

CITY HOLDING CO  
Form 10-Q  
May 07, 2010

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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 March 31, 2010

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 Gatewater 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 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [  ]

Accelerated filer [X]

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 [X]

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 – 15,782,855 shares as of May 6, 2010.

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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; (15) 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; and (16) the FDIC may impose additional assessments on the Company and other federally insured institutions. 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)

	March 31 2010 (Unaudited)	December 31 2009 (Note A)
<b>Assets</b>		
Cash and due from banks	\$ 43,309	\$ 59,116
Interest-bearing deposits in depository institutions	5,055	3,519
Cash and Cash Equivalents	48,364	62,635
Investment securities available for sale, at fair value	528,325	485,767
Investment securities held-to-maturity, at amortized cost (approximate fair value at March 31, 2010 and December 31, 2009 - \$27,188 and \$25,020, respectively)	27,244	28,164
Total Investment Securities	555,569	513,931
Gross loans	1,801,840	1,792,434
Allowance for loan losses	(18,982 )	(18,687 )
Net Loans	1,782,858	1,773,747
Bank owned life insurance	74,116	73,388
Premises and equipment	64,188	64,193
Accrued interest receivable	8,623	7,969
Net deferred tax asset	28,331	29,480
Intangible assets	56,900	57,010
Other assets	39,219	40,121
Total Assets	\$ 2,658,168	\$ 2,622,474
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 337,180	\$ 328,440
<b>Interest-bearing:</b>		
Demand deposits	477,722	457,293
Savings deposits	391,383	379,893
Time deposits	996,214	998,096
Total Deposits	2,202,499	2,163,722
Short-term borrowings	107,783	118,329
Long-term debt	16,937	16,959
Other liabilities	19,281	15,729
Total Liabilities	2,346,500	2,314,739
<b>Shareholders' Equity</b>		
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 March 31, 2010 and December 31, 2009, less 2,686,427 and 2,616,161 shares in treasury, respectively	46,249	46,249

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Capital surplus	101,699	101,750
Retained earnings	257,107	253,167
Cost of common stock in treasury	(93,057 )	(90,877 )
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on securities available-for-sale	1,256	(1,880 )
Unrealized gain on derivative instruments	2,151	3,063
Underfunded pension liability	(3,737 )	(3,737 )
Total Accumulated Other Comprehensive Loss	(330 )	(2,554 )
Total Shareholders' Equity	311,668	307,735
Total Liabilities and Shareholders' Equity	\$ 2,658,168	\$ 2,622,474

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 March 31	
	2010	2009
<b>Interest Income</b>		
Interest and fees on loans	\$ 24,854	\$ 28,058
Interest on investment securities:		
Taxable	5,611	6,062
Tax-exempt	470	409
Interest on deposits in depository institutions	-	5
Total Interest Income	30,935	34,534
<b>Interest Expense</b>		
Interest on deposits	7,184	9,373
Interest on short-term borrowings	100	153
Interest on long-term debt	160	254
Total Interest Expense	7,444	9,780
Net Interest Income	23,491	24,754
Provision for loan losses	1,080	1,650
Net Interest Income After Provision for Loan Losses	22,411	23,104
<b>Non-interest Income</b>		
Total investment securities impairment losses	(3,203 )	(2,157 )
Noncredit impairment losses recognized in other comprehensive income	1,552	-
Net investment securities impairment losses	(1,651 )	(2,157 )
Gain on sale of investment securities	-	82
Service charges	10,228	10,435
Insurance commissions	1,397	1,933
Trust and investment management fee income	862	707
Bank owned life insurance	728	732
Other income	548	701
Total Non-interest Income	12,112	12,433
<b>Non-interest Expense</b>		
Salaries and employee benefits	9,749	9,583
Occupancy and equipment	2,045	1,909
Depreciation	1,218	1,211
Professional fees	363	453
Postage, delivery, and statement mailings	609	718
Advertising	913	863
Telecommunications	451	420
Bankcard expenses	476	648
Insurance and regulatory	1,187	376
Office supplies	493	531

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Repossessed asset losses, net of expenses	946	129
Other expenses	2,101	1,993
Total Non-interest Expense	20,551	18,834
Income Before Income Taxes	13,972	16,703
Income tax expense	4,659	5,779
Net Income Available to Common Shareholders	\$ 9,313	\$ 10,924
Basic earnings per common share	\$ 0.59	\$ 0.69
Diluted earnings per common share	\$ 0.58	\$ 0.69
Dividends declared per common share	\$ 0.34	\$ 0.34
Average common shares outstanding:		
Basic	15,793	15,921
Diluted	15,851	15,933

See notes to consolidated financial statements.



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

City Holding Company and Subsidiaries

three Months Ended March 31, 2010 and 2009

(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balances at December 31, 2008	\$ 46,249	\$ 102,895	\$ 230,613	\$ (88,729 )	\$ (6,732 )	\$ 284,296
Comprehensive income:						
Net income			10,924			10,924
Other comprehensive loss, net of deferred income taxes of \$7,258:						
Unrealized losses on available-for-sale securities of \$4,313, net of taxes					(2,616 )	(2,616 )
Net unrealized loss on interest rate floors of \$2,945, net of taxes					(1,786 )	(1,786 )
Total comprehensive income						6,522
Cash dividends declared (\$0.34 per share)			(5,410 )			(5,410 )
Issuance of stock awards, net		(94 )		369		275
Exercise of 300 stock options		(4 )		7		3
Purchase of 49,363 treasury shares				(1,242 )		(1,242 )
Balances at March 31, 2009	\$ 46,249	\$ 102,797	\$ 236,127	\$ (89,595 )	\$ (11,134 )	\$ 284,444

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	\$ 46,249	\$ 101,750	\$ 253,167	\$ (90,877 )	\$ (2,554 )	\$ 307,735

Balances at December 31, 2009							
Comprehensive income:							
Net income				9,313			9,313
Other comprehensive gain, net of deferred income taxes of \$3,610:							
Unrealized gain on available-for-sale securities of \$5,091, net of taxes						3,136	3,136
Net unrealized loss on interest rate floors of \$1,481, net of taxes						(912 )	(912 )
Total comprehensive income							11,537
Cash dividends declared (\$0.34 per share)						(5,373 )	(5,373 )
Issuance of stock awards, net	(48 )				419		371
Exercise of 200 stock options	(3 )				6		3
Purchase of 84,015 treasury shares						(2,605 )	(2,605 )
Balances at March 31, 2010	\$ 46,249	\$ 101,699	\$ 257,107	\$ (93,057 )	\$ (330 )	\$ 311,668	

See notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2010	2009
<b>Operating Activities</b>		
Net income	\$ 9,313	\$ 10,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion	166	(61 )
Provision for loan losses	1,080	1,650
Depreciation of premises and equipment	1,218	1,211
Deferred income tax benefit	(809 )	(739 )
Accretion of gain from sale of interest rate floors	(912 )	(1,786 )
Net periodic employee benefit cost	58	50
Realized investment securities losses	1,651	2,075
Increase in value of bank-owned life insurance	(728 )	(731 )
Increase in accrued interest receivable	(654 )	(800 )
Decrease in other assets	902	5,937
Increase (decrease) in other liabilities	3,889	(13,688 )
Net Cash Provided by Operating Activities	15,174	4,042
<b>Investing Activities</b>		
Proceeds from maturities and calls of securities held-to-maturity	500	-
Proceeds from sale of money market and mutual fund securities available-for-sale	188,700	72,034
Purchases of money market and mutual fund securities available-for-sale	(251,942 )	(121,215 )
Proceeds from sales of securities available-for-sale	81	86
Proceeds from maturities and calls of securities available-for-sale	25,752	20,167
Purchases of securities available-for-sale	(1,536 )	(11,139 )
Net (increase) decrease in loans	(9,997 )	19,713
Purchases of premises and equipment	(1,213 )	(2,762 )
Net Cash Used in Investing Activities	(49,655 )	(23,116 )
<b>Financing Activities</b>		
Net increase in noninterest-bearing deposits	8,740	15,333
Net increase in interest-bearing deposits	30,037	69,137
Net decrease in short-term borrowings	(10,546 )	(69,850 )
Repayment of long-term debt	(22 )	(21 )
Purchases of treasury stock	(2,605 )	(1,242 )
Proceeds from exercise of stock options	3	3
Dividends paid	(5,397 )	(5,422 )
Net Cash Provided by Financing Activities	20,210	7,938
Decrease in Cash and Cash Equivalents	(14,271 )	(11,136 )
Cash and cash equivalents at beginning of period	62,635	59,629
Cash and Cash Equivalents at End of Period	\$ 48,364	\$ 48,493

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

March 31, 2010

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 months ended March 31, 2010 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2010. 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.

The consolidated balance sheet as of December 31, 2009 has been derived from audited financial statements included in the Company’s 2009 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 2009 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)	March 31, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
Obligations of states and political subdivisions	\$53,318	\$ 991	\$ (281 )	\$54,028	\$52,474	\$ 712	\$ (451 )	\$52,735
Mortgage-backed securities:								
US government agencies	269,255	9,260	(15 )	278,500	293,662	9,241	(109 )	302,794
Private label	11,535	14	(357 )	11,192	12,414	-	(426 )	11,988
Trust preferred securities	68,871	1,778	(4,467 )	66,182	70,048	521	(6,832 )	63,737
Corporate securities	20,773	55	(911 )	19,917	20,771	23	(1,306 )	19,488
Total Debt Securities	423,752	12,098	(6,031 )	429,819	449,369	10,497	(9,124 )	450,742
Marketable equity securities	8,340	-	(2,940 )	5,400	8,603	-	(3,509 )	5,094
Non-marketable equity securities	12,942	-	-	12,942	13,023	-	-	13,023
Investment funds	80,173	-	(9 )	80,164	16,930	-	(22 )	16,908
Total Securities Available-for-Sale	\$525,207	\$ 12,098	\$ (8,980 )	\$528,325	\$487,925	\$ 10,497	\$ (12,655 )	\$485,767
Securities held-to-maturity								
Obligations of states and political subdivisions	\$1,142	\$ 9	\$ -	\$1,151	\$1,642	\$ 15	\$ -	\$1,657
Trust preferred securities	26,102	702	(767 )	26,037	26,522	-	(3,159 )	23,363
Total Securities Held-to-Maturity	\$27,244	\$ 711	\$ (767 )	\$27,188	\$28,164	\$ 15	\$ (3,159 )	\$25,020

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 non-marketable equity securities in the table above.

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 March 31, 2010 and December 31, 2009. 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 March 31, 2010 and December 31, 2009.



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Less Than Twelve Months	March 31, 2010 Twelve Months or Greater	Total
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