

CITY HOLDING CO  
Form 10-Q  
November 05, 2008

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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 September 30, 2008

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  
(State or other jurisdiction of incorporation or organization)

55-0619957  
(I.R.S. Employer Identification No.)

25 Gateway Road  
Charleston, West Virginia  
(Address of principal executive offices)

25313  
(Zip Code)

(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 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

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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 – 16,182,644 shares as of November 4, 2008.

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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 provision for loan losses 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 or decreased prepayments on previously securitized loans that would result in impairment losses or lower the yield on such loans; (4) the Company may continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on this asset; (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; and (14) the United States government's plan to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions may not be effective and/or it may not be available to us. 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)

|                                                                                                                                                                                                             | September 30<br>2008<br>(Unaudited) | December 31<br>2007<br>(Note A) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------|
| Assets                                                                                                                                                                                                      |                                     |                                 |
| Cash and due from banks                                                                                                                                                                                     | \$ 52,206                           | \$ 64,726                       |
| Interest-bearing deposits in depository institutions                                                                                                                                                        | 4,045                               | 9,792                           |
| Cash and Cash Equivalents                                                                                                                                                                                   | 56,251                              | 74,518                          |
| Investment securities available for sale, at fair value                                                                                                                                                     | 345,982                             | 382,098                         |
| Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2008 and December 31, 2007 - \$22,997 and \$35,198, respectively)                                        | 33,033                              | 34,918                          |
| Total Investment Securities                                                                                                                                                                                 | 379,015                             | 417,016                         |
| Gross loans                                                                                                                                                                                                 | 1,777,731                           | 1,767,021                       |
| Allowance for loan losses                                                                                                                                                                                   | (18,879)                            | (17,581)                        |
| Net Loans                                                                                                                                                                                                   | 1,758,852                           | 1,749,440                       |
| Bank owned life insurance                                                                                                                                                                                   | 69,660                              | 64,467                          |
| Premises and equipment                                                                                                                                                                                      | 59,574                              | 54,635                          |
| Accrued interest receivable                                                                                                                                                                                 | 9,733                               | 11,254                          |
| Net deferred tax asset                                                                                                                                                                                      | 41,173                              | 20,633                          |
| Intangible assets                                                                                                                                                                                           | 57,600                              | 58,238                          |
| Other assets                                                                                                                                                                                                | 33,707                              | 32,566                          |
| Total Assets                                                                                                                                                                                                | \$ 2,465,565                        | \$ 2,482,767                    |
| Liabilities                                                                                                                                                                                                 |                                     |                                 |
| Deposits:                                                                                                                                                                                                   |                                     |                                 |
| Noninterest-bearing                                                                                                                                                                                         | \$ 316,205                          | \$ 314,231                      |
| Interest-bearing:                                                                                                                                                                                           |                                     |                                 |
| Demand deposits                                                                                                                                                                                             | 404,593                             | 397,510                         |
| Savings deposits                                                                                                                                                                                            | 359,644                             | 350,607                         |
| Time deposits                                                                                                                                                                                               | 912,184                             | 927,733                         |
| Total Deposits                                                                                                                                                                                              | 1,992,626                           | 1,990,081                       |
| Short-term borrowings                                                                                                                                                                                       | 140,726                             | 161,916                         |
| Long-term debt                                                                                                                                                                                              | 21,075                              | 4,973                           |
| Other liabilities                                                                                                                                                                                           | 26,226                              | 31,803                          |
| Total Liabilities                                                                                                                                                                                           | 2,180,653                           | 2,188,773                       |
| 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 September 30, 2008 and December 31, 2007, less 2,316,638 and 2,292,357 shares in treasury, respectively | 46,249                              | 46,249                          |
| Capital surplus                                                                                                                                                                                             | 102,831                             | 103,390                         |

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|                                                     |              |              |
|-----------------------------------------------------|--------------|--------------|
| Retained earnings                                   | 231,789      | 224,386      |
| Cost of common stock in treasury                    | (81,480)     | (80,664)     |
| Accumulated other comprehensive (loss) income:      |              |              |
| Unrealized loss on securities available-for-sale    | (20,631)     | (1,783)      |
| Unrealized gain on derivative instruments           | 8,128        | 4,390        |
| Underfunded pension liability                       | (1,974)      | (1,974)      |
| Total Accumulated Other Comprehensive (Loss) Income | (14,477)     | 633          |
| Total Shareholders' Equity                          | 284,912      | 293,994      |
| Total Liabilities and Shareholders' Equity          | \$ 2,465,565 | \$ 2,482,767 |

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 |               | Nine Months Ended |                |
|------------------------------------------------------------|--------------------|---------------|-------------------|----------------|
|                                                            | September 30       |               | September 30      |                |
|                                                            | 2008               | 2007          | 2008              | 2007           |
| <b>Interest Income</b>                                     |                    |               |                   |                |
| Interest and fees on loans                                 | \$ 30,254          | \$ 32,721     | \$ 91,662         | \$ 96,131      |
| Interest on investment securities:                         |                    |               |                   |                |
| Taxable                                                    | 5,850              | 6,024         | 18,034            | 19,709         |
| Tax-exempt                                                 | 371                | 415           | 1,151             | 1,270          |
| Interest on deposits in depository institutions            | 47                 | 171           | 163               | 401            |
| Interest on federal funds sold                             | -                  | 266           | -                 | 815            |
| <b>Total Interest Income</b>                               | <b>36,522</b>      | <b>39,597</b> | <b>111,010</b>    | <b>118,326</b> |
| <b>Interest Expense</b>                                    |                    |               |                   |                |
| Interest on deposits                                       | 9,446              | 13,190        | 31,980            | 38,978         |
| Interest on short-term borrowings                          | 478                | 1,758         | 2,286             | 4,965          |
| Interest on long-term debt                                 | 317                | 426           | 1,070             | 1,383          |
| <b>Total Interest Expense</b>                              | <b>10,241</b>      | <b>15,374</b> | <b>35,336</b>     | <b>45,326</b>  |
| <b>Net Interest Income</b>                                 | <b>26,281</b>      | <b>24,223</b> | <b>75,674</b>     | <b>73,000</b>  |
| Provision for loan losses                                  | 2,350              | 1,200         | 5,083             | 3,700          |
| <b>Net Interest Income After Provision for Loan Losses</b> | <b>23,931</b>      | <b>23,023</b> | <b>70,591</b>     | <b>69,300</b>  |
| <b>Non-interest Income</b>                                 |                    |               |                   |                |
| Investment securities (losses) gains                       | (27,467)           | (1)           | (27,465)          | 45             |
| Service charges                                            | 11,993             | 11,192        | 34,536            | 32,681         |
| Insurance commissions                                      | 1,025              | 1,127         | 3,231             | 2,971          |
| Trust and investment management fee income                 | 640                | 523           | 1,721             | 1,529          |
| Bank owned life insurance                                  | 767                | 596           | 2,193             | 1,877          |
| Gain on sale of retail credit card merchant agreements     | -                  | -             | -                 | 1,500          |
| VISA IPO Gain                                              | -                  | -             | 3,289             | -              |
| Other income                                               | 284                | 377           | 1,250             | 1,252          |
| <b>Total Non-interest Income</b>                           | <b>(12,758)</b>    | <b>13,814</b> | <b>18,755</b>     | <b>41,855</b>  |
| <b>Non-interest Expense</b>                                |                    |               |                   |                |
| Salaries and employee benefits                             | 9,538              | 9,307         | 28,418            | 27,275         |
| Occupancy and equipment                                    | 1,800              | 1,600         | 5,098             | 4,762          |
| Depreciation                                               | 1,110              | 1,160         | 3,330             | 3,339          |
| Professional fees                                          | 435                | 416           | 1,229             | 1,204          |
| Postage, delivery, and statement mailings                  | 636                | 641           | 1,908             | 1,988          |
| Advertising                                                | 821                | 801           | 2,081             | 2,533          |
| Telecommunications                                         | 496                | 438           | 1,354             | 1,352          |
| Bankcard expenses                                          | 717                | 623           | 1,978             | 1,737          |
| Insurance and regulatory                                   | 354                | 364           | 1,025             | 1,132          |
| Office supplies                                            | 527                | 472           | 1,488             | 1,369          |
| Repossessed asset losses (gains), net of expenses          | 314                | (47)          | 437               | (52)           |

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|                                          |           |         |         |         |
|------------------------------------------|-----------|---------|---------|---------|
| Loss on early extinguishment of debt     | -         | -       | 1,208   | -       |
| Other expenses                           | 2,498     | 2,256   | 8,352   | 6,514   |
| Total Non-interest Expense               | 19,246    | 18,031  | 57,906  | 53,153  |
| (Loss) Income Before Income Taxes        | (8,073)   | 18,806  | 31,440  | 58,002  |
| Income tax (benefit) expense             | (5,516)   | 6,092   | 7,580   | 19,735  |
| Net (Loss) Income                        | (2,557)   | 12,714  | 23,860  | 38,267  |
| Average common shares outstanding:       |           |         |         |         |
| Basic (loss) earnings per common share   | \$ (0.16) | \$ 0.76 | \$ 1.48 | \$ 2.24 |
| Diluted (loss) earnings per common share | \$ (0.16) | \$ 0.76 | \$ 1.47 | \$ 2.24 |
| Dividends declared per common share      | \$ 0.34   | \$ 0.31 | \$ 1.02 | \$ 0.93 |
| Average common shares outstanding:       |           |         |         |         |
| Basic                                    | 16,142    | 16,714  | 16,130  | 17,057  |
| Diluted                                  | 16,195    | 16,767  | 16,189  | 17,116  |

See notes to consolidated financial statements.



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

City Holding Company and Subsidiaries

Nine Months Ended September 30, 2008 and 2007

(in thousands)

|                                                                                | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>(Loss) | Total<br>Shareholders'<br>Equity |
|--------------------------------------------------------------------------------|-----------------|--------------------|----------------------|-------------------|-------------------------------------------------|----------------------------------|
| Balances at December 31,<br>2006                                               | \$ 46,249       | \$ 104,043         | \$ 194,213           | \$ (33,669)       | \$ (5,529)                                      | \$ 305,307                       |
| Comprehensive income:                                                          |                 |                    |                      |                   |                                                 |                                  |
| Cumulative effect of adopting<br>FIN 48                                        |                 |                    | (125)                |                   |                                                 | (125)                            |
| Net income                                                                     |                 |                    | 38,267               |                   |                                                 | 38,267                           |
| Other comprehensive gains,<br>net of deferred income taxes<br>of \$755:        |                 |                    |                      |                   |                                                 |                                  |
| Unrealized gains on<br>available-for-sale securities of<br>\$138, net of taxes |                 |                    |                      |                   | 83                                              | 83                               |
| Net unrealized gain on<br>interest rate floors of \$1,750,<br>net of taxes     |                 |                    |                      |                   | 1,050                                           | 1,050                            |
| Total comprehensive income                                                     |                 |                    |                      |                   |                                                 | 39,400                           |
| Cash dividends declared<br>(\$0.93 per share)                                  |                 |                    | (15,703)             |                   |                                                 | (15,703)                         |
| Issuance of stock awards, net                                                  |                 | (430)              |                      | 802               |                                                 | 372                              |
| Exercise of 7,300 stock<br>options                                             |                 | (141)              |                      | 295               |                                                 | 154                              |
| Excess tax benefit on<br>stock-based compensation                              |                 | 3                  |                      |                   |                                                 | 3                                |
| Purchase of 1,017,000<br>treasury shares                                       |                 |                    |                      | (37,688)          |                                                 | (37,688)                         |
| Balances at September 30,<br>2007                                              | \$ 46,249       | \$ 103,475         | \$ 216,652           | \$ (70,260)       | \$ (4,396)                                      | \$ 291,720                       |

|                                  | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|----------------------------------|-----------------|--------------------|----------------------|-------------------|--------------------------------------------------------|----------------------------------|
| Balances at December 31,<br>2007 | \$ 46,249       | \$ 103,390         | \$ 224,386           | \$ (80,664)       | \$ 633                                                 | \$ 397,012                       |