	29,067
Total Investment Securities	531,315	453,281
Gross loans	1,786,335	1,812,344
Allowance for loan losses	(20,975)	(22,254)
Net Loans	1,765,360	1,790,090
Bank owned life insurance	71,874	70,400
Premises and equipment	63,425	60,138
Accrued interest receivable	8,936	9,024
Net deferred tax asset	45,694	48,462
Intangible assets	57,244	57,479
Other assets	29,499	33,943
Total Assets	\$ 2,626,317	\$ 2,582,446
Liabilities		
Deposits:		
Noninterest-bearing	\$ 315,278	\$ 298,530
Interest-bearing:		
Demand deposits	430,113	420,554
Savings deposits	379,848	354,956
Time deposits	1,018,594	967,090
Total Deposits	2,143,833	2,041,130
Short-term borrowings	136,421	194,463
Long-term debt	18,002	19,047
Other liabilities	36,879	47,377
Total Liabilities	2,335,135	2,302,017
Shareholders' Equity		
Preferred stock, par value \$25 per share: 500,000 shares authorized; none issued	-	-
Common stock, par value \$2.50 per share: 50,000,000 shares authorized; 18,499,282 shares issued at June 30, 2009 and December 31, 2008, less 2,536,563 and 2,548,538 shares in	46,249	46,249

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treasury, respectively		
Capital surplus	101,658	102,895
Retained earnings	240,847	230,613
Cost of common stock in treasury	(88,357)	(88,729)
Accumulated other comprehensive (loss):		
Unrealized loss on securities available-for-sale	(10,676)	(15,628)
Unrealized gain on derivative instruments	5,719	9,287
Underfunded pension liability	(4,258)	(4,258)
Total Accumulated Other Comprehensive (Loss)	(9,215)	(10,599)
Total Shareholders' Equity	291,182	280,429
Total Liabilities and Shareholders' Equity	\$ 2,626,317	\$ 2,582,446

See notes to consolidated financial statements.

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Consolidated Statements of Income (Unaudited)  
City Holding Company and Subsidiaries  
(in thousands, except earnings per share data)

	Three Months Ended June		Six Months Ended June 30	
	2009	30 2008	2009	2008
<b>Interest Income</b>				
Interest and fees on loans	\$ 26,946	\$ 30,416	\$ 55,004	\$ 61,408
Interest on investment securities:				
Taxable	5,612	6,120	11,674	12,184
Tax-exempt	403	381	812	780
Interest on deposits in depository institutions				
	3	51	8	116
<b>Total Interest Income</b>	<b>32,964</b>	<b>36,968</b>	<b>67,498</b>	<b>74,488</b>
<b>Interest Expense</b>				
Interest on deposits	9,184	10,519	18,557	22,534
Interest on short-term borrowings	111	663	264	1,808
Interest on long-term debt	231	312	485	753
<b>Total Interest Expense</b>	<b>9,526</b>	<b>11,494</b>	<b>19,306</b>	<b>25,095</b>
<b>Net Interest Income</b>	<b>23,438</b>	<b>25,474</b>	<b>48,192</b>	<b>49,393</b>
Provision for loan losses	2,150	850	3,800	2,733
<b>Net Interest Income After Provision for Loan Losses</b>	<b>21,288</b>	<b>24,624</b>	<b>44,392</b>	<b>46,660</b>
<b>Non-interest Income</b>				
Investment securities (losses) gains	(332)	-	(2,407)	2
Service charges	11,261	11,269	21,696	22,543
Insurance commissions	1,325	1,168	3,258	2,206
Trust and investment management fee income				
	497	449	1,204	1,081
Bank owned life insurance	992	750	1,724	1,426
VISA IPO Gain	-	-	-	3,289
Other income	544	559	1,245	966
<b>Total Non-interest Income</b>	<b>14,287</b>	<b>14,195</b>	<b>26,720</b>	<b>31,513</b>
<b>Non-interest Expense</b>				
Salaries and employee benefits	9,797	9,517	19,380	18,880
Occupancy and equipment	1,880	1,701	3,789	3,298
Depreciation	1,184	1,087	2,395	2,220
Professional fees	397	427	850	794
Postage, delivery, and statement mailings				
	698	618	1,416	1,272
Advertising	927	643	1,790	1,260
Telecommunications	514	440	934	858
Bankcard expenses	686	640	1,334	1,261
Insurance and regulatory	1,578	333	1,954	671

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Office supplies	470	504	1,001	961
Repossessed asset losses, net of expenses	86	91	215	123
Loss on early extinguishment of debt	-	-	-	1,208
Other expenses	2,119	2,760	4,112	5,854
Total Non-interest Expense	20,336	18,761	39,170	38,660
Income Before Income Taxes	15,239	20,058	31,942	39,513
Income tax expense	5,093	6,679	10,872	13,096
Net Income	10,146	13,379	21,070	26,417
Basic earnings per common share	\$ 0.64	\$ 0.83	\$ 1.32	\$ 1.64
Diluted earnings per common share	\$ 0.64	\$ 0.83	\$ 1.32	\$ 1.63
Dividends declared per common share	\$ 0.34	\$ 0.34	\$ 0.68	\$ 0.68
Average common shares outstanding:				
Basic	15,908	16,103	15,903	16,124
Diluted	15,949	16,167	15,941	16,186

See notes to consolidated financial statements.



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## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

City Holding Company and Subsidiaries

Six Months Ended June 30, 2009 and 2008

(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2007	\$ 46,249	\$ 103,390	\$ 224,386	\$ (80,664)	\$ 633	\$ 293,994
Comprehensive income:						
Net income			26,417			26,417
Other comprehensive loss, net of deferred income taxes of \$2,901:						
Unrealized losses on available-for-sale securities of \$8,612, net of taxes					(5,166)	(5,166)
Net unrealized gain on interest rate floors of \$1,358, net of taxes					815	815
Total comprehensive income						22,066
Cash dividends declared (\$0.68 per share)			(10,965)			(10,965)
Issuance of stock awards, net		(133)		473		340
Exercise of 18,075 stock options		(318)		633		315
Excess tax benefit on stock-based compensation		23				23
Purchase of 104,960 treasury shares				(3,717)		(3,717)
Balances at June 30, 2008	\$ 46,249	\$ 102,962	\$ 239,838	\$ (83,275)	\$ (3,718)	\$ 302,056

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2008	\$ 46,249	\$ 102,895	\$ 230,613	\$ (88,729)	\$ (10,599)	\$ 280,429
Comprehensive income:						

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Net income		21,070		21,070
Other comprehensive gain, net of deferred income taxes of 2,282:				
Unrealized gains on available-for-sale securities of \$8,167, net of taxes			4,953	4,953
Net unrealized loss on interest rate floors of \$5,885, net of taxes			(3,569)	(3,569)
Total comprehensive income				22,454
Cash dividends declared (\$0.68 per share)		(10,836)		(10,836)
Issuance of stock awards, net	(1,233)		1,607	374
Exercise of 300 stock options	(4)		7	3
Purchase of 49,363 treasury shares			(1,242)	(1,242)
Balances at June 30, 2009	\$ 46,249	\$ 101,658	\$ 240,847	\$ (88,357) \$ (9,215) \$ 291,182

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)  
City Holding Company and Subsidiaries  
(in thousands)

	Six Months Ended June 30	
	2009	2008
<b>Operating Activities</b>		
Net income	\$ 21,070	\$ 26,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion	(24)	(777)
Provision for loan losses	3,800	2,733
Depreciation of premises and equipment	2,395	2,220
Deferred income tax (benefit) expense	(445)	533
Accretion of gain from sale of interest rate floors	(3,569)	-
Net periodic employee benefit cost	100	24
Loss on early extinguishment of debt	-	1,208
Loss on disposal of premises and equipment	-	111
Realized investment securities losses (gains)	2,407	(2)
Increase in value of bank-owned life insurance	(1,724)	(1,427)
Proceeds from bank-owned life insurance	250	-
Decrease in accrued interest receivable	88	1,331
Decrease (Increase) in other assets	4,444	(6,305)
Decrease in other liabilities	(10,228)	(5,679)
<b>Net Cash Provided by Operating Activities</b>	<b>18,564</b>	<b>20,387</b>
<b>Investing Activities</b>		
Proceeds from maturities and calls of securities held-to-maturity	-	1,220
Proceeds from sale of money market and mutual fund securities available-for-sale	302,483	612,600
Purchases of money market and mutual fund securities available-for-sale	(365,421)	(618,517)
Proceeds from sales of securities available-for-sale	161	2,591
Proceeds from maturities and calls of securities available-for-sale	49,663	31,750
Purchases of securities available-for-sale	(59,914)	(61,408)
Net decrease in loans	21,939	16,632
Sales of premises and equipment	-	337
Purchases of premises and equipment	(5,682)	(4,525)
Investment in bank-owned life insurance	-	(3,000)
Redemption of VISA stock	-	2,334
<b>Net Cash Used in Investing Activities</b>	<b>(56,771)</b>	<b>(19,986)</b>
<b>Financing Activities</b>		
Net increase in noninterest-bearing deposits	16,748	12,503
Net increase in interest-bearing deposits	85,955	5,723
Net (decrease) in short-term borrowings	(59,042)	(8,260)
Proceeds from long-term debt	-	16,495

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Repayment of long-term debt	(42)	(58)
Redemption of trust preferred securities	-	(17,568)
Purchases of treasury stock	(1,242)	(3,717)
Proceeds from exercise of stock options	3	315
Excess tax benefits from stock-based compensation arrangements	-	23
Dividends paid	(10,832)	(10,504)
Net Cash Provided by (Used in) Financing Activities	31,548	(5,048)
Decrease in Cash and Cash Equivalents	(6,659)	(4,647)
Cash and cash equivalents at beginning of period	59,629	74,518
Cash and Cash Equivalents at End of Period	\$ 52,970	\$ 69,871

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

June 30, 2009

Note A – Basis of Presentation

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of City Holding Company (“the Parent Company”) and its wholly-owned subsidiaries (collectively, “the Company”). All material intercompany transactions have been eliminated. The consolidated financial statements include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition for each of the periods presented. Such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2009. The Company’s accounting and reporting policies conform with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management’s estimates. Management has evaluated subsequent events for disclosure and/or recognition up to the time of filing these financial statements with the Securities and Exchange Commission on August 10, 2009.

The consolidated balance sheet as of December 31, 2008 has been derived from audited financial statements included in the Company’s 2008 Annual Report to Shareholders. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the 2008 Annual Report of the Company.

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## Note B –Investments

The aggregate carrying and approximate market values of securities follow. Fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable financial instruments.

(in thousands)	June 30, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Securities available-for-sale:</b>								
<b>Obligations of states and political subdivisions</b>								
	\$ 46,422	\$ 336	\$ (776)	\$ 45,982	\$ 41,960	\$ 196	\$ (735)	\$ 41,421
<b>Mortgage-backed securities:</b>								
US government agencies	277,966	7,459	(253)	285,172	269,121	3,986	(302)	272,805
Private label	14,842	-	(991)	13,851	18,112	-	(2,584)	15,528
Trust preferred securities	69,492	444	(17,124)	52,812	73,544	57	(20,515)	53,086
Corporate securities	22,870	-	(2,701)	20,169	22,862	-	(2,314)	20,548
<b>Total Debt Securities</b>	<b>431,592</b>	<b>8,239</b>	<b>(21,845)</b>	<b>417,986</b>	<b>425,599</b>	<b>4,239</b>	<b>(26,450)</b>	<b>403,388</b>
Marketable equity securities	10,455	-	(3,964)	6,491	9,476	-	(3,511)	5,965
Non-marketable equity securities	13,036	-	-	13,036	13,037	-	-	13,037
Investment funds	64,797	-	(24)	64,773	1,859	-	(35)	1,824
<b>Total Securities Available-for-Sale</b>	<b>\$ 519,880</b>	<b>\$ 8,239</b>	<b>\$ (25,833)</b>	<b>\$ 502,286</b>	<b>\$ 449,971</b>	<b>\$ 4,239</b>	<b>\$ (29,996)</b>	<b>\$ 424,214</b>
<b>Securities held-to-maturity</b>								
<b>Obligations of states and political subdivisions</b>								
	\$ 2,836	\$ 29	\$ -	\$ 2,865	\$ 2,834	\$ 28	\$ -	\$ 2,862
Trust preferred securities	26,193	-	(6,525)	19,668	26,233	-	(7,045)	19,188
<b>Total Securities Held-to-Maturity</b>	<b>\$ 29,029</b>	<b>\$ 29</b>	<b>\$ (6,525)</b>	<b>\$ 22,533</b>	<b>\$ 29,067</b>	<b>\$ 28</b>	<b>\$ (7,045)</b>	<b>\$ 22,050</b>

Securities with limited marketability, such as stock in the Federal Reserve Bank or the Federal Home Loan Bank, are carried at cost and are reported as other available-for-sale debt securities in the table above.

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Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of June 30, 2009 and December 31, 2008. The following table shows the gross unrealized losses and fair value of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008.

(in thousands)	June 30, 2009					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	\$ 15,361	\$ 420	\$ 2,826	\$ 356	\$ 18,187	\$ 776
Mortgage-backed securities:						
US Government agencies	34,473	246	1,474	7	35,947	253
Private-label	-	-	13,852	991	13,852	991
Trust preferred securities	11,226	3,478	27,631	13,646	38,857	17,124
Corporate securities	5,632	954	3,292	1,747	8,924	2,701
Marketable equity securities	3,191	1,224	3,259	2,740	6,450	3,964
Investment funds	-	-	1,476	24	1,476	24
<b>Total</b>	<b>\$ 69,883</b>	<b>\$ 6,322</b>	<b>\$ 53,810</b>	<b>\$ 19,511</b>	<b>\$ 123,693</b>	<b>\$ 25,833</b>
Securities held-to-maturity:						
Trust preferred securities	\$ 7,990	\$ 1,887	\$ 6,610	\$ 4,638	\$ 14,600	\$ 6,525
December 31, 2008						
(in thousands)	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	\$ 17,068	\$ 729	\$ 187	\$ 6	\$ 17,255	\$ 735

Mortgage-backed  
securities:

US Government agencies	28,104	302	-	-	28,104	302
Private-label	15,529	2,584	-	-	15,529	2,584
Trust preferred securities	32,236	8,179	8,122	12,336	40,358	20,515
Corporate securities	7,365	2,314	-	-	7,365	2,314
Marketable equity securities	5,305	3,010	659	501	5,964	3,511
Investment funds	-	-	1,465	35	1,465	35
<b>Total</b>	<b>\$ 105,607</b>	<b>\$ 17,118</b>	<b>\$ 10,433</b>	<b>\$ 12,878</b>	<b>\$ 116,040</b>	<b>\$ 29,996</b>

Securities  
held-to-maturity:

Trust preferred securities	\$ 12,408	\$ 5,282	\$ 1,700	\$ 1,763	\$ 14,108	\$ 7,045
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During 2009, the Company recorded \$2.2 million of other than temporary non-cash investment impairment losses, or \$1.3 million on an after-tax basis. The charges deemed to be other than temporary was related to pooled bank trust preferreds with a remaining book value of \$8.8 million at June 30, 2009. The impairment charges were based on the Company's quarterly review of its investment securities for indications of losses considered to be other than temporary.



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During 2008, the Company recorded \$38.3 million of other than temporary non-cash investment impairment losses, or \$23.2 million on an after-tax basis. The charges deemed to be other than temporary were credit losses related to agency preferreds (\$21.1 million) with remaining book value of \$1.6 million at December 31, 2008; pooled bank trust preferreds (\$14.2 million) with remaining book value of \$10.9 million at December 31, 2008; income notes (\$2.0 million) with no remaining book value at December 31, 2008; and corporate debt securities (\$1.0 million) with remaining book value of \$24.6 million at December 31, 2008. The impairment charges for the agency preferred securities were due to the actions of the federal government to place Freddie Mac and Fannie Mae into conservatorship and the suspension of dividends on such preferred securities. The impairment charges related to the pooled bank trust preferred securities and income notes were based on the Company's quarterly reviews of its investment securities for indications of losses considered to be other than temporary. Based on management's assessment of the securities the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments within the pools, and a review of the financial strength of the banks within the respective pools management concluded that other than temporary impairment charges of \$14.2 million and \$2.0 million on the pooled bank trust preferred securities and the income notes, respectively, were necessary for the year ended December 31, 2008. The \$1.0 million impairment charge for corporate debt securities was due to Lehman Brothers Holdings bankruptcy filing. The Company had acquired this security as the result of an acquisition of a bank in 2005.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary would be reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition, and near-term prospects of the issuer, and (iii) the intent to sell the investment security or whether it is more likely than not that the Company would be required to sell the investment security before anticipated recovery of its amortized cost basis.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of June 30, 2009, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions will not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of June 30, 2009, management believes the unrealized losses detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period of the other-than-temporary impairment is identified.

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The amortized cost and estimated fair value of debt securities at June 30, 2009, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

(in thousands)	Cost	Estimated Fair Value
<b>Securities Available-for-Sale</b>		
Due in one year or less	\$ 1,627	\$ 1,642
Due after one year through five years	19,298	22,316
Due after five years through ten years	91,076	88,048
Due after ten years	319,591	305,980
	\$ 431,592	\$ 417,986
<b>Securities Held-to-Maturity</b>		
Due in one year or less	\$ 1,200	\$ 1,208
Due after one year through five years	1,636	1,657
Due after five years through ten years	-	-
Due after ten years	26,193	19,668
	\$ 29,029	\$ 22,533

Gross gains and losses realized by the Company from investment security transactions are summarized in the table below:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Gross realized gains	\$ -	\$ -	\$ 82	\$ 2
Gross realized losses	(332)	-	(2,489)	-
Investment security gains (losses)	\$ (332)	\$ -	\$ (2,407)	\$ 2

The specific identification method is used to determine the cost basis of securities sold.

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## Note C –Previously Securitized Loans

Between 1997 and 1999, the Company completed six securitization transactions involving approximately \$760 million in 125% of fixed rate, junior-lien underlying mortgages. The Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to investors were evidenced by securities (“Notes”). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio. The table below summarizes information regarding delinquencies, net credit recoveries, and outstanding collateral balances of previously securitized loans for the dates presented:

( in thousands)	As of and for the Six Months Ended		As of and for the Year Ended
	June 30, 2009	2008	December 31, 2008
Previously Securitized Loans:			
Total principal amount of loans outstanding	\$ 17,453	\$ 21,116	\$ 18,955
Discount	(14,230)	(15,863)	(14,733)
Net book value	\$ 3,223	\$ 5,253	\$ 4,222
Principal amount of loans between 30 and 89 days past due			
	\$ 846	\$ 596	\$ 999
Principal amount of loans 90 days and above past due			
	32	36	10
Net credit recoveries during the period	416	248	351

The Company accounts for the difference between the carrying value and the total expected cash flows from these loans as an adjustment of the yield earned on the loans over their remaining lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable. Additionally, the collectibility of previously securitized loans is evaluated over the remaining lives of the loans. An impairment charge on previously securitized loans would be provided through the Company’s provision for loan losses if the discounted present value of estimated future cash flows declines below the recorded value of previously securitized loans. No such impairment charges were recorded for the three and six months ended June 30, 2009 and 2008, or for the year ending December 31, 2008.

As of June 30, 2009, the Company reported a book value of previously securitized loans of \$3.2 million whereas the actual contractual outstanding balance of previously securitized loans at June 30, 2009 was \$17.5 million. The difference (“the discount”) between the book value and the expected total cash flows from previously securitized loans is being accreted into interest income over the estimated remaining life of the loans.

For the three months ended June 30, 2009 and 2008, the Company recognized \$1.0 million and \$1.5 million, respectively, of interest income from its previously securitized loans. During the first six months of 2009 and 2008, the Company recognized \$2.1 million and \$3.1 million, respectively, of interest income from its previously securitized loans.

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## Note D – Short-term borrowings

The components of short-term borrowings are summarized below:

( in thousands)	June 30, 2009	December 31, 2008
Security repurchase agreements	\$ 133,181	\$ 122,904
Short-term advances	3,240	71,559
Total short-term borrowings	\$ 136,421	\$ 194,463

Securities sold under agreement to repurchase were sold to corporate and government customers as an alternative to available deposit products. The underlying securities included in repurchase agreements remain under the Company's control during the effective period of the agreements.

## Note E – Long-Term Debt

The components of long-term debt are summarized below:

(dollars in thousands)	Maturity	June 30, 2009	Weighted Average Interest Rate
FHLB Advances	2010	\$ 1,000	5.98%
FHLB Advances	2011	507	4.44%
Junior subordinated debentures owed to City Holding Capital Trust III	2038 (a)	16,495	4.13%
Total long-term debt		\$ 18,002	

(a) Junior Subordinated Debentures owed to City Holding Capital Trust III are redeemable prior to maturity at the option of the Company (i) in whole at any time or in part from time-to-time, at declining redemption prices ranging from 103.525% to 100.00% on June 15, 2013, and thereafter, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of certain pre-defined events.

The Company formed a statutory business trust, City Holding Capital Trust III ("Capital Trust III"), under the laws of Delaware. Capital Trust III was created for the exclusive purpose of (i) issuing trust-preferred capital securities ("Capital Securities"), which represent preferred undivided beneficial interests in the assets of the trust, (ii) using the proceeds from the sale of the Capital Securities to acquire junior subordinated debentures ("Debentures") issued by the Company, and (iii) engaging in only those activities necessary or incidental thereto. The trust is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, the accounts of the trusts are not included in the Company's consolidated financial statements.

The Capital Securities issued by the statutory business trust qualify as Tier 1 capital for the Company under the Federal Reserve Board guidelines. In March 2005, the Federal Reserve Board issued a final rule that allows the inclusion of trust preferred securities issued by unconsolidated subsidiary trusts in Tier 1 capital, but with stricter limits. Under ruling, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to

restrictions. In October 2008, the Federal Reserve Board delayed implementation of the new limits until March 2011. The Company expects to continue to include all of its \$16 million in trust preferred securities in Tier 1 capital. The trust preferred securities could be redeemed without penalty if they were no longer permitted to be included in Tier 1 capital.

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## Note F – Employee Benefit Plans

The Company accounts for share-based compensation in accordance with SFAS No. 123R, “Share-Based Payment.” A summary of the Company’s stock option activity and related information is presented below for the six months ended June 30:

	Options	2009 Weighted-Average Exercise Price	Options	2008 Weighted-Average Exercise Price
Outstanding at January 1	270,455	\$ 33.96	305,909	\$ 32.05
Granted	17,500	27.98	11,500	40.88
Exercised	(300)	13.30	(18,075)	17.44
Forfeited	-	-	-	-
Outstanding at June 30	287,655	\$ 33.62	299,334	\$ 33.23

Additional information regarding stock options outstanding and exercisable at June 30, 2009, is provided in the following table:

Ranges of Exercise Prices	No. of Options Outstanding	Weighted-Average Exercise Price	Contractual Life (Months)	Aggregate Intrinsic Value (in thousands)	No. of Options Currently Exercisable	Weighted-Average Exercise Price of Options Currently Exercisable	Contractual Life (Months)	Aggregate Intrinsic Value of Options Currently Exercisable (in thousands)
\$ 13.30 - 26.62	1,600	\$ 13.30	31	\$ 27	1,600	\$ 13.30	31	\$ 27
\$ 33.90 - 35.36	187,555	31.22	72	120	133,930	31.68	61	73
\$ 40.88	98,500	38.52	88	-	39,250	36.86	79	-
	287,655			\$ 147	174,780			\$ 100

Proceeds from stock options totaled approximately \$0.1 million and \$0.3 million during the six months ended June 30, 2009 and 2008, respectively. Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares are issued from available authorized shares. During the six months ended June 30, 2009 and June 30, 2008 all shares issued in connection with stock option exercises and restricted stock awards were issued from available treasury stock.

The total intrinsic value of stock options exercised was less than \$0.1 million and \$0.4 million during the six months ended June 30, 2009 and June 30, 2008, respectively.

Stock-based compensation expense totaled \$0.1 million for both the six months ended June 30, 2009 and June 30, 2008. Unrecognized stock-based compensation expense related to stock options totaled \$0.8 million at June 30, 2009. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.9 years.

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The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following weighted average assumptions were used to estimate the fair value of options granted during the three months ended June 30:

	2009	2008
Risk-free interest rate	2.51%	3.14%
Expected dividend yield	4.83%	3.33%
Volatility factor	46.47%	52.89%
Expected life of option	8.0 years	8.0 years

The Company records compensation expense with respect to restricted shares in an amount equal to the fair market value of the common stock covered by each award on the date of grant. The restricted shares awarded become fully vested after various periods of continued employment from the respective dates of grant. The Company is entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Compensation is being charged to expense over the respective vesting periods.

Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases and any compensation cost previously recognized is reversed in the period of forfeiture. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. Unrecognized stock-based compensation expense related to non-vested restricted shares was \$0.9 million at June 30, 2009. At June 30, 2009, this unrecognized expense is expected to be recognized over 6.9 years based on the weighted average-life of the restricted shares.

A summary of the Company's restricted shares activity and related information is presented below for the six months ended June 30:

	2009		2008	
	Restricted Awards	Average Market Price at Grant	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	36,175		31,818	
Granted	53,225	\$ 30.71	8,325	\$ 40.88
Forfeited/Vested	(4,066)		(3,800)	
Outstanding at June 30	85,334		36,343	

The Company provides retirement benefits to its employees through the City Holding Company 401(k) Plan and Trust ("the 401(k) Plan"), which is intended to be compliant with Employee Retirement Income Security Act (ERISA) section 404(c). Any employee who has attained age 21 is eligible to participate beginning the first day of the month following employment. Unless specifically chosen otherwise, every employee is automatically enrolled in the 401(k) Plan and may make before-tax contributions of between 1% and 15% of eligible pay up to the dollar limit imposed by Internal Revenue Service regulations. The first 6% of an employee's contribution is matched 50% by the Company. The employer matching contribution is invested according to the investment elections chosen by the employee. Employees are 100% vested in both employee and employer contributions and the earnings they generate. The Company's total expense associated with the retirement benefit plan approximated \$0.3 million for the six month periods ended June 30, 2009 and June 30, 2008.





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The Company also maintains a defined benefit pension plan (“the Defined Benefit Plan”) that covers approximately 300 current and former employees. The Defined Benefit Plan was frozen in 1999 subsequent to the Company’s acquisition of the plan sponsor. The Defined Benefit Plan maintains a December 31 year-end for purposes of computing its benefit obligations. The Company did not make any contributions to the Defined Benefit Plan during the six months ended June 30, 2009 and 2008.

The following table presents the components of the net periodic pension cost of the Defined Benefit Plan:

(in thousands)	Three months ended		Six months ended	
	2009	2008	2009	2008
Components of net periodic cost:				
Interest cost	\$ 169	\$ 166	338	\$ 332
Expected return on plan assets	(199)	(217)	(398)	(434)
Net amortization and deferral	80	63	160	126
Net Periodic Pension Cost	\$ 50	\$ 12	100	\$ 24

#### Note G – Commitments and Contingencies

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The Company has entered into agreements with its customers to extend credit or provide a conditional commitment to provide payment on drafts presented in accordance with the terms of the underlying credit documents. The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. Overdraft protection commitments, which are included with other commitments below, are uncollateralized and are paid at the Company’s discretion. Conditional commitments generally include standby and commercial letters of credit. Standby letters of credit represent an obligation of the Company to a designated third party contingent upon the failure of a customer of the Company to perform under the terms of the underlying contract between the customer and the third party. Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, drafts will be drawn when the underlying transaction is consummated, as intended, between the customer and a third party. The funded portion of these financial instruments is reflected in the Company’s balance sheet, while the unfunded portion of these commitments is not reflected in the balance sheet. The table below presents a summary of the contractual obligations of the Company resulting from significant commitments:

( in thousands)	June 30, 2009	December 31, 2008
Commitments to extend credit:		
Home equity lines	\$ 130,914	\$ 129,794
Commercial real estate	32,362	34,025
Other commitments	171,182	173,522
Standby letters of credit	21,611	18,388
Commercial letters of credit	30	159

Loan commitments and standby and commercial letters of credit have credit risks essentially the same as that involved in extending loans to customers and are subject to the Company’s standard credit policies. Collateral is obtained based on management’s credit assessment of the customer. Management does not anticipate any material losses as a result of these commitments.



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## Note H – Total Comprehensive Income

The following table sets forth the computation of total comprehensive income:

(in thousands)	Six months ended June 30,	
	2009	2008
Net income	\$ 21,070	\$ 26,417
Unrealized security gains (losses) arising during the period	3,561	(8,612)
Reclassification adjustment for losses included in income	4,606	2
	8,167	(8,610)
Unrealized (loss) gains on interest rate floors	(5,885)	1,358
Other comprehensive income before income taxes	23,352	19,165
Tax effect	(898)	2,901
Total comprehensive income	\$ 22,454	\$ 22,066

## Note I – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income	\$ 10,146	\$ 13,379	\$ 21,070	\$ 26,417
Average shares outstanding	15,908	16,103	15,903	16,124
Effect of dilutive securities:				
Employee stock options	41	64	38	62
Shares for diluted earnings per share	15,949	16,167	15,941	16,186
Basic earnings per share	\$ 0.64	\$ 0.83	\$ 1.32	\$ 1.64
Diluted earnings per share	\$ 0.64	\$ 0.83	\$ 1.32	\$ 1.63

Options to purchase 205,418 shares of common stock at an exercise price between \$31.38 and \$40.88 per share were outstanding during the second quarter of 2009, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and therefore, the effect would have been anti-dilutive.

## Note J–Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, (“SFAS No. 157”), “Fair Value Measurements”, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value

measurements.

SFAS No. 157 defines fair value as the exchange price that would be received to sell 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.

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SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy established by SFAS No. 157 is as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value.

**Securities Available for Sale.** Securities available for sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

**Derivatives.** Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its customer interest rate swaps.

**Previously Securitized Loans.** Previously securitized loans are reported at fair value utilizing Level 3 inputs. The Company utilizes an internal valuation model that calculates the present value of estimated future cash flows. The internal valuation model incorporates assumptions such as loan prepayment and default rates. Using cash flow modeling techniques that incorporate these assumptions, the Company estimated total future cash collections expected to be received from these loans and determined the yield at which the resulting discount would be accreted into income.

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2009.

(in thousands)	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Obligations of states and political subdivisions	\$ 45,982	\$ -	\$ 45,982	\$ -
<b>Mortgage-backed securities:</b>				
US Government agencies	285,172	-	285,172	-
Private label	13,851	-	13,851	-
Trust preferred securities	52,812	-	52,812	-
Corporate securities	20,169	-	20,169	-
Marketable equity securities	6,491	5,888	603	-
Investment funds	64,773	64,773	-	-
Derivative Assets	396	-	396	-
Previously Securitized Loans	3,223	-	-	3,223
Derivative Liabilities	396	-	396	-

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The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis for Level 3 assets for the six months ended June 30, 2009.

(in thousands)	Previously Securitized Loans
Beginning balance, January 1, 2009	\$ 4,222
Principal Receipts and Recoveries (net)	(1,502)
Accretion	503
Transfers into Level 3	-
Ending Balance, June 30, 2009	\$ 3,223

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. At June 30, 2009, the Company has \$12.9 million of impaired loans that are measured at fair value on a nonrecurring basis. These assets are considered to be measured at Level 2 in the fair value measurement hierarchy.

In accordance with Financial Accounting Standards Board Staff Position No. 157-2, "Effective Date of FASB Statement No. 157," the Company adopted SFAS No. 157 for non-financial assets and non-financial liabilities effective January 1, 2009.

The Company used the following methods and significant assumptions to estimate fair value for assets measured on a nonrecurring basis.

**Impaired Loans.** Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," (SFAS No. 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2009, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS No. 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

**Long-lived assets held for sale.** Long-lived assets held for sale include real estate owned. The fair value of real estate owned is based on independent full appraisals and real estate broker's price opinions, less estimated selling costs. Certain properties require assumptions that are not observable in an active market in the determination of fair value. Assets that are acquired through foreclosure, repossession or return are initially recorded at the lower of the loan or lease carrying amount or fair value less estimated selling costs at the time of transfer to real estate owned. Long-lived assets held for sale with a carrying amount of \$6.3 million were written down \$0.1 million, which is included in other non-interest expense, to their fair value of \$6.2 million during the six months ended June 30, 2009.

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FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, as amended, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table represents the estimates of fair value:

(in thousands)	Fair Value of Financial Instruments			
	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 52,970	\$ 52,970	\$ 56,629	\$ 59,629
Securities available-for-sale	502,286	502,286	424,214	424,214
Securities held-to-maturity	29,029	22,533	29,067	22,050
Net loans	1,765,360	1,808,457	1,790,090	1,842,888
<b>Liabilities:</b>				
Deposits	2,143,833	2,047,399	2,041,130	2,065,947
Short-term borrowings	136,421	136,515	194,463	194,544
Long-term debt	18,002	18,093	19,047	19,242

The following methods and assumptions were used in estimating fair value for financial instruments:

**Cash and cash equivalents:** Due to their short-term nature, the carrying amounts reporting in the Consolidated Balance Sheets approximate fair value.

**Securities:** The fair value of securities, both available-for-sale and held-to-maturity, are generally based on quoted market prices or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

**Net loans:** The fair value of the loan portfolio is estimated using discounted cash flow analyses at interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying value of accrued interest approximates its fair value.

**Deposits:** The fair values of demand deposits (e.g. interest and noninterest-bearing checking, regular savings, and other money market demand accounts) are, by definition, equal to their carrying values. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities of time deposits.

**Short-term borrowings:** Securities sold under agreements to repurchase represent borrowings with original maturities of less than 90 days. The carrying amount of advances from the FHLB and borrowings under repurchase agreements approximate their fair values.

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Long-term debt: The fair value of long-term borrowings is estimate using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and market conditions of similar debt instruments.

Commitments and letters of credit: The fair values of commitments are estimated based on fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the counterparties' credit standing. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations at the reporting date. The amounts of fees currently charged on commitments and letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values have not been reflected in the table above.

Note K– Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised 2007) (“SFAS No. 141R”), “Business Combinations.” SFAS No. 141R will significantly change how the acquisition method will be applied to business combinations. SFAS No. 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141R, the requirements of SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, “Accounting for Contingencies.” Reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period. The allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. SFAS No. 141(R) will be applicable to all business combinations completed by the Company on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160 (“SFAS No. 160”), “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51.” SFAS No. 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest will be recharacterized as a “noncontrolling interest” and should be reported as a component of equity. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS No. 160 became effective for the Company on January 1, 2009 and did not have a significant impact on the Company's financial statements.



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In March 2008, the FASB issued SFAS No. 161, ("SFAS No. 161"), "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS No. 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The only derivative instruments that the Company has at June 30, 2009 are interest rate swaps with customers while at the same time entering into an offsetting interest rate swap with another financial institution. At June 30, 2009, the fair value of these instruments approximated \$2.2 million. The Company adopted the provisions of SFAS No. 161 on January 1, 2009 and based on the immateriality of the outstanding derivatives, there was no significant impact on related disclosure in the Company's financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for the Company's during the second quarter of 2009 and did not have a significant impact on the Company's financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140." SFAS 166 amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. SFAS 166 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. SFAS 166 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS 167 amends FIN 46 (Revised December 2003), "Consolidation of Variable Interest Entities," to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. SFAS 167 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

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In June 2009, the FASB issued, SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162.” SFAS 168 replaces SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles” and establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS 168 will be effective for the Company’s financial statements for periods ending after September 15, 2009. SFAS 168 is not expected have a significant impact on the Company’s financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1 (“FSP EITF 03-6-1”), “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities”. FSP EITF 03-6-1 clarifies whether instruments, such as restricted stock, granted in share-based payments are participating securities prior to vesting. Such participating securities must be included in the computation of earnings per share under the two-class method as described in SFAS No. 128, “Earnings per Share.” FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. The Company adopted FSP EITF 03-6-1 January 1, 2009. The adoption of FSP EITF 03-6-1 did not have a material effect on the Company’s consolidated results of operations or earnings per share.

In April 2009, the FASB issued FSP SFAS 157-4 (“FSP SFAS 157-4”), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” FSP SFAS 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FSP SFAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. FSP SFAS 157-4 also amended SFAS 157, “Fair Value Measurements,” to expand certain disclosure requirements. The Company adopted the provisions of FSP SFAS 157-4 as of June 30, 2009 and the adoption of FSP SFAS 157-4 did not have a significant impact on the Company’s financial statements.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2 (“FSP SFAS 115-2 and SFAS 124-2”), “Recognition and Presentation of Other-Than-Temporary Impairments.” FSP SFAS 115-2 and SFAS 124-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP SFAS 115-2 and SFAS 124-2, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company adopted the provisions of FSP SFAS 115-2 and SFAS 124-2 and the adoption of FSP SFAS 115-2 and SFAS 124-2 did not have a material effect on the Company’s financial statements. The other than temporary losses recognized by the Company during the year ended December 31, 2008 and for the quarter ended March 31, 2009 were solely related to credit issues and thus no cumulative effect adjustment was necessary.

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In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1 (FSP SFAS 107-1 and APB 28-1”), “Interim Disclosures about Fair Value of Financial Instruments.” FSP SFAS 107-1 and APB 28-1 amends SFAS 107, “Disclosures about Fair Value of Financial Instruments,” to require an entity to provide disclosures about fair value of financial instruments in interim financial information and amends Accounting Principles Board (APB) Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in summarized financial information at interim reporting periods. Under FSP SFAS 107-1 and APB 28-1, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, entities must disclose, in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS 107. The new interim disclosures required by FSP SFAS 107-1 and APB 28-1 have been included in the Company’s second quarter interim financial statements.

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Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The accounting policies of the Company conform with U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management’s estimates. As this information changes, management’s estimates and assumptions used to prepare the Company’s financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One to the audited financial statements included in the Company’s 2008 Annual Report to Shareholders. The information included in this Quarterly Report on Form 10-Q, including the Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with the financial statements and notes thereto included in the 2008 Annual Report of the Company. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, income taxes, previously securitized loans, and other than temporary impairment on investment securities to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

Pages 35-39 of this Quarterly Report on Form 10-Q provide management’s analysis of the Company’s allowance for loan losses and related provision. The allowance for loan losses is maintained at a level that represents management’s best estimate of probable losses in the loan portfolio. Management’s determination of the adequacy of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions, and other relevant factors. This determination is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance for loan losses related to loans considered to be impaired is generally evaluated based on the discounted cash flows using the impaired loan’s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis.

The amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2005 through 2007. The Company’s and its subsidiaries’ state income tax returns are open to audit under the statute of limitations for the year ended December 31, 2007.

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Note C, beginning on page 13 of this Quarterly Report on Form 10-Q, and page 39 provide management's analysis of the Company's previously securitized loans. The carrying value of previously securitized loans is determined using assumptions with regard to loan prepayment and default rates. Using cash flow modeling techniques that incorporate these assumptions, the Company estimated total future cash collections expected to be received from these loans and determined the yield at which the resulting discount would be accreted into income. If, upon periodic evaluation, the estimate of the total probable collections is increased or decreased but is still greater than the sum of the original carrying amount less subsequent collections plus the discount accreted to date, and it is probable that collection will occur, the amount of the discount to be accreted is adjusted accordingly and the amount of periodic accretion is adjusted over the remaining lives of the loans. If, upon periodic evaluation, the discounted present value of estimated future cash flows declines below the recorded value of previously securitized loans, an impairment charge would be provided through the Company's provision for loan losses. Please refer to Note C of Notes to Consolidated Financial Statements, on page 13 for further discussion.

On a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are other than temporarily impaired. Management considers the following, amongst other things, in its determination of the nature of the unrealized losses, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As a result of this review, the Company recognized \$2.2 million of other than temporary impairment charges during the six months ended June 30, 2009. These impairment charges were related to credit losses on pooled bank trust preferreds with a remaining book value of \$8.8 million. At June 30, 2009, the Company's portfolio of perpetual callable preferred securities, preferred securities, and trust preferred securities primarily invested in regional banks have a total book value of \$109.8 million and unrealized losses of \$14.0 million. The Company continues to actively monitor the market values of these investments along with the financial strength of the issuers behind these securities, as well as our entire investment portfolio. Based on the market information available the Company believes that the recent declines in market value are temporary and that the Company has the does not have the intent to sell any of the securities classified as available for sale and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The Company cannot guarantee that such securities will recover and if additional information becomes available in the future to suggest that the losses are other than temporary, the Company may need to record impairment charges in future periods.

## Financial Summary

## Six Months Ended June 30, 2009 vs. 2008

The Company reported consolidated net income of \$21.1 million, or \$1.32 per diluted common share, for the six months ended June 30, 2009, compared to \$26.4 million, or \$1.63 per diluted common share for the first six months of 2008. Return on average assets ("ROA") was 1.63% and return on average equity ("ROE") was 14.7% for the first six months of 2009, compared to 2.11% and 17.3%, respectively, for the first six months of 2008.

The Company's net interest income for the first six months of 2009 decreased \$1.2 million compared to the first six months of 2008 (see Net Interest Income). The Company recorded a provision for loan losses of \$3.8 million for the first six months of 2009 while \$2.7 million was recorded for the first six months of 2008 (see Allowance and Provision for Loan Losses). The Company recorded \$2.2 million of investment impairment losses in the first six months of 2009 (see Non-Interest Income and Expense) while no such other than temporary impairment charges were recognized in the first six months of 2008. As further discussed under the caption Non-Interest Income and Expense, excluding other than temporary investment impairment losses, investment losses, and the gain from the Visa initial public offering, non-interest income would have increased \$0.9 million from the six months ended June 30, 2008, to the six months ended June 30, 2009. Excluding the loss on the early redemption of the trust preferred securities in the first six months of 2008, non-interest expenses for the six months ended June 30, 2009 would have increased \$1.7 million from the six months ended June 30, 2008.

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## Three Months Ended June 30, 2009 vs. 2008

The Company reported consolidated net income of \$10.1 million, or \$0.64 per diluted common share, for the three months ended June 30, 2009, compared to \$13.4 million, or \$0.83 per diluted common share for the second quarter of 2008. Return on average assets (“ROA”) was 1.55% and return on average equity (“ROE”) was 14.1% for the second quarter of 2009, compared to 2.14% and 17.1%, respectively, for the second quarter of 2008.

The Company’s net interest income for the second quarter of 2009 decreased \$2.0 million compared to the second quarter of 2008 (see Net Interest Income). The Company recorded a provision for loan losses of \$2.15 million for the second quarter of 2009 while \$0.85 million was recorded for the second quarter of 2008 (see Allowance and Provision for Loan Losses). As further discussed under the caption Non-Interest Income and Expense, non-interest income increased \$0.4 million from the three months ended June 30, 2008, to the three months ended June 30, 2009. Non-interest expenses for the three months ended June 30, 2009 increased \$1.6 million from the three months ended June 30, 2008.

## Net Interest Income

## Six Months Ended June 30, 2009 vs. 2008

The Company’s tax equivalent net interest income decreased \$1.2 million, or 2.4%, from \$49.8 million during the first six months of 2008 to \$48.6 million during the first six months of 2009, as interest income from loans and investments decreased more quickly than interest expense on deposits and other interest bearing liabilities. The Company’s reported net interest margin decreased from 4.53% for the six months ended June 30, 2008 to 4.29% for the six months ended June 30, 2009.

During the third and fourth quarters of 2008, the Company sold \$450 million of interest rate floors. The gain from sales of these interest rate floors of \$16.7 million will be recognized over the remaining lives of the various hedged loans. During the first six months of 2009, the Company recognized \$5.7 million of interest income compared to \$3.3 million of interest income recognized in the first six months of 2008 from the interest rate floors.

## Three Months Ended June 30, 2009 vs. 2008

The Company’s tax equivalent net interest income decreased \$2.0 million, or 7.9%, from \$25.7 million during the second quarter of 2008 to \$23.7 million during the second quarter of 2009, as interest income from loans and investments decreased more quickly than interest expense on deposits and other interest bearing liabilities. Due to a decrease in the Company’s yield on loans of 106 basis points from the second quarter of 2008, interest income related to loans declined \$4.0 million. In addition, interest income declined \$0.8 million from the second quarter of 2008 due to a decline in the yield on investments. Deposit growth also increased interest expense by \$1.1 million. Partially offsetting these decreases in net interest income was a decline in interest expense on deposits of \$2.5 million due to a decline of 49 basis points on interest bearing deposits. In addition, higher average balances of loans and investments increased interest income by \$0.9 million. The Company’s reported net interest margin decreased from 4.65% for the quarter ended June 30, 2008 to 4.12% for the quarter ended June 30, 2009.

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During the third and fourth quarters of 2008, the Company sold \$450 million of interest rate floors. The gain from sales of these interest rate floors of \$16.7 million will be recognized over the remaining lives of the various hedged loans – predominantly prime-based commercial and home equity loans. During the second quarter of 2009, the Company recognized \$2.7 million of interest income compared to \$2.3 million of interest income recognized in the second quarter of 2008 from the interest rate floors.

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Table One  
Average Balance Sheets and Net Interest Income  
(in thousands)

	Six months ended June 30,					
	2009			2008		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets</b>						
<b>Loan portfolio (1):</b>						
Residential real estate	\$ 600,929	\$ 17,325	5.81%	\$ 600,262	\$ 18,763	6.29%
Home equity (2)	388,517	12,193	6.33	351,850	12,876	7.36
Commercial, financial, and agriculture (3)	754,168	21,186	5.66	704,381	23,941	6.84
Loans to depository institutions	-	-	-	2,335	35	3.01
Installment loans to individuals	48,768	2,175	8.99	51,648	2,743	10.68
Previously securitized loans	3,645	2,125	117.56	5,895	3,050	104.05
<b>Total loans</b>	<b>1,796,027</b>	<b>55,004</b>	<b>6.18</b>	<b>1,716,371</b>	<b>61,408</b>	<b>7.19</b>
<b>Securities:</b>						
Taxable	448,636	11,674	5.25	451,137	12,184	5.43
Tax-exempt (4)	37,871	1,249	6.65	36,865	1,200	6.55
<b>Total securities</b>	<b>486,507</b>	<b>12,923</b>	<b>5.36</b>	<b>488,002</b>	<b>13,384</b>	<b>5.52</b>
Deposits in depository institutions	5,026	8	0.32	8,982	116	2.60
<b>Total interest-earning assets</b>	<b>2,287,560</b>	<b>67,935</b>	<b>5.99</b>	<b>2,213,355</b>	<b>74,908</b>	<b>6.81</b>
Cash and due from banks	52,090			60,174		
Bank premises and equipment	61,800			55,355		
Other assets	213,467			189,810		
Less: allowance for loan losses	(22,395)			(18,282)		
<b>Total assets</b>	<b>\$ 2,592,522</b>			<b>\$ 2,500,412</b>		
<b>Liabilities</b>						
Interest-bearing demand deposits	\$ 423,073	\$ 909	0.43%	\$ 411,606	\$ 1,325	0.65%
Savings deposits	367,595	969	0.53	360,916	1,934	1.08
Time deposits	1,000,562	16,679	3.36	921,462	19,274	4.21
	136,412	264	0.39	133,790	1,808	2.72



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Short-term borrowings						
Long-term debt	19,015	485	5.14	21,953	753	6.90
Total interest-bearing liabilities	1,946,657	19,306	2.00	1,849,727	25,094	2.73
Noninterest-bearing demand deposits	329,563			317,504		
Other liabilities	29,506			26,991		
Stockholders' equity	286,796			306,190		
Total liabilities and stockholders' equity	\$ 2,592,522			\$ 2,500,412		
Net interest income		\$ 48,629			\$ 49,814	
Net yield on earning assets			4.29%			4.53%

- (1) For purposes of this table, non-accruing loans have been included in average balances and loan fees, which are immaterial, have been included in interest income.
- (2) Interest income includes \$2,689 and \$1,578 from interest rate floors for the six months ended June 30, 2009 and June 30, 2008, respectively.
- (3) Interest income includes \$2,699 and \$1,701 from interest rate floors for the six months ended June 30, 2009 and June 30, 2008, respectively.
- (4) Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 35%.

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## Table Two

## Rate Volume Analysis of Changes in Interest Income and Interest Expense

(in thousands)

	Six months ended June 30, 2009 vs. 2008		
	Increase (Decrease)		
	Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	\$ 21	\$ (1,459)	\$ (1,438)
Home equity	3,338	(2,021)	(683)
Commercial, financial, and agriculture	1,688	(4,443)	(2,755)
Loans to depository institutions	(35)	-	(35)
Installment loans to individuals	(153)	(415)	(568)
Previously securitized loans	(1,161)	236	(925)
Total loans	1,698	(8,102)	(6,404)
Securities:			
Taxable	(67)	(443)	(510)
Tax-exempt (1)	33	16	49
Total securities	(34)	(427)	(461)
Deposits in depository institutions	(51)	(57)	(108)
Total interest-earning assets	\$ 1,613	\$ (8,586)	\$ (6,973)
Interest-bearing liabilities:			
Demand deposits	\$ 37	\$ (453)	\$ (416)
Savings deposits	36	(1,001)	(965)
Time deposits	1,650	(4,245)	(2,595)
Short-term borrowings	35	(1,579)	(1,544)
Long-term debt	(100)	(168)	(268)
Total interest-bearing liabilities	\$ 1,658	\$ (7,446)	\$ (5,788)
Net Interest Income	\$ (45)	\$ (1,140)	\$ (1,185)

(1) Fully federal taxable equivalent using a tax rate of 35%.

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Table Three  
Average Balance Sheets and Net Interest Income  
(in thousands)

	Three months ended June 30,					
	2009			2008		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets</b>						
<b>Loan portfolio</b>						
<b>(5):</b>						
Residential real estate	\$ 598,122	\$ 8,545	5.73%	\$ 598,924	\$ 9,348	6.28%
Home equity (6)	390,361	6,050	6.22	360,041	6,493	7.25
Commercial, financial, and Agriculture (7)	752,157	10,311	5.50	708,607	11,707	6.64
Installment loans to individuals	49,956	1,057	8.49	55,667	1,398	10.10
Previously securitized loans	3,426	984	115.20	5,370	1,471	110.17
<b>Total loans</b>	<b>1,794,022</b>	<b>26,947</b>	<b>6.02</b>	<b>1,728,609</b>	<b>30,417</b>	<b>7.08</b>
<b>Securities:</b>						
Taxable	466,341	5,612	4.83	446,625	6,120	5.51
Tax-exempt (8)	38,179	621	6.52	35,994	585	6.54
<b>Total securities</b>	<b>504,520</b>	<b>6,233</b>	<b>4.96</b>	<b>482,619</b>	<b>6,705</b>	<b>5.59</b>
Deposits in depository institutions	5,224	3	0.23	9,266	50	2.17
<b>Total interest-earning assets</b>	<b>2,303,766</b>	<b>33,183</b>	<b>5.78</b>	<b>2,220,494</b>	<b>37,172</b>	<b>6.73</b>
Cash and due from banks	51,774			54,906		
Bank premises and equipment	62,775			56,002		
Other assets	215,907			193,346		
Less: allowance for loan losses	(22,229)			(18,726)		
<b>Total assets</b>	<b>\$ 2,611,993</b>			<b>\$ 2,506,022</b>		
<b>Liabilities</b>						
<b>Interest-bearing</b>						
demand deposits	\$ 429,381	\$ 446	0.42%	\$ 413,467	\$ 613	0.60%
Savings deposits	374,375	463	0.50	361,244	831	0.93
Time deposits	1,017,984	8,276	3.26	909,421	9,075	4.01
<b>Short-term borrowings</b>	<b>125,436</b>	<b>111</b>	<b>0.35</b>	<b>139,787</b>	<b>663</b>	<b>1.91</b>
Long-term debt	18,998	231	4.88	21,401	312	5.88

Total interest-bearing liabilities	1,966,174	9,527
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