

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

FORM 10-K

(Mark One)

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2019
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

(Address of principal executive offices)

West Virginia

25313

(Zip Code)

(304) 769-1100

(Registrant's telephone number, including area code)

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

| <u>Title of Each Class:</u> | <u>Trading Symbol (s)</u> | <u>Name of Each Exchange on Which Registered:</u> |
|--------------------------------|---------------------------|---|
| Common Stock, \$2.50 par value | CHCO | NASDAQ Global Select Market |

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes [X] No []

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act:

Yes [] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

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

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

Yes No

As of June 30, 2019, the last business day of the registrant’s most recently completed second quarter, the aggregate market value of the shares of common stock held by non-affiliates, based upon the closing price per share of the registrant’s common stock as reported on the Nasdaq Global Select Market, was approximately \$1.2 billion. (Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.)

As of February 21, 2020, there were 16,278,279 shares of the Company’s common stock, \$2.50 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2020 annual shareholders’ meeting to be held on April 15, 2020 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements that are included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements express only management's beliefs regarding future results or events and are subject to inherent uncertainty, risks, and changes in circumstances, many of which are outside of management's control. Uncertainty, risks, changes in circumstances and other factors could cause the Company's actual results to differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ from those discussed in such forward-looking statements include, but are not limited to those set forth in the Company's Annual Report on Form 10-K under "ITEM 1A Risk Factors" and the following: (1) general economic conditions, especially in the communities and markets in which we conduct our business; (2) credit risk, including risk that negative credit quality trends may lead to a deterioration of asset quality, risk that our allowance for loan losses may not be sufficient to absorb actual losses in our loan portfolio, and risk from concentrations within our loan portfolio; (3) changes in the real estate market, including the value of collateral securing portions of our loan portfolio; (4) changes in the interest rate environment; (5) operational risk, including cybersecurity risk and risk of fraud, data processing system failures, and network breaches; (6) changes in technology and increased competition, including competition from non-bank financial institutions; (7) changes in consumer preferences, spending and borrowing habits, demand for our products and services, and customers' performance and creditworthiness; (8) difficulty growing loan and deposit balances; (9) our ability to effectively execute our business plan, including with respect to future acquisitions; (10) changes in regulations, laws, taxes, government policies, monetary policies and accounting policies affecting bank holding companies and their subsidiaries; (11) 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; (12) regulatory enforcement actions and adverse legal actions; (13) difficulty attracting and retaining key employees; and (14) other economic, competitive, technological, operational, governmental, regulatory, and market factors affecting our operations. 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.

PART I

Item 1. Business

City Holding Company (the "Company" or "City Holding" or the "Parent Company") is a financial holding company headquartered in Charleston, West Virginia. The Company conducts its principal activities through its wholly-owned subsidiary, City National Bank of West Virginia ("City National"). City National provides banking, trust and investment management and other financial solutions through its network of 95 bank branches and 918 full-time equivalent associates located in West Virginia, Kentucky, Virginia and southeastern Ohio. The Company's business activities are currently limited to one reportable business segment, which is community banking.

In December 2018, the Company acquired Poage Bankshares, Inc., of Ashland, Kentucky and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc., of Cynthiana, Kentucky and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit").

In July 2019, the Company sold its Virginia Beach, Virginia, branch to Select Bank & Trust Company.

For the second consecutive year, the Company received the highest ranking in customer satisfaction in the north central region in J.D. Power's 2019 U.S. Retail Banking Satisfaction Study.

The principal products produced and services rendered by City National include:

- **Commercial Banking** - City National offers a full range of commercial banking services to corporations and other business customers. Loans are provided for a variety of business purposes, including financing for commercial and industrial projects, income producing commercial real estate, owner-occupied real estate and construction and land development. City National also provides deposit services for commercial customers, including treasury management, lockbox and other cash management services. City National provides merchant credit card services through an agreement with a third party vendor.
- **Consumer Banking** - City National provides banking services to consumers, including checking, savings and money market accounts as well as certificates of deposit and individual retirement accounts. In addition, City National provides consumers with installment and real estate loans and lines of credit. City National also offers credit cards through an agreement with a third party vendor.
- **Mortgage Banking** - City National provides mortgage banking services, including fixed and adjustable-rate mortgages, construction financing, land loans, production of conventional and government insured mortgages, secondary marketing and mortgage servicing.
- **Wealth Management and Trust Services** - City National offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for commercial and individual customers. These services include the administration of personal trusts and estates, as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. City National also provides corporate trust and institutional custody, financial and estate planning and retirement plan services.

City National's customer base is diverse and no single depositor could have a material adverse effect on liquidity, capital, or other elements of financial performance. Although no portion of City National's loan portfolio is concentrated within a single industry or group of related industries in excess of City National's internally designated limit, residential mortgage loans have historically comprised a significant portion of its loan portfolio. At December 31, 2019, approximately 49% of the Company's loan portfolio was categorized as residential mortgage and home equity loans. However, due to the fractured nature of residential mortgage lending, there is no concentration of credits that would be considered materially detrimental to the Company's financial position or operating results.

The Company's business is not seasonal and has no significant foreign sources or applications of funds. There are no anticipated material capital expenditures, or any expected material effects on earnings or the Company's competitive position as a result of compliance with federal, state and local provisions enacted or adopted relating to environmental protection.

City National's loan portfolio is comprised of commercial and industrial, commercial real estate, residential real estate, home equity, consumer loans and demand deposit account ("DDA") overdrafts.

City National's commercial and industrial loan portfolio consists of loans to corporate and other legal entity borrowers, primarily small to mid-size industrial and commercial companies. Commercial and industrial loans typically involve a higher

level of risk than other loan types, including industry specific risks such as the pertinent economy, new technology, labor rates and cyclicity, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. As of December 31, 2019, City National reported \$308 million of loans classified as “Commercial and Industrial.”

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are provided to many of the same customers and carry similar industry and customer specific risks as the commercial and industrial loans, but have different collateral risks. As of December 31, 2019, City National reported \$1.46 billion of loans classified as “Commercial Real Estate.”

City National diversifies risk within the commercial and industrial and commercial real estate portfolios by closely monitoring industry concentrations (against internally established risk-based capital thresholds) and portfolios to ensure that it does not exceed established lending guidelines. Diversification is intended to limit the risk of loss from any single unexpected economic event or trend. Underwriting standards require a comprehensive credit analysis and independent evaluation of all larger balance commercial loans by the loan committee prior to approval.

City National categorizes commercial loans by industry according to the North American Industry Classification System (“NAICS”) to monitor its portfolio for possible concentrations in one or more industries. Management monitors industry concentrations against internally established risk-based capital thresholds. As of December 31, 2019, City National was within its internally designated concentration limits. Further, with the exception of loans to borrowers within the “Lessors of Nonresidential Buildings”, no other NAICS industry classification exceeded 10% of total loans at December 31, 2019. Loans to “Lessors of Nonresidential Buildings” were 12% of total loans at December 31, 2019. Management also monitors non-owner occupied commercial real estate as a percent of risk-based capital (based upon regulatory guidance). At December 31, 2019, the Company had \$1.3 billion of commercial loans classified as non-owner occupied, which was within its designated concentration threshold.

Residential real estate loans represent loans to consumers that are secured by a first priority lien on residential real property. Residential real estate loans include loans for the purchase or refinance of consumers' residences and first-priority home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family three- and five-year adjustable rate mortgages with terms that amortize up to 30 years. City National also offers fixed-rate residential real estate loans that are sold in the secondary market; once sold these loans are not included on the Company's balance sheet and City National does not retain the servicing rights to these loans. Residential purchase real estate loans are generally underwritten to comply with Fannie Mae and Freddie Mac guidelines, while first priority lien home equity loans are underwritten with typically less documentation, lower loan-to-value ratios and shorter maturities. As of December 31, 2019, City National reported \$1.64 billion of loans classified as “Residential Real Estate.”

City National's home equity loans represent loans to consumers that are secured by a second (or junior) priority lien on residential real property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first priority lien. These loans include home equity lines of credit (“HELOC”) and amortized home equity loans that require monthly installment payments. Second priority lien home equity loans are underwritten with less documentation than first priority lien residential real estate loans but typically have similar loan-to-value ratios and other terms as first priority lien residential real estate loans. The amount of credit extended under these loans is directly related to the value of the real estate securing the loan at the time the loan is made. As of December 31, 2019, City National reported \$149 million of loans classified as “Home Equity.”

All mortgage loans, whether fixed rate or adjustable rate, are originated in accordance with acceptable industry standards and comply with regulatory requirements. Fixed rate mortgage loans are processed and underwritten in accordance with Fannie Mae and Freddie Mac guidelines, while adjustable rate mortgage loans are underwritten in accordance with City National's internal loan policy.

Consumer loans may be secured by automobiles, boats, recreational vehicles, certificates of deposit and other personal property or they may be unsecured. The Company manages the risk associated with consumer loans by monitoring factors such as portfolio size and growth, internal lending policies, and pertinent economic conditions. City National's underwriting standards for consumer loans are continually evaluated and modified based upon these factors. As of December 31, 2019, City National reported \$54 million of loans classified as “Consumer.”

DDA overdraft balances reflect demand deposit accounts that have been overdrawn by deposit customers and have been reclassified as loans. As of December 31, 2019, City National reported \$5 million of loans classified as “DDA Overdrafts.”

City National's loan underwriting guidelines and standards are updated periodically with suggested revisions presented to City Holding Company's Board of Directors for approval. The purpose of the underwriting guidelines and standards is to grant loans on a sound and collectible basis; to invest available funds in a safe and profitable manner; to serve the legitimate credit needs of the communities in City National's primary market area; and to ensure that all loan applicants receive fair and equal treatment throughout the lending process. The underwriting guidelines and standards are intended to: (i) minimize loan losses by carefully investigating the credit history and creditworthiness of each applicant; (ii) verify the source of repayment and the ability of the applicant to repay; (iii) adequately collateralize those loans in which collateral is deemed to be required; (iv) exercise appropriate care in the documentation of the application, review, approval, and origination processes; and (v) administer a comprehensive loan collection program. The underwriting guidelines are adhered to by the loan officer assigned to the loan application and are subject to his or her experience, background and personal judgment.

Market Area

City National operates a network of 95 bank branches primarily along the I-64 corridor from Lexington, Kentucky through Lexington, Virginia and along the I-81 corridor through the Shenandoah Valley from Lexington, Virginia to Martinsburg, West Virginia. City National's branch network includes 58 branches in West Virginia, 20 branches in Kentucky, 13 branches in Virginia and 4 branches in Ohio. City National provides credit, deposit and investment advisory products and services to a broad geographical area that includes many rural and small community markets in addition to larger cities including Charleston (WV), Huntington (WV), Martinsburg (WV), Ashland (KY), Lexington (KY), Winchester (VA) and Staunton (VA). In addition to its branch network, City National's delivery channels include automated-teller-machines (“ATMs”), interactive-teller machines (“ITMs”), mobile banking, debit cards, interactive voice response systems, and Internet technology.



City National also provides commercial products and services to customers that are outside of its branches' geographical footprint, such as the Charlotte, North Carolina and Pittsburgh, Pennsylvania markets. These loans are diversified across a broad base of industry types, including multi-family housing properties, properties leased to government agencies, nursing homes, grocery and retail stores, and other commercial and industrial loans. At December 31, 2019, the outstanding balance of commercial loans to markets outside of the geographical footprint of the bank's branches was approximately \$307 million, or 17% of City National's outstanding commercial loan balances.

City National has approximately 13% of the deposit market share in the counties of West Virginia where its bank branches are located. In Kentucky, City National has approximately 3% of the deposit market share in the counties where its bank branches are located. In Virginia, City National has approximately 10% of the deposit market share in the counties along the I-81 corridor where its bank branches are located. In Lawrence County, Ohio, City National has approximately 18% of the deposit market share.

According to the most recent U.S. Census Bureau estimates (2018), in the West Virginia counties where City National's bank branches are located, the population was approximately 1.0 million and has decreased 0.6% since 2010. The population in the counties that City National serves in Kentucky increased 4.4% since 2010. The population in the counties City National serves in Virginia along the I-81 corridor has increased 6.8% since 2010, which is more comparable to the national average increase of approximately 6.0%, and in Lawrence County, Ohio, where City National has three bank branches, the population has decreased 4.1% since 2010.

Competition

As noted previously, the Company's principal markets are located in West Virginia and contiguous markets in the surrounding states of Kentucky, Virginia and Ohio. The majority of the Company's bank branches are located in the areas of Charleston (WV), Huntington (WV), Beckley (WV), Lewisburg (WV), Martinsburg (WV), Lexington (KY), and along the I-81 corridor in Virginia where there is a significant presence of other financial service providers. Within its markets, the Company competes with national, regional, and local community banks for deposits, credit and trust and investment management customers. In addition to traditional banking organizations, the Company competes with credit unions, finance companies, financial technology companies, mutual funds, insurance companies, and other financial service providers, many of which are able to provide specialty financial products and services to targeted customer groups. As further discussed below, changes in laws and regulations enacted in recent years have increased the competitive environment the Company and its subsidiaries face to retain and attract customers.

Regulation and Supervision

Overview: The Company, as a registered financial holding company, and City National, as an insured depository institution, operate in a highly regulated environment and are regularly examined by federal regulators. The following description briefly discusses certain provisions of federal and state laws and regulations to which the Company and City National are subject and the potential impact of such provisions. These federal and state laws and regulations are designed to reduce potential loss exposure to the depositors of depository institutions and to the Federal Deposit Insurance Corporation's insurance fund; they are not intended to protect the Company's shareholders. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company. To the extent that the following information describes statutory or regulatory provisions, it is qualified entirely by reference to the particular statute and/or regulation.

As a financial holding company, the Company is regulated under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve Board. The BHCA provides generally for "umbrella" regulation of bank holding companies such as the Company by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. The Company is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. The Company is listed on the Nasdaq Global Select Market ("NASDAQ") under the trading symbol "CHCO" and is subject to the rules of the NASDAQ for listed companies.

City National is organized as a national banking association under the National Bank Act of 1863, as amended (the "National Bank Act"). It is subject to regulation and examination by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). The OCC's supervision and regulation of banks is primarily intended to protect the interests of depositors of the banks and FDIC's insurance fund. The National Bank Act generally requires each national bank to maintain reserves against deposits, restricts the nature and amount of loans that the bank may make and the interest the bank may charge on such loans, and restricts investments and other activities of the bank.

Bank Holding Company Activities: In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks and certain other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Under the BHCA, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the equity of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the OCC) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the Federal Reserve Board). Activities that are

financial in nature include, among other things, securities underwriting and dealing, insurance underwriting and making merchant banking investments.

The Company has elected and qualifies as a financial holding company. In order for the Company to maintain its financial holding company status, both the Company and City National must be categorized as "well-capitalized" and "well-managed" under applicable regulatory guidelines. If the Company or City National fails to meet these requirements, the Federal Reserve Board may impose corrective capital requirements or place limitations on the Company's ability to conduct the broader activities permissible for financial holding companies. The Federal Reserve Board also has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The BHCA, the Bank Merger Act, and other federal and state laws and regulations regulate mergers and acquisitions of commercial banks and bank holding companies. The prior approval of the Federal Reserve Board is typically required for City Holding Company to acquire more than 5% of the voting shares of a commercial bank or bank holding company. Mergers and acquisitions by the Company of national banks, state-chartered banks, federal and state savings associations, and certain other types of entities require prior approval from various regulators. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transaction, the capital position of the combined institution, and the applicant's previous adherence to various banking regulations, including the Community Reinvestment Act of 1977 and anti-money laundering requirements.

Federal Reserve Board policy and federal law require that bank holding companies must serve as a source of financial strength to their subsidiary banks. The Company is expected to commit resources to City National, even at times when the Company may not be inclined to do so. For example, if bank regulatory agencies determine that City National's capital levels are impaired, the Company may be required to restore City National's capital levels with a special assessment.

Banking Operations: The Bank Secrecy Act of 1970 ("BSA") and the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 ("Patriot Act") require financial institutions to develop programs to help prevent them from being used for money laundering, terrorist or other illegal activities. The rules under the BSA and the Patriot Act include the following: (a) require financial institutions to keep records and report on transactions or accounts at issue; (b) require financial institutions to obtain and retain information related to the beneficial ownership of any account opened or maintained by foreign persons; (c) require financial institutions to identify each customer who is permitted to use a payable-through or correspondent account and obtain certain information from each customer permitted to use the account; and (d) prohibit or impose conditions on the opening or maintaining of correspondent or payable-through accounts. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

The Company and its subsidiary bank and other subsidiaries are "affiliates" within the meaning of the Federal Reserve Act. The Federal Reserve Act imposes limitations on a bank with respect to extensions of credit to, investments in, and certain other transactions with, its parent bank holding company and the holding company's other subsidiaries. Loans and extensions of credit from the bank to its affiliates are also subject to various collateral requirements. Further, City National's authority to extend credit to the Company's directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to the restrictions and additional requirements of the Federal Reserve Act and Regulation O promulgated thereafter. These statutes and regulations impose specific limits on the amount of loans City National may make to directors and other insiders, and specify approval procedures that must be followed in making loans that exceed certain amounts.

The Community Reinvestment Act of 1977 ("CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Banking regulators also take into account CRA ratings when considering approval of a proposed merger or acquisition transaction. Depository institutions are typically examined for CRA compliance every three years, although the frequency is at the OCC's discretion. City National received a "satisfactory" rating on its most recent CRA examination in 2018.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010 and implemented far-reaching changes across the financial regulatory landscape, including provisions that impact the Company's operations and regulation of the Company in the following ways, among others:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which has rule making authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;
- Require the OCC to seek to make its capital requirements for national banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;
- Require financial holding companies, such as the Company, to be well-capitalized and well-managed;
- Provide for an increase in the minimum reserve ratio for the FDIC deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;
- Repeal the federal prohibitions on the payment of interest on demand deposits;
- Amend the Electronic Fund Transfer Act ("EFTA");
- Enhance the requirements for certain transactions with affiliates under the Federal Reserve Act;
- Strengthen the existing limits on a depository institution's credit exposure to one borrower;
- Strengthen loan restrictions to insiders; and
- Increase the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries.

The Volcker Rule was adopted under the Dodd-Frank Act and prohibits certain entities, including the Company and its affiliates, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

Since the enactment of the Dodd-Frank Act, the Consumer Financial Protection Bureau (the "CFPB") has issued several regulations governing mainly consumer mortgage lending. These regulations include the ability to repay and qualified mortgage rule, which imposes additional requirements on banks designed to ensure borrowers' ability to repay their mortgage loans, a rule on escrow accounts for higher priced mortgage loans, a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act, rules related to mortgage servicing, and an interagency rule on appraisals for higher-priced mortgage loans. The CFPB has also promulgated rules under the Equal Credit Opportunity Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act, all of which impact the Company's loan origination and servicing operations. The CFPB also has broad authority to supervise unfair, deceptive or abusive acts or practices related to banking.

The Company is also subject to the Gramm-Leach Bliley Act of 1999, which governs the distribution and protection of information about its customers, the Equal Credit Opportunity Act, which ensures fair and nondiscriminatory lending practices, the Truth in Lending Act and Truth in Savings Act, which makes it easier for customers to compare products and services offered by financial institutions, the Home Mortgage Disclosure Act, which imposes additional disclosure requirements on the Company related to information about its mortgage lending, and other federal and state laws and regulations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") was signed into law on May 24, 2018. The Regulatory Relief Act scales back certain aspects of the Dodd-Frank Act and provides other regulatory relief for financial institutions. Certain provisions affecting the Company include:

- Simplifying regulatory capital requirements by providing that banks with less than \$10 billion in total consolidated assets that meet a to-be-developed community bank leverage ratio of tangible equity to average consolidated assets between eight and ten percent will be deemed to be in compliance with risk-based capital and leverage requirements.
- Changing how federal financial institution regulators classify certain municipal securities assets under the liquidity coverage ratio rule;
- Exempting certain reciprocal deposits from treatment as brokered deposits under the FDIC's brokered deposits rule;
- Exempting banks with less than \$10 billion in total consolidated assets from certain provisions under the Volcker Rule; and
- Authorizing new banking procedures to better facilitate online transactions.

Capital Adequacy: Federal banking regulations set forth capital adequacy guidelines, which are used by regulatory authorities to assess the adequacy of capital in examining and supervising a bank holding company and its insured depository institutions.

In July 2013, the Federal Reserve published the final rules that established a new comprehensive capital framework for banking organizations, commonly referred to as Basel III. These final rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions. The final rule became effective January 1, 2015 for smaller, non-complex banking organizations with full implementation by January 1, 2019.

As of January 1, 2019, the Basel III Capital Rules require City Holding and City National to maintain minimum Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios (which are shown in the table below). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to City Holding Company or City National Bank.

The Company's regulatory capital ratios for both City Holding and City National are illustrated in the following tables (dollars in thousands):

| | Actual | | Minimum Required - Basel III | | Required to be Considered Well Capitalized | | | |
|--------------------------|----------------|-------|--|--------|--|-------|--|-------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | | |
| December 31, 2019 | | | | | | | | |
| CET 1 Capital | | | | | | | | |
| City Holding Company | \$ 532,640 | 16.0% | \$ 232,358 | 7.0% | \$ 215,761 | 6.5% | | |
| City National Bank | 459,006 | 13.9% | 230,808 | 7.0% | 214,322 | 6.5% | | |
| Tier 1 Capital | | | | | | | | |
| City Holding Company | 536,640 | 16.2% | 282,150 | 8.5% | 265,552 | 8.0% | | |
| City National Bank | 459,006 | 13.9% | 280,267 | 8.5% | 263,781 | 8.0% | | |
| Total Capital | | | | | | | | |
| City Holding Company | 548,291 | 16.5% | 348,538 | 10.5% | 331,941 | 10.0% | | |
| City National Bank | 470,656 | 14.3% | 346,213 | 10.5% | 329,726 | 10.0% | | |
| Tier 1 Leverage Ratio | | | | | | | | |
| City Holding Company | 536,640 | 11.0% | 195,558 | 4.0% | 244,448 | 5.0% | | |
| City National Bank | 459,006 | 9.5% | 193,074 | 4.0% | 241,342 | 5.0% | | |
| | Actual | | Minimum Required - Basel III Phase-In Schedule | | Minimum Required - Basel III Fully Phased-In (*) | | Required to be Considered Well Capitalized | |
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| December 31, 2018 | | | | | | | | |
| CET 1 Capital | | | | | | | | |
| City Holding Company | \$ 492,526 | 15.1% | \$ 208,294 | 6.375% | \$ 228,715 | 7.0% | \$ 212,378 | 6.5% |
| City National Bank | 423,099 | 13.1% | 206,676 | 6.375% | 226,938 | 7.0% | 210,728 | 6.5% |
| Tier 1 Capital | | | | | | | | |
| City Holding Company | 496,526 | 15.2% | 257,304 | 7.875% | 277,725 | 8.5% | 261,389 | 8.0% |
| City National Bank | 423,099 | 13.1% | 255,306 | 7.875% | 275,568 | 8.5% | 259,358 | 8.0% |
| Total Capital | | | | | | | | |
| City Holding Company | 512,801 | 15.7% | 322,651 | 9.875% | 343,072 | 10.5% | 326,736 | 10.0% |
| City National Bank | 439,374 | 13.6% | 320,145 | 9.875% | 340,408 | 10.5% | 324,198 | 10.0% |
| Tier 1 Leverage Ratio | | | | | | | | |
| City Holding Company | 496,526 | 11.4% | 174,833 | 4.000% | 174,833 | 4.0% | 218,542 | 5.0% |
| City National Bank | 423,099 | 9.8% | 172,594 | 4.000% | 172,594 | 4.0% | 215,742 | 5.0% |

(*) Represents the minimum required capital levels as of January 1, 2019 when Basel III Capital Rules have been fully phased in.

Management believes that, as of December 31, 2019, City Holding and City National meet all capital adequacy requirements under Basel III. In November 2019, the federal banking regulators published final rules implementing a simplified measure of capital adequacy for certain banking organizations that have less than \$10 billion in total consolidated assets. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed “qualifying community banking organizations” and are eligible to opt into the “community bank leverage ratio framework.” A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III Rules and, if applicable, is considered to have met the “well capitalized” ratio requirements for purposes of its primary federal regulator’s prompt corrective action rules, discussed below. The final rules include a two-quarter grace period during which a qualifying community banking organization that temporarily fails to meet any of the qualifying criteria, including the greater-than-9% leverage capital ratio requirement, is generally still deemed “well capitalized” so long as the banking organization maintains a leverage capital ratio greater than 8%. A banking organization that fails to maintain a leverage capital ratio greater than 8% is not permitted to use the grace period and must comply with the generally applicable requirements under the Basel III Rules and file the appropriate regulatory reports. The Company and our subsidiary bank do not have any immediate plans to elect to use the community bank leverage ratio framework but may make such an election in the future.

Additionally, federal banking laws require regulatory authorities to take “prompt corrective action” with respect to depository institutions that do not satisfy minimum capital requirements. The extent of these powers depends upon whether the institutions in question are “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” as such terms are defined under federal banking agency regulations. Depository institutions that do not meet minimum capital requirements will face constraints on payment of dividends, equity repurchases and compensation based on the amount of shortfall. A depository institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, may be subject to asset growth limitations, and may be required to submit capital restoration plans.

Incentive Compensation: The Company is subject to regulatory rules and guidance regarding employee incentive compensation policies intended to ensure that incentive-based compensation does not undermine the safety and soundness of the institution by encouraging excess risk-taking. The Company’s incentive compensation arrangements must provide employees with incentives that appropriately balance risk and reward and do not encourage imprudent risk, be compatible with effective controls and risk managements, and be supported by strong corporate governance, including active and effective oversight by the Company’s board of directors.

Dividends and Other Payments: The Company is a legal entity separate and distinct from City National. Dividends from City National are essentially the sole source of cash for the Company. The right of the Company, and the shareholders of the Company, to participate in any distribution of the assets or earnings of City National, through the payment of dividends or otherwise, is subject to the prior claims of creditors of City National, except to the extent that claims of the Company in its capacity as a creditor may be recognized. Moreover, there are various legal limitations applicable to the payment of dividends by City National to the Company as well as the payment of dividends by the Company to its shareholders.

City National is subject to various statutory restrictions on its ability to pay dividends to the Company. Specifically, the approval of the OCC is required prior to the payment of dividends by City National in excess of its earnings retained in the current year plus retained net profits for the preceding two years. At December 31, 2019, City National could pay dividends up to \$76.8 million without prior regulatory permission. No dividends were paid in 2019 or 2018 that required regulatory approval. The payment of dividends by the Company and City National may also be limited by other factors, such as requirements to maintain adequate capital above regulatory guidelines. The OCC also has the authority to prohibit any bank under its jurisdiction from engaging in an unsafe or unsound practice in conducting its business. Depending upon the financial condition of City National, the payment of dividends could be deemed to constitute such an unsafe or unsound practice. The Federal Reserve Board and the OCC have indicated their view that it generally would be an unsafe and unsound practice to pay dividends except out of current operating earnings. The Federal Reserve Board has stated that, as a matter of prudent banking, a bank or bank holding company should not maintain its existing rate of cash dividends on common stock unless (1) the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (2) the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality, and overall financial condition. Moreover, the Federal Reserve Board has indicated that bank holding companies should serve as a source of managerial and financial strength to their subsidiary banks. Accordingly, the Federal Reserve Board has stated that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company’s ability to serve as a source of financial strength.

Under federal law, City National may not, subject to certain limited exceptions, make loans or extensions of credit to, or invest in the securities of, or take securities of the Company as collateral for loans to any borrower. City National is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Governmental Policies

The Federal Reserve Board regulates money and credit and interest rates in the United States in order to influence general economic conditions. These policies have a significant influence on overall economic growth, demand and distribution of bank loans, investments and deposits, and interest rates charged on loans or paid for time and savings deposits. Federal Reserve Board monetary policies have had a significant effect on the operating results of banks and bank holding companies in the past and are expected to continue to do so in the future.

In view of changing conditions in the national economy and in money markets, as well as the effect of credit policies by monetary and fiscal authorities, including the Federal Reserve Board, it is difficult to predict the impact of possible future changes in interest rates, deposit levels, and loan demand, or their effect on the Company’s business and earnings or on the financial condition of the Company’s various customers.

Deposit Insurance

Substantially all of the deposits of City National are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on average total assets minus average tangible equity. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In March 2016, the FDIC adopted a final rule permanently increasing the reserve ratio for the DIF to 1.35% of total insured deposits.

The Company’s FDIC insurance expense for the past three years is shown in the table below (in thousands). The FDIC insurance expense includes deposit assessments and Financing Corporation (“FICO”) assessments related to outstanding FICO bonds (the last FICO assessment was collected on the March 31, 2019 assessment).

| | For the year ended December 31, | | |
|------------------------|---------------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| FDIC insurance expense | \$ 638 | \$ 1,251 | \$ 1,348 |

On January 24, 2019, the Company was notified by the FDIC that it was eligible for small bank assessment credits. On September 30, 2018, the DIF reserve ratio reached 1.36%. Because the reserve ratio exceeded 1.35%, two deposit assessment changes occurred under the FDIC regulations: (i) surcharges on large banks (total consolidated assets of \$10 billion or more) ended and (ii) small banks (total consolidated assets of less than \$10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The credit will be applied automatically each quarter that the reserve ratio is at least 1.38%, up to the full amount of the bank’s credit or assessment, whichever is less. The Company utilized the credit during the third and fourth quarters of 2019 and anticipates using the credit during the first and second quarters of 2020.

Under the Federal Deposit Insurance Act, as amended (“FDIA”) the FDIC may terminate deposit insurance upon finding that an institution has engaged in unsafe or unsound practices, is in unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Cybersecurity

Federal regulators issued two statements regarding cybersecurity: (i) a statement indicating that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institutions; and (ii) a statement indicating the expectation of a financial institution’s management to maintain a sufficient business continuity planning process to ensure rapid recovery, resumption and maintenance of the financial institution’s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to: (a) enable recovery of data and business operations, (b) address rebuilding network capabilities, and (c) restore data if the financial institution or any of its critical service providers fall victim to this type of cyber-attack. If the Company does not comply with this regulatory guidance, it could be subject to various regulatory sanctions, as well as financial penalties.

In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to banks and bank holding companies with total consolidated assets of \$50 billion or more; however, it is unclear as to whether any such standards would be applied, and in what form, in the future to smaller banks and bank holding companies.

Future Legislation

Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system and to limit the investments that a depository institution may make with insured funds, are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. Such legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance in the financial services industry generally. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or our subsidiaries could have a material effect on the Company's business, financial condition and results of operations.

Executive Officers of the Registrant

At December 31, 2019, the executive officers of the Company were as follows:

| Name | Age | Positions Held with Registrant |
|-----------------------------|-----|---|
| Charles R. Hageboeck, Ph.D. | 57 | President and Chief Executive Officer, City Holding Company and City National Bank, since February 1, 2005. |
| Craig G. Stilwell | 64 | Executive Vice President of Retail Banking, City Holding Company and City National Bank, since February 2005. |
| John A. DeRito | 69 | Executive Vice President of Commercial Banking, City Holding Company and City National Bank, since June 2004. |
| David L. Bumgarner | 54 | Executive Vice President and Chief Financial Officer, City Holding Company and City National Bank, since February 2005. |
| Jeffrey D. Legge | 55 | Executive Vice President, Chief Administration Officer and Chief Information Officer, City Holding Company and City National Bank, since December 2005. |

Employees

The Company had 918 full-time equivalent employees at December 31, 2019.

Available Information

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document the Company files at the SEC Public Reference Room at 100 F Street, N. E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company's SEC filings are also available to the public at the SEC's website at www.sec.gov.

The Company's Internet website address is www.bankatcity.com. The Company makes available free of charge through its website its annual report, quarterly reports, current reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission. The information on the Company's website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing with the Securities and Exchange Commission. Copies of the Company's annual report will be made available, free of charge, upon written request.

Item 1A. Risk Factors

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations. You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this Annual Report on Form 10-K, before making an investment in the Company's common stock. If any of the following risks occur, the Company's financial condition and results of operations could be materially and adversely affected, and you could lose all or part of your investment. In this section, the term "Company" includes City National unless the circumstances dictate otherwise.

Economic Conditions in the Company's Market Areas Could Negatively Impact the Company's Business and Financial Condition

The Company's business is concentrated in West Virginia, Kentucky, Virginia and southeastern Ohio. As a result, the Company's results of operation, cash flows and financial condition are affected by local and regional economic conditions. A downturn in the economies within the Company's market areas, or in any one of them, could negatively impact the Company's results of operation and financial condition. Some examples of economic deterioration include declines in economic growth, declines in consumer and business confidence, increases in inflation, increases in the cost of capital and credit, and limitations in the availability of credit. The Company's financial performance generally, and the ability of its customers to pay interest on and repay principal of outstanding loans to City National, is highly dependent on the strength of the economic and business environment in the market areas where the Company operates and in the United States as a whole. Additionally, the value of collateral securing loans made and held by City National is impacted by the strength of the economy. Deteriorating economic conditions in the Company's market areas could cause declines in the overall quality of the loan portfolio requiring charge-off of a greater percentage of loans and/or an increase in the allowance for loan losses, which could negatively impact the Company's results of operations and financial condition.

While the economic and business environments in West Virginia, Kentucky, Virginia and southeastern Ohio have shown improvement since the recession of 2007 to 2009, there can be no assurance that such improvement will continue or that the economies in the Company's market areas, or the United States as a whole, will not slip into another recession. A lack of continued economic improvement or economic recession could adversely affect the Company's results of operation and financial condition. An economic slowdown could have the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for City National's products and services may decline; and
- Collateral (including real estate) that secures loans made by City National may decline in value, in turn reducing customers' borrowing power and making existing loans less secure.

The oil, natural gas and coal industries, and businesses ancillary thereto, play an important role in the economies of West Virginia, Kentucky, Virginia and southeastern Ohio. The volatility in oil and gas prices since 2014 has negatively impacted oil and gas and other businesses in the Company's market areas. Additionally, the coal industry continues to be in decline as a result of increased environmental and safety regulatory burden, increased competition from alternative energy sources and a decline in demand for coal. The Company has limited direct exposure to coal industry specific loans. Prolonged low oil and gas prices, and continued decline in the coal industry, could result in downward pressure on businesses in the Company's market area which could negatively affect City National's customers (both individuals and businesses). As a result, the Company's operating results and financial condition could be negatively impacted.

The Value of Real Estate Collateral May Fluctuate Significantly Resulting in an Under-Collateralized Loan Portfolio

The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for the Company's loan portfolio were to decline materially, a significant part of the Company's loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on the Company's provision for loan losses and the Company's operating results and financial condition.

The Value of the Company's Common Stock Fluctuates

The market for the Company's common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated quarterly variations in operating results, changes in expectations of future financial performance, changes in estimates by securities analysts, governmental regulatory action, banking industry reform measures, customer relationship developments and other factors, many of which will be beyond the Company's control.

Furthermore, the stock market in general, and the market for financial institutions in particular, have experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's common stock, regardless of actual operating performance.

The Trading Volume in the Company's Common Stock Is Less Than That of Other Larger Financial Services Companies

Although the Company's common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in its common stock is less than that of other financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

Future Sales of Shares of the Company's Common Stock Could Negatively Affect its Market Price

Future sales of substantial amounts of the Company's common stock, or the perception that such sales could occur, could adversely affect the market price of the Company's common stock in the open market. We make no prediction as to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the market price of the Company's common stock.

Certain Banking Laws May Have an Anti-Takeover Effect

Application of certain federal banking laws and regulations applicable to the Company and City National, including regulatory approval requirements for change in control, merger or other business combination transactions, could make it more difficult for a third party to acquire the Company or City National, even if doing so would be perceived to be beneficial to the Company's shareholders. These laws and regulations effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

Shares of the Company's Common Stock Are Not FDIC Insured

Neither the FDIC nor any other governmental agency insures the shares of the Company's common stock. Therefore, the value of your common stock of the Company will be based on their market value and may decline.

The Company's Ability to Pay Dividends Is Limited

Although the Board of Directors has declared cash dividends in the past, the Company's current ability to pay dividends is largely dependent upon the receipt of dividends from City National. Federal laws impose restrictions on the ability of City National to pay dividends. Holders of shares of the Company's common stock are entitled to dividends if, and when, they are declared by the Company's Board of Directors out of funds legally available for that purpose. Additional restrictions are placed upon the Company by the policies of federal regulators, including the Federal Reserve Board's November 14, 1985 policy statement, which provides that bank holding companies should pay dividends only out of the past year's net income, and then only if their prospective rate of earnings retention appears consistent with their capital needs, asset quality, and overall financial condition. In general, future dividend policy is subject to the discretion of the Board of Directors and will depend upon a number of factors, including the Company's and City National's future earnings, capital requirements, regulatory constraints and financial condition. There can be no assurance that the Company will continue to pay dividends to its shareholders in the future.

The Company and City National Are Extensively Regulated

The Company operates in a highly regulated environment and is subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve Board, the OCC and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of

shareholders, govern a comprehensive range of matters including but not limited to (i) ownership and control of the Company's equity, (ii) acquisition of other companies and businesses, (iii) permissible activities, (iv) maintenance of adequate capital levels and (v) other operational aspects. Compliance with banking regulations is costly and restricts certain of our activities, including the payment of dividends, mergers and acquisitions, investments, loan amounts and concentrations, interest rates, opening and closing branch locations, and other activities. The bank regulatory agencies also possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. These agencies have significant discretion in their ability to enforce penalties and further limit the Company's activities if the Company fails to comply with applicable regulations.

The Dodd-Frank Act instituted major changes to the bank and financial institutions regulatory regimes, and additional changes continue to be proposed and implemented by various regulatory agencies. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to reduced revenues, additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. The burden and expenses associated with regulatory compliance have been increasing and may continue to increase. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Proposals to change the laws and regulations governing financial institutions are frequently raised in Congress and before bank regulatory authorities. Changes in applicable laws or regulations could materially affect the Company's business, and the likelihood of any major changes in the future and their effects are impossible to determine. Moreover, it is impossible to predict the ultimate form any proposed legislation might take or how it might affect the Company.

The Company Is Subject to Lending Risk

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in restrictions of the Company's activities or the assessment of significant civil money penalties against the Company.

A substantial portion of the Company's loan portfolio is comprised of residential and commercial real estate loans. The Company's concentration of real estate loans may subject the Company to additional risk, such as market fluctuations in market value of collateral, environmental liability associated with hazardous or toxic substances found on, in or around the collateral, and difficulty monitoring income-producing property serving as a source of repayment and collateral. Any of these or other risks relating to real estate loans could adversely affect the collection by the Company of the outstanding loan balances.

The Company Is Subject to Environmental Liability Risk

A significant portion of the Company's loan portfolio is secured by real property. In the ordinary course of the Company's business, it sometimes takes title to real property collateral through foreclosure after a borrower defaults on the loan for which the real property is collateral. There is a risk that hazardous or toxic substances could be present on properties that the Company acquires by way of foreclosure. The Company may be liable for remediation costs, as well as for personal injury and property damage relating to any hazardous or toxic substances present on the properties it acquires in foreclosure. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. Furthermore, remediation costs and financial and other liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

The Company Is Subject to Interest Rate Risk

Changes in monetary policy, including changes in interest rates, could influence not only the interest income the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of

Governors of the Federal Reserve System. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore its earnings and net profit, could be adversely affected. Earnings also could be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies, including the use of derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section in [Item 7A. Quantitative and Qualitative Disclosures About Market Risk](#) located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

The Company May be Adversely Affected by the Soundness of Third Parties, Including Other Financial Institutions

The Company's business is highly dependent on third party vendors, especially with respect to information technology and telecommunication systems, payment processing system, and mobile and online banking systems. Our operations rely heavily on the secure processing, storage, transmission, and monitoring of information and transactions, and many of these services are outsourced to third party vendors. The failure of these systems or the inability of a third party vendor to continue providing these services on a reliable basis could adversely affect our operations. In addition, the failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of any of these third parties, could disrupt our operations and adversely affect our reputation. It may be difficult for us to replace some of our critical third party vendors, particularly vendors providing our core banking, debit card services and information services, in a timely manner and on terms that are favorable or acceptable to us. Any of these events could increase our expenses and have a material adverse effect on our business, financial condition, and results of operations.

Financial services institutions are interrelated with one another as a result of trading, clearing, counterparty, and other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's business, financial condition and results of operations. Further, as a result of financial entities and technology systems becoming more interdependent and complex, a cybersecurity incident, information breach or loss, or technology failure that comprises the systems or data of one financial entity could have a material impact on counterparties or other market participants, including the Company.

The Company Depends on the Accuracy and Completeness of Information About Our Customers and Counterparties

The Company relies on information provided to us by or on behalf of customers and other third parties, including financial statements, credit reports, and other financial information, in deciding whether to extend credit or enter into other transactions and in evaluating and monitoring our loan portfolio. The Company also relies on representations from our customers, counterparties, and other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial or business information could result in loan losses, reputational damage, or other effects that could have a material adverse effect on our financial condition and results of operation.

The Company's Allowance for Loan Losses May Not be Sufficient

The Company maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense that represents management's best estimate of probable incurred losses in the existing loan portfolio. The allowance, in the judgment of management, is necessary to provide for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any

increases in the allowance for loan losses will result in a decrease in net income and capital, and may have a material adverse effect on the Company's financial condition and results of operations.

Management evaluates the adequacy of the allowance for loan losses at least quarterly, which includes testing certain individual loans as well as collective pools of loans for impairment. This evaluation includes an assessment of actual loss experience within each category of the portfolio; individual commercial and commercial real estate loans that exhibit credit weakness; current economic events, including employment statistics, trends in bankruptcy filings, and other pertinent factors; industry or geographic concentrations; and regulatory guidance. See the section captioned "Allowance and Provision for Loan Losses" in [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#) located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan losses.

New Accounting Standard Will Result in a Significant Change in How the Company Estimates Credit Losses

Effective January 1, 2020, the Company implemented the provision of Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This standard replaces the incurred loss impairment methodology for estimating credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of information to inform credit loss estimates. The new current expected credit loss (CECL) model will apply to the Company's allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration, and certain off-balance sheet credit exposures. The Company has completed its CECL implementation plan, segmentation and testing, and model validation. The measurement of expected credit losses under this new standard will take place at the time the financial asset is first added to the Company's balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles, which delays recognition until it is probable a loss has been incurred. Adoption and application of this new standard could require a significant increase the allowance and could create more volatility in the level of the allowance.

Customers May Default on the Repayment of Loans

City National's customers may default on the repayment of loans, which may negatively impact the Company's earnings due to loss of principal and interest income. Increased operating expenses may result from management's allocation of time and resources to the collection and work-out of the loan. Collection efforts may or may not be successful causing the Company to write off the loan or repossess the collateral securing the loan, which may or may not exceed the balance of the loan.

Due to Increased Competition, the Company May Not be Able to Attract and Retain Banking Customers

The Company faces substantial and intense competition in all areas of its operation, including interest rates and other terms for loans and deposits and the range and quality of services provided. Competition comes from a variety of different competitors, many of which have competitive advantages over the Company. The Company faces competition from:

- local, regional and national banks;
- savings and loans associations;
- Internet banks;
- credit unions;
- mutual funds;
- mortgage banking firms;
- finance companies;
- financial technology ("fin-tech") companies;
- brokerage firms;
- investment advisory and wealth management firms;
- investment banking firms; and
- other entities.

In particular, many of City National's competitors are larger banks and financial institutions whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, the Company's competitors may have products and services not offered by the Company, which may cause current and potential customers to choose those institutions over the Company. The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and the continued consolidation within the banking industry. Consumer preferences and expectations continue to evolve, and technology and regulatory changes have lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for non-banks to offer products and services typically provided by banks. Many of our

non-bank competitors have fewer regulatory constraints and expenses associated with regulatory compliance and may have lower cost structures, such as credit unions that are not subject to federal income tax.

The Company's ability to compete successfully depends on a number of factors, including our ability to develop, maintain, and build long-term customer relationships; our ability to expand our market area and range of services and products offered; our ability to keep up-to-date with technological advancements, both with respect to new and existing products and with respect to cybersecurity; customer satisfaction with our products and services; and general industry and economic trends. Failure to perform successfully in any of these areas could significantly weaken our competitive position. If the Company is unable to attract new customers and retain current customers, loan and deposit growth could decrease, causing the Company's results of operations and financial condition to be negatively impacted.

New Lines of Business or New Products and Services May Subject the Company to Additional Risks

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or products and services, the Company may invest significant time and resources. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. If we are unable to successfully manage these risks in the development and implementation of new lines of business or new products or services, it could have a material adverse effect on the Company's business, financial condition and result of operations.

The Company Faces Technology Change and the Emergence of Nonbank Alternatives to the Financial System

Consumers may decide not to use banks to complete their financial transactions or invest or deposit their funds. Technology and other changes, including the emergence of fin-tech companies are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can pay bills and transfer funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

The banking and financial services industry continually undergoes technological change, with frequent introductions of new technology-driven products and services. The Company's future success depends on its ability to address the needs and preferences of its customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in the Company's operations. Many of the Company's competitors have greater resources to invest in technological improvements, and the Company may not be able to implement new technology-driven products and services as quickly and effectively as its competitors. In addition, the necessary process of updating technology can itself lead to disruptions in the availability or function of systems. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company's business and results of operations.

The Value of the Company's Investments Could Decline

The Company holds available-for-sale investment securities, which are carried at fair value. The determination of fair value for certain of these securities requires significant judgment of the Company's management. Therefore, the market price the Company receives for its investment securities could be less than the carrying value for such securities. Further, the value of the Company's investment portfolio could decline for numerous reasons, many of which are outside the Company's control, including general market conditions, volatility in the securities market, and inflation rates or expectations of inflation. A portion of the Company's investment portfolio consists of municipal securities. The value of these securities is subject to additional factors, including the financial condition of the government issuer and general demand for municipal securities.

The Company May Be Required to Write Down Goodwill and Other Intangible Assets, Causing Its Financial Condition and Results to Be Negatively Affected

When the Company acquires a business, a portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2019, the Company's goodwill and other identifiable intangible assets were approximately \$120 million. Under current accounting standards, if the Company determines goodwill or intangible assets are impaired, it would be required to write down the value of these assets. The Company conducts an annual review to determine whether goodwill and other identifiable intangible

assets are impaired. The Company recently completed such an impairment analysis and concluded that no impairment charge was necessary for the year ended December 31, 2019. The Company cannot provide assurance whether it will be required to take an impairment charge in the future. Any impairment charge would have a negative effect on its shareholders' equity and financial results and may cause a decline in the Company's stock price.

The Company May Be Required to Repurchase Mortgage Loans or Indemnify Mortgage Loan Purchasers

The Company sells some of the fixed rate residential mortgage loans it originates to mortgage loan purchasers in the secondary market. Purchasers of residential mortgage loans, such as government sponsored entities, often require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold under certain circumstances, such as failure to comply with the purchaser's purchase criteria, breach of a representation or warranty related to the loan or its origination, or borrower fraud. There is no assurance that a purchaser of the Company's residential mortgage loans will not demand repurchase or indemnification for losses, which could increase the Company's expenses in defending such claims and negatively affect the Company's financial condition and results of operation.

The Company May Require Additional Capital in the Future, But That Capital May Not Be Available or May Be Dilutive

The Company faces liquidity risk, which is the possibility that the Company may not be able to meet its obligations as they come due, both to creditors and customers, or capitalize on growth opportunities because of a lack of liquidity. Lack of liquidity can be caused by an inability to liquidate assets or obtain adequate financing on a timely basis, at a reasonable cost and on other reasonable terms, and within acceptable risk tolerances. The Company is also required by its regulators to maintain specified levels of capital to maintain its operations. The Company's business needs and future growth, including future acquisitions or organic growth into new markets and business lines, may require it to raise additional capital.

One of the Company's main sources for liquidity is customer deposits. Increased competition and the availability of alternative products may reduce the Company's ability to attract and retain core deposits. If customers move money out of bank deposits into other investments, we could lose a relatively low cost source of funds.

The Company's ability to raise additional capital, whether in the form of debt or equity, is dependent on several factors, including the condition of capital markets, investment demand, and the Company's financial condition and performance. We cannot assure that we will be able to raise additional capital in the future on terms that are favorable or acceptable to us, or at all.

The issuance of debt may increase our capital costs and reduce our liquidity. The issuance of equity securities, including common stock or one or more series of preferred stock, of the Company may reduce the value of our common stock and have a dilutive effect on holders of our common stock. The Company may issue debt or equity securities that are senior in priority to our common stock as to distributions and liquidation, which could negatively affect the value of our common stock.

Acquisition and Other Growth Opportunities May Present Challenges

Any future acquisitions may result in unforeseen difficulties, which could require significant time and attention from the Company's management that would otherwise be directed at developing its existing business, and expenses. In addition, the Company could discover undisclosed liabilities resulting from any acquisitions for which it may become responsible. Further, the benefits that the Company anticipates from these acquisitions may not develop. We may experience difficulty integrating businesses acquired through mergers and acquisitions and may fail to realize the expected revenue increases, cost savings, increases in market presence, and other projected benefits from acquisition activity. Acquisitions utilizing the Company's common stock as consideration may dilute the value of the Company's common stock, which dilution may not be recouped or recovered for a significant amount of time after the acquisition, if ever.

Any merger or acquisition opportunity that we decide to pursue will ultimately be subject to regulatory approval and other closing conditions. We may expend significant time and resources pursuing potential acquisitions that are never consummated due to lack of regulatory approval or other issues. Competition for acquisition candidates in the banking industry is intense. We may expend significant time and resources evaluating acquisition candidates and conducting due diligence that does not lead to an acquisition opportunity.

The Company may implement new lines of business, enter new market areas, or offer new products and services from time to time. There can be substantial risks and uncertainties associated with these efforts, especially where markets are not fully developed. The Company may invest significant time and resources in developing and marketing new lines of business, but the benefits that the Company anticipates from these activities may not develop as expected. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences may impact the Company's ability to successfully

implement organic growth strategies. Failure to successfully manage these risks could have a material adverse effect on the Company's financial condition and results of operations.

System Failure, Cybersecurity Breaches, Fraud and Employee Misconduct Could Subject the Company to Increased Operating Costs, as Well as Litigation and Other Potential Losses

The computer systems and network infrastructure that the Company uses could be vulnerable to unforeseen hardware and cybersecurity issues, including "hacking" and "identity theft." The Company's operations are dependent upon its ability to protect its computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in the Company's operations could have an adverse effect on its financial condition and results of operations. In addition, the Company's operations are dependent upon its ability to protect the computer systems and network infrastructure utilized by the Company, including our mobile and Internet banking activities, against damage from physical break-ins, cybersecurity breaches, acts of vandalism, computer viruses, theft of information, misplaced or lost data, programming and/or human errors, and other disruptive problems. The Company is further exposed to the risk that its third-party service providers may be unable to fulfill their contractual obligations with respect to managing the Company's information and systems. Any cybersecurity breach or other disruptions, whether by the Company or our third-party vendors, would jeopardize the security of information stored in and transmitted through the Company's computer systems and network infrastructure, which may result in significant liability to the Company, damage its reputation and inhibit current and potential customers from its using Internet banking services. The Company could incur substantial costs and suffer other negative consequences, such as: remediation costs, such as liability for stolen assets or information, repairs of system damage, and incentives to customers in an effort to maintain relationships after an attack; increased cybersecurity protection costs, such as organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; and damage to the Company's competitiveness, stock price, and long-term shareholder values.

Despite efforts to ensure the integrity of our systems, we will not be able to anticipate all security breaches of these types, nor will we be able to implement guaranteed preventive measures against such security breaches. Persistent attackers may succeed in penetrating defenses given enough resources, time and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched, and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our mobile payment and other Internet-based product offerings and expand our internal usage of web-based products and applications.

A successful attack to our system security or the system security of one of our critical third-party vendors could cause us serious negative consequences, including significant disruption of operations, misappropriation of confidential information, and damage to our computers or systems or those of our customers and counterparties. A successful security breach could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on the Company.

Criminals are committing fraud at an increasing rate and are using more sophisticated techniques. The Company faces risk of fraudulent activity in many forms, including online payment transfer fraud, debit card fraud, check fraud, mechanical devices attached to ATMs or ITMs, phishing attacks to obtain personal information, email-related frauds and the impersonation of Company executives or vendors, and impersonation of clients through the use of falsified or stolen credentials. The Company may suffer losses as a result of fraudulent activity committed against it, its customers, and other counterparties.

The Company could be adversely affected if one of its employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates the Company's operations or systems. Misconduct by employees could include fraudulent, improper or unauthorized activities on behalf of customers or improper use of confidential information. Employee errors or misconduct could subject the Company to regulatory enforcement action, legal action, reputational damage, and other losses.

The Company's Risk Management Practices May Prove to be Inadequate or Not Fully Effective

The Company's risk management framework seeks to mitigate risk and appropriately balance risk and return. The Company has established policies and procedures intended to identify, monitor and manage the types of risk which it is subject to, including credit risk, market risk, liquidity risk, operational risk and reputational risk. Although the Company has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future, these policies and procedures, as well as its risk management techniques, may not be fully effective. In addition, as regulations and markets in which the Company operates continue to evolve, its risk management framework may not always keep sufficient pace with those changes. If the Company's risk management framework does not effectively identify or mitigate its risks, the

Company could suffer unexpected losses and could be materially adversely affected. Management of the Company's risks in some cases depends upon the use of analytical and/or forecasting models. If the models the Company uses to mitigate these risks are inadequate, it may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that the Company has not appropriately anticipated, identified or mitigated.

The Company's Controls and Procedures May Fail or Be Circumvented

Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition. Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, no matter how well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met.

Significant Legal Actions Could Result in Substantial Liabilities

From time to time, the Company is subject to claims related to its operations. These claims and legal actions, including supervisory actions by its regulators, could involve large monetary claims and cause the Company to incur significant defense expenses. As a result, the Company may be exposed to substantial liabilities, which could negatively affect its shareholders' equity and financial results.

The Company Faces Reputational Risk

The Company faces threats to its reputation from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver expected standards of service or quality, regulatory compliance deficiencies, and questionable or fraudulent activities of the Company's employees and customers. Negative publicity may arise regarding the Company's business, employees, or customers, with or without merit, and could result in the loss of customers, investors and employees, costly litigation, a decline in revenue, and increased regulatory oversight.

The Company Is Subject to Possible Claims and Litigation Relating to Fiduciary Activities

A significant portion of the business conducted in the Company's trust division involves the Company assuming the special role of a fiduciary to its customers and to the beneficiaries of its customers' assets. Customers or beneficiaries could make claims and take legal action relating to the Company's fiduciary activities. Whether such claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such matters are not resolved in a manner favorable to the Company, they may result in significant financial liability. Furthermore, the mere existence of a claim or legal action related to the Company's fiduciary activities could adversely affect the Company's reputation among customers and prospective customers. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Changes in Tax Law and Accounting Standards Could Materially Affect the Company's Operations

Changes in tax laws, or changes in the interpretation of existing tax laws, could materially adversely affect the Company's operations. Similarly, new accounting standards, changes to existing accounting standards, and changes to the methods of preparing financial statements could impact the Company's reported financial condition and results of operations. These factors are outside the Company's control and it is impossible to predict changes that may occur and the effect of such changes.

The Tax Cuts and Jobs Act went into effect on January 1, 2018 and significantly impacted the federal income taxation of the Company and its customers. While there are benefits to the Company from the new law, including a reduction of its federal income tax rate, there are also adverse consequences, including an elimination of certain deductible expenses. There is also substantial uncertainty regarding the consequences of the new law on the Company and its customer base.

The Company Relies Heavily on Its Management Team, and the Unexpected Loss of Key Management May Adversely Affect Its Operations

The Company's success to date has been strongly influenced by its ability to attract and to retain senior management personnel experienced in banking in the markets it serves. Competition for key personnel is intense. The Company's ability to retain executive officers and the current management teams will continue to be important to the successful implementation of its strategies. The Company has employment agreements with these key employees in the event of a change of control, as well as confidentiality, non-solicitation and non-competition agreements related to its stock options. The unexpected loss of services

of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company's business and financial results.

Severe Weather, Natural Disasters, Acts of War or Terrorism, and Other External Events Could Significantly Impact the Company's Business

Severe weather, natural disasters, health emergencies, acts of war or terrorism, and other adverse external events, especially those that directly affect the Company's market areas, could have a significant impact on the Company's ability to conduct business. These events could adversely affect the ability of borrowers to repay outstanding loans, decrease the value of collateral securing loans, cause significant property and infrastructure damage, and affect the stability of the Company's deposit base. The Company may experience decreased revenue, increased charge-offs, and other expenses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

City National owns the Company's executive office, located at 25 Gatewater Road, Charleston, West Virginia. This facility has approximately 60,000 square feet and houses the Company's executive and administrative personnel.

City National owns seventy-six bank branch locations and leases nineteen bank branch locations, pursuant to operating leases. All of the properties are suitable and adequate for their current operations. City National also operates two loan production offices leased in Charlotte, North Carolina and Cincinnati, Ohio.

The Company also owns parcels of real estate for potential future branch development.

Item 3. Legal Proceedings

The Company is engaged in various legal actions that it deems to be in the ordinary course of business. As these legal actions are resolved, the Company could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately decided. There can be no assurance that current actions will have immaterial results, either positive or negative, or that no material actions may be presented in the future.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Common Stock Market and Dividends

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "CHCO". This table sets forth the cash dividends declared per share and information regarding the closing market prices per share of the Company's common stock for the periods indicated. The price ranges are based on transactions as reported on the NASDAQ Global Select Market. At February 21, 2020, there were 2,668 shareholders of record.

The Company generally pays dividends on a quarterly basis. As noted in the section captioned "Dividends and Other Payments" included in Item 1. Business, the section captioned "Liquidity" included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note Nineteen of Notes to Consolidated Financial Statements, the Company's ability to pay dividends to its shareholders is dependent upon the ability of City National to pay dividends to the Company. At December 31, 2019, City National could pay \$76.8 million in dividends without prior regulatory permission.

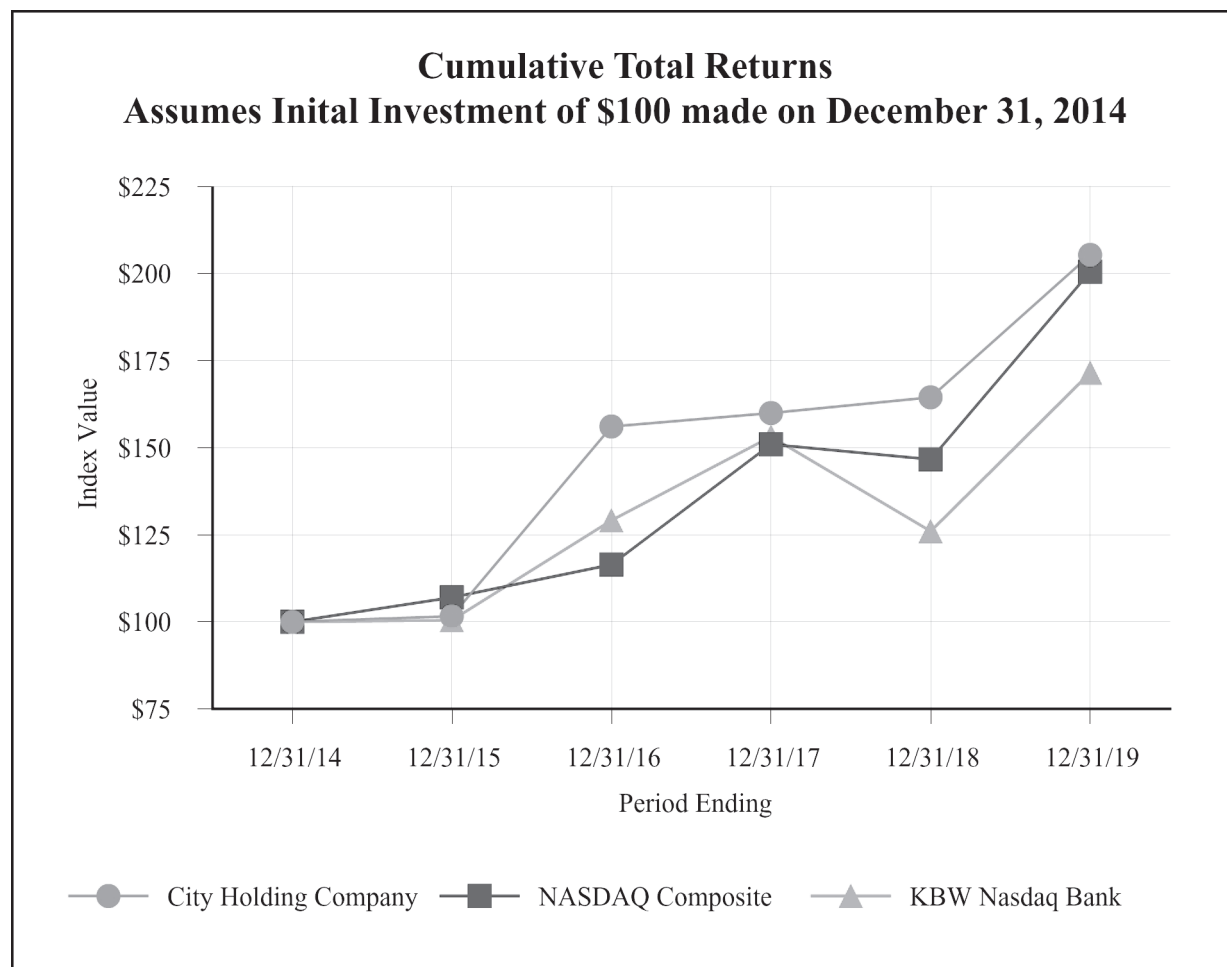
Stock-Based Compensation Plan

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2019, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, is presented in the table below. Additional information regarding stock-based compensation plans is presented in Note Fifteen, Employee Benefit Plans, of Notes to Consolidated Financial Statements.

| Plan Category | Number of Stock Options to be Issued Upon Exercise of Outstanding Awards (a) | Weighted-average exercise price of outstanding awards (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|------------------------------------|---|--|--|
| Plans approved by shareholders | 46,251 | \$ 52.74 | 450,632 |
| Plans not approved by shareholders | — | — | — |
| Total | 46,251 | \$ 52.74 | 450,632 |

Stock Performance

The following graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) to the Company's shareholders during the five-year period ended December 31, 2019, as well as the Nasdaq Composite Index and the KBW Nasdaq Bank Index.



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------|----------|----------|----------|----------|----------|-----------------|
| City Holding Company | \$100.00 | \$101.59 | \$156.11 | \$159.94 | \$164.50 | \$205.35 |
| NASDAQ Composite Index | \$100.00 | \$106.96 | \$116.45 | \$150.96 | \$146.67 | \$200.49 |
| KBW Nasdaq Bank Index | \$100.00 | \$100.49 | \$129.14 | \$153.15 | \$126.02 | \$171.55 |

This graph shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless the Company specifically incorporates this report by reference. It will not be otherwise filed under such Acts.

Item 6. Selected Financial Data

Table One
Five-Year Financial Summary
(in thousands, except per share data)

| | 2019 | 2018 ⁽¹⁾ | 2017 | 2016 | 2015 ⁽²⁾ |
|---|--------------|---------------------|--------------|--------------|---------------------|
| Summary of Operations | | | | | |
| Total interest income | \$ 197,700 | \$ 163,901 | \$ 142,930 | \$ 132,152 | \$ 127,074 |
| Total interest expense | 36,339 | 25,692 | 16,805 | 13,207 | 11,830 |
| Net interest income | 161,361 | 138,209 | 126,125 | 118,945 | 115,244 |
| (Recovery of) provision for loan losses | (1,250) | (2,310) | 3,006 | 4,395 | 6,988 |
| Total non-interest income | 68,490 | 60,564 | 63,607 | 58,825 | 67,206 |
| Total non-interest expenses | 117,614 | 113,066 | 95,981 | 96,164 | 92,951 |
| Income before income taxes | 113,487 | 88,017 | 90,745 | 77,211 | 82,511 |
| Income tax expense | 24,135 | 18,015 | 36,435 | 25,083 | 28,414 |
| Net income available to common shareholders | 89,352 | 70,002 | 54,310 | 52,128 | 54,097 |
| Per Share Data | | | | | |
| Net income basic | \$ 5.43 | \$ 4.50 | \$ 3.49 | \$ 3.46 | \$ 3.54 |
| Net income diluted | 5.42 | 4.49 | 3.48 | 3.45 | 3.53 |
| Cash dividends declared | 2.20 | 1.98 | 1.78 | 1.72 | 1.68 |
| Book value per share | 40.36 | 36.29 | 32.17 | 29.25 | 27.62 |
| Selected Average Balances | | | | | |
| Total loans | \$ 3,567,143 | \$ 3,168,827 | \$ 3,082,448 | \$ 2,920,837 | \$ 2,691,304 |
| Securities | 859,575 | 650,697 | 582,124 | 495,206 | 383,685 |
| Interest-earning assets | 4,511,544 | 3,942,285 | 3,691,714 | 3,426,158 | 3,084,722 |
| Deposits | 4,042,956 | 3,460,306 | 3,298,385 | 3,166,817 | 2,947,543 |
| Long-term debt | 4,054 | 16,053 | 16,495 | 16,495 | 16,495 |
| Total shareholders' equity | 637,915 | 514,083 | 492,668 | 431,031 | 415,051 |
| Total assets | 4,953,727 | 4,303,364 | 4,079,674 | 3,835,081 | 3,564,730 |
| Selected Year-End Balances | | | | | |
| Net loans | \$ 3,604,510 | \$ 3,571,642 | \$ 3,108,574 | \$ 3,026,496 | \$ 2,843,283 |
| Securities | 887,632 | 812,891 | 628,985 | 539,604 | 471,318 |
| Interest-earning assets | 4,555,217 | 4,468,474 | 3,784,453 | 3,611,706 | 3,345,136 |
| Deposits | 4,075,894 | 3,975,559 | 3,315,634 | 3,231,653 | 3,083,975 |
| Long-term debt | 4,056 | 4,053 | 16,495 | 16,495 | 16,495 |
| Total shareholders' equity | 657,983 | 600,764 | 502,507 | 442,438 | 419,272 |
| Total assets | 5,018,756 | 4,899,012 | 4,132,281 | 3,984,403 | 3,714,059 |
| Performance Ratios | | | | | |
| Return on average assets | 1.80% | 1.63% | 1.33% | 1.36% | 1.52% |
| Return on average equity | 14.0 | 13.6 | 11.0 | 12.1 | 13.0 |
| Return on average tangible common equity | 17.3 | 16.2 | 13.1 | 14.8 | 15.8 |
| Net interest margin | 3.59 | 3.52 | 3.46 | 3.50 | 3.76 |
| Efficiency ratio | 50.0 | 50.0 | 51.5 | 54.8 | 53.7 |
| Dividend payout ratio | 40.6 | 44.0 | 51.0 | 49.7 | 47.5 |

| | 2019 | 2018 ⁽¹⁾ | 2017 | 2016 | 2015 ⁽²⁾ |
|---|--------|---------------------|--------|--------|---------------------|
| Asset Quality | | | | | |
| Net charge-offs to average loans | 0.09% | 0.02% | 0.13% | 0.13% | 0.29% |
| (Recovery of) provision for loan losses to average loans | (0.04) | (0.07) | 0.10 | 0.15 | 0.26 |
| Allowance for loan losses to nonperforming loans | 98.57 | 107.82 | 178.39 | 140.10 | 110.37 |
| Allowance for loan losses to total loans | 0.32 | 0.45 | 0.60 | 0.65 | 0.67 |
| Non-performing assets as a percentage of total loans and OREO | 0.45 | 0.54 | 0.45 | 0.61 | 0.84 |
| Consolidated Capital Ratios | | | | | |
| CET 1 Capital | 16.0% | 15.1% | 15.1% | 13.3% | 13.7% |
| Tier 1 Capital | 16.2 | 15.2 | 15.7 | 13.9 | 14.3 |
| Total Capital | 16.5 | 15.7 | 16.4 | 14.7 | 15.1 |
| Tier 1 Leverage | 11.0 | 11.4 | 11.0 | 10.2 | 10.2 |
| Average equity to average assets | 13.0 | 11.9 | 12.1 | 11.2 | 11.6 |
| Tangible equity to tangible assets (end of period) | 11.0 | 10.0 | 10.5 | 9.3 | 9.3 |
| Full-time equivalent employees | 918 | 891 | 839 | 847 | 853 |

(1) - In December 2018, the Company acquired Poage Bankshares, Inc. and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc. and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit").

(2) - In January 2015, the Company sold its insurance operations, CityInsurance. In November 2015, the Company acquired three branches in Lexington, Kentucky from American Founder's Bank.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statistical Information

The information noted below is provided pursuant to Guide 3 -- Statistical Disclosure by Bank Holding Companies.

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CITY HOLDING COMPANY

City Holding Company (the "Company"), a West Virginia corporation headquartered in Charleston, West Virginia, is a registered financial holding company under the Bank Holding Company Act and conducts its principal activities through its wholly owned subsidiary, City National Bank of West Virginia ("City National"). City National is a retail and consumer-oriented community bank with 95 bank branches in West Virginia (58), Kentucky (20), Virginia (13) and Ohio (4). City National provides credit, deposit, and trust and investment management services to its customers in a broad geographical area that includes many rural and small community markets in addition to larger cities including Charleston (WV), Huntington (WV), Martinsburg (WV), Ashland (KY), Lexington (KY), Winchester (VA) and Staunton (VA). In the Company's key markets, the Company's primary subsidiary, City National, generally ranks in the top three relative to deposit market share and the top two relative to branch share (Charleston/Huntington MSA, Beckley/Lewisburg counties, Staunton MSA and Winchester, VA/WV Eastern Panhandle counties). In addition to its branch network, City National's delivery channels include automated-teller-machines ("ATMs"), interactive-teller-machines ("ITMs"), mobile banking, debit cards, interactive voice response systems, and Internet technology. The Company's business activities are currently limited to one reportable business segment, which is community banking.

In December 2018, the Company acquired Poage Bankshares, Inc., of Ashland, Kentucky and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc., of Cynthiana, Kentucky and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit").

In July 2019, the Company sold its Virginia Beach, Virginia, branch to Select Bank & Trust Company.

CRITICAL ACCOUNTING POLICIES

The accounting policies of the Company conform to 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](#) of the Notes to Consolidated Financial Statements included herein. 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: (i) the determination of the allowance for loan losses and (ii) income taxes 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.

The *Allowance and Provision for Loan Losses* section of this Annual Report on Form 10-K provides 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 incurred losses in the loan portfolio. Management's determination of the appropriateness 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 allowance not specifically allocated to individual credits is generally determined by analyzing potential exposure and other qualitative factors that could negatively impact the overall credit risk of the loan portfolio. Loans not individually evaluated for impairment are grouped by pools with similar risk characteristics and the related historical loss rates are adjusted to reflect current inherent risk factors, such as unemployment, overall economic conditions, concentrations of credit, loan growth, classified and impaired loan trends, staffing, adherence to lending policies, and loss trends.

The *Income Taxes* section of this Annual Report on Form 10-K provides management's analysis of the Company's income taxes. 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 Company's unrecognized tax benefits could change over the next twelve months as a result of various factors. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state taxing authorities for the years ended December 31, 2016 through 2018.

FINANCIAL SUMMARY

The Company's financial performance over the previous three years is summarized in the following table:

| | 2019 | 2018 | 2017 |
|---|-----------|-----------|-----------|
| Net income available to common shareholders <i>(in thousands)</i> | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Earnings per common share, basic | \$ 5.43 | \$ 4.50 | \$ 3.49 |
| Earnings per common share, diluted | \$ 5.42 | \$ 4.49 | \$ 3.48 |
| ROA* | 1.80% | 1.63% | 1.33% |
| ROE* | 14.0% | 13.6% | 11.0% |
| ROATCE* | 17.3% | 16.2% | 13.1% |

*ROA (Return on Average Assets) is a measure of the effectiveness of asset utilization. ROE (Return on Average Equity) is a measure of the return on shareholders' investment. ROATCE (Return on Average Tangible Common Equity) is a measure of the return on shareholders' equity less intangible assets.

BALANCE SHEET ANALYSIS

Selected balance sheet fluctuations are summarized in the following table (in millions):

| | December 31, | | | |
|-----------------------|--------------|----------|-----------|----------|
| | 2019 | 2018 | \$ Change | % Change |
| Investment securities | \$ 887.6 | \$ 812.9 | \$ 74.7 | 9.2% |
| Gross loans | 3,616.1 | 3,587.6 | 28.5 | 0.8 |
| Total deposits | 4,075.9 | 3,975.6 | 100.3 | 2.5 |
| Shareholders' equity | 658.0 | 600.8 | 57.2 | 9.5 |

Investment securities increased \$75 million, from \$813 million at December 31, 2018, to \$888 million at December 31, 2019 as the Company elected to grow investment balances to enhance net interest income, in conjunction with its interest rate risk management strategy.

Gross loans increased \$29 million, from \$3.59 billion at December 31, 2018 to \$3.62 billion at December 31, 2019, primarily due to increases in commercial loans of \$26.5 million (1.5%) and residential real estate loans of \$5.1 million (0.3%).

Total deposits increased \$100 million, from \$3.98 billion at December 31, 2018 to \$4.08 billion at December 31, 2019. The Company experienced increases in savings deposits (\$75.6 million), noninterest bearing deposits (\$16.0 million), and time deposits (\$11.9 million).

Shareholders' equity increased \$57 million from December 31, 2018 to December 31, 2019, primarily due to net income of \$89 million and other comprehensive income of \$20 million, which were partially offset by cash dividends declared of \$36 million and treasury stock purchases of \$19 million.

TABLE TWO
AVERAGE BALANCE SHEETS AND NET INTEREST INCOME

(In thousands)

| | 2019 | | | 2018 | | | 2017 | | |
|---|---------------------|----------------|-------------|---------------------|----------------|-------------|---------------------|----------------|-------------|
| | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate |
| Assets | | | | | | | | | |
| Loan portfolio ⁽¹⁾ : | | | | | | | | | |
| Residential real estate ^{(2),(3)} | \$ 1,791,636 | \$ 81,603 | 4.55% | \$ 1,629,950 | \$ 69,765 | 4.28% | \$ 1,598,579 | \$ 63,649 | 3.98% |
| Commercial, financial, and agriculture ⁽³⁾ | 1,717,381 | 84,167 | 4.90 | 1,501,667 | 68,981 | 4.59 | 1,450,144 | 58,243 | 4.02 |
| Installment loans to individuals ^{(3),(4)} | 58,126 | 3,559 | 6.12 | 37,210 | 2,349 | 6.31 | 33,725 | 2,514 | 7.45 |
| Previously securitized loans ⁽⁵⁾ | — | 684 | — | — | 960 | — | — | 1,346 | — |
| Total loans | 3,567,143 | 170,013 | 4.77 | 3,168,827 | 142,055 | 4.48 | 3,082,448 | 125,752 | 4.08 |
| Securities: | | | | | | | | | |
| Taxable | 761,358 | 23,389 | 3.07 | 559,125 | 17,337 | 3.10 | 492,783 | 14,387 | 2.92 |
| Tax-exempt ⁽⁶⁾ | 98,217 | 3,756 | 3.82 | 91,572 | 3,598 | 3.93 | 89,341 | 4,163 | 4.66 |
| Total securities | 859,575 | 27,145 | 3.16 | 650,697 | 20,935 | 3.22 | 582,124 | 18,550 | 3.19 |
| Deposits in depository institutions | 84,826 | 1,332 | 1.57 | 122,761 | 1,666 | 1.36 | 27,142 | 85 | 0.31 |
| Total interest-earning assets | 4,511,544 | 198,490 | 4.40 | 3,942,285 | 164,656 | 4.18 | 3,691,714 | 144,387 | 3.91 |
| Cash and due from banks | 65,664 | | | 47,562 | | | 85,473 | | |
| Bank premises and equipment | 78,103 | | | 73,196 | | | 73,540 | | |
| Goodwill and intangible assets | 121,460 | | | 82,117 | | | 78,881 | | |
| Other assets | 191,422 | | | 176,110 | | | 170,312 | | |
| Less: allowance for loan losses | (14,466) | | | (17,906) | | | (20,246) | | |
| Total assets | \$ 4,953,727 | | | \$ 4,303,364 | | | \$ 4,079,674 | | |
| Liabilities | | | | | | | | | |
| Interest-bearing demand deposits | \$ 878,716 | 3,490 | 0.40% | \$ 792,765 | 2,114 | 0.27% | \$ 705,412 | 643 | 0.09% |
| Savings deposits | 977,327 | 4,405 | 0.45 | 820,474 | 2,133 | 0.26 | 832,512 | 1,311 | 0.16 |
| Time deposits ⁽³⁾ | 1,368,752 | 24,771 | 1.81 | 1,142,629 | 17,150 | 1.50 | 1,067,181 | 12,872 | 1.21 |
| Short-term borrowings | 211,452 | 3,491 | 1.65 | 265,157 | 3,415 | 1.29 | 230,529 | 1,214 | 0.53 |
| Long-term debt | 4,054 | 182 | 4.49 | 16,053 | 880 | 5.48 | 16,495 | 765 | 4.64 |
| Total interest-bearing liabilities | 3,440,301 | 36,339 | 1.06 | 3,037,078 | 25,692 | 0.85 | 2,852,129 | 16,805 | 0.59 |
| Noninterest-bearing demand deposits | 818,161 | | | 704,438 | | | 693,280 | | |
| Other liabilities | 57,350 | | | 47,765 | | | 41,597 | | |
| Total shareholders' equity | 637,915 | | | 514,083 | | | 492,668 | | |
| Total liabilities and shareholders' equity | \$ 4,953,727 | | | \$ 4,303,364 | | | \$ 4,079,674 | | |
| Net interest income | \$ 162,151 | | | \$ 138,964 | | | \$ 127,582 | | |
| Net yield on earning assets | | 3.59% | | | 3.52% | | | 3.46% | |

1. For purposes of this table, non-accruing loans have been included in average balances and the following loan fees (in thousands) have been included in interest income:

| | 2019 | 2018 | 2017 |
|-----------|--------|----------|--------|
| Loan fees | \$ 863 | \$ 1,827 | \$ 847 |

2. Includes the Company's residential real estate and home equity loan categories.

3. Included in the above table are the following amounts (in thousands) for the accretion of the fair value adjustments related to the Company's acquisitions:

| | 2019 | 2018 | 2017 |
|--|-----------------|-----------------|-----------------|
| Residential real estate | \$ 323 | \$ 407 | \$ 530 |
| Commercial, financial, and agriculture | 2,366 | 994 | 1,345 |
| Installment loans to individuals | 47 | 19 | 44 |
| Time deposits | 843 | — | 16 |
| Total | \$ 3,579 | \$ 1,420 | \$ 1,935 |

4. Includes the Company's consumer and DDA overdrafts loan categories.

5. Effective January 1, 2012, the carrying value of the Company's previously securitized loans was reduced to \$0.

6. Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 21% for the years ended December 31, 2019 and 2018, and 35% for the year ended December 31, 2017.

NET INTEREST INCOME

2019 vs. 2018

The Company's net interest income increased from \$138.2 million for the year ended December 31, 2018 to \$161.4 million for the year ended December 31, 2019. The Company's tax equivalent net interest income increased \$23.2 million, or 16.7%, from \$139.0 million for the year ended December 31, 2018 to \$162.2 million for the year ended December 31, 2019. The acquisitions of Poage and Farmers Deposit accounted for \$18.3 million of this increase, while higher loan yields on residential real estate and commercial loans increased net interest income \$5.7 million and \$1.5 million, respectively, and higher average balances on commercial loans (\$51.7 million) increased interest income by \$2.3 million as compared to the year ended December 31, 2018. In addition, higher average investment balances (\$98.1 million) increased investment income by \$3.1 million and an increase in accretion from fair value adjustments increased interest income by \$2.2 million during the year ended December 31, 2019. These increases were partially offset by increased interest expense on interest bearing liabilities (\$8.5 million), primarily due to an increase in the cost of funds. The Company's reported net interest margin increased from 3.52% for the year ended December 31, 2018 to 3.59% for the year ended December 31, 2019. Excluding the favorable impact of the accretion from the fair value adjustments, the net interest margin would have been 3.51% for the year ended December 31, 2019 and 3.49% for the year ended December 31, 2018.

2018 vs. 2017

The Company's net interest income increased from \$126.1 million for the year ended December 31, 2017 to \$138.2 million for the year ended December 31, 2018. The Company's tax equivalent net interest income increased \$11.4 million or 8.9%, from \$127.6 million in 2017 to \$139.0 million in 2018. Exclusive of the impact of the acquisitions of Poage and Farmers Deposit, increased yields on commercial and residential real estate loans increased net interest income \$7.8 million and \$4.8 million, respectively, while higher average balances on commercial loans (\$40.0 million) and residential real estate loans (\$20.4 million) increased interest income by \$1.6 million and \$0.8 million, respectively, as compared to the year ended December 31, 2017. In addition, higher average investment balances (\$68.6 million) increased investment income by \$2.0 million, while interest income from deposits in depository institutions also increased \$1.6 million as the Company elected to improve its on-balance sheet liquidity during the year ended December 31, 2018. These increases were partially offset by increased interest expense on interest bearing liabilities (\$7.7 million), primarily due to an increase in the cost of funds. The Company's reported net interest margin increased from 3.46% for the year ended December 31, 2017 to 3.52% for the year ended December 31, 2018. Excluding the favorable impact of the accretion from the fair value adjustments, the net interest margin would have been 3.49% for the year ended December 31, 2018 and 3.40% for the year ended December 31, 2017.

Excluding the impact of the Poage and Farmers Deposit acquisitions, average interest-earning assets increased \$219 million from 2017 to 2018, due to increases in deposits with depository institutions (\$96 million), investment securities (\$61 million), commercial, financial, and agriculture loans (\$40 million) and residential real estate loans (\$20 million). Average interest-bearing liabilities increased \$159 million from 2017 as increases in interest bearing deposits (\$82 million), time deposits (\$64 million) and short-term borrowings (\$34 million) were partially offset by a decrease in savings deposits (\$20 million).

TABLE THREE
RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE
(In thousands)

| | 2019 vs. 2018 Increase (Decrease) Due to Change In: | | | 2018 vs. 2017 Increase (Decrease) Due to Change In: | | |
|--|---|-----------------|------------------|---|-----------------|------------------|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest-earning assets: | | | | | | |
| Loan portfolio | | | | | | |
| Residential real estate | \$ 6,920 | \$ 4,918 | \$ 11,838 | \$ 1,249 | \$ 4,867 | \$ 6,116 |
| Commercial, financial, and agriculture | 9,909 | 5,277 | 15,186 | 2,078 | 8,421 | 10,499 |
| Installment loans to individuals | 1,320 | (110) | 1,210 | 235 | (161) | 74 |
| Previously securitized loans | — | (276) | (276) | — | (386) | (386) |
| Total loans | 18,149 | 9,809 | 27,958 | 3,562 | 12,741 | 16,303 |
| Securities: | | | | | | |
| Taxable | 6,271 | (219) | 6,052 | 1,937 | 1,013 | 2,950 |
| Tax-exempt ⁽¹⁾ | 261 | (103) | 158 | 104 | (669) | (565) |
| Total securities | 6,532 | (322) | 6,210 | 2,041 | 344 | 2,385 |
| Deposits in depository institutions | (396) | 62 | (334) | 299 | 1,282 | 1,581 |
| Total interest-earning assets | \$ 24,285 | \$ 9,549 | \$ 33,834 | \$ 5,902 | \$ 14,367 | \$ 20,269 |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | \$ 229 | \$ 1,147 | \$ 1,376 | \$ 80 | \$ 1,391 | \$ 1,471 |
| Savings deposits | 408 | 1,864 | 2,272 | (19) | 841 | 822 |
| Time deposits | 3,394 | 4,227 | 7,621 | 910 | 3,367 | 4,277 |
| Short-term borrowings | (692) | 768 | 76 | 182 | 2,019 | 2,201 |
| Long-term debt | (658) | (40) | (698) | (20) | 135 | 115 |
| Total interest-bearing liabilities | 2,681 | 7,966 | 10,647 | 1,133 | 7,753 | 8,886 |
| Net Interest Income | \$ 21,604 | \$ 1,583 | \$ 23,187 | \$ 4,769 | \$ 6,614 | \$ 11,383 |

1. Fully federal taxable equivalent using a tax rate of approximately 21% for 2019 and 2018 and 35% for 2017.

Non-GAAP Financial Measures

Management of the Company uses measures in its analysis of the Company's performance other than those in accordance with generally accepted accounting principals in the United States of America ("GAAP"). These measures are useful when evaluating the underlying performance of the Company's operations. The Company's management believes that these non-GAAP measures enhance comparability of results with prior periods and demonstrate the effects of significant gains and charges in the current period. The Company's management believes that investors may use these non-GAAP financial measures to evaluate the Company's financial performance without the impact of those items that may obscure trends in the Company's performance. These disclosures should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor are they comparable to non-GAAP financial measures that may be presented by other companies.

TABLE FOUR
NON-GAAP FINANCIAL MEASURES
(In thousands)

| | 2019 | 2018 | 2017 |
|---|--------------|--------------|--------------|
| Net interest income ("GAAP") | \$ 161,361 | \$ 138,209 | \$ 126,125 |
| Taxable equivalent adjustment | 790 | 756 | 1,457 |
| Net interest income, fully taxable equivalent | \$ 162,151 | \$ 138,965 | \$ 127,582 |
| Average total interest earning assets | \$ 4,511,544 | \$ 3,942,285 | \$ 3,691,714 |
| Net interest margin | 3.59% | 3.52% | 3.46% |
| Accretion related to fair value adjustments | (0.08) | (0.03) | (0.06) |
| Net interest margin (excluding accretion) | 3.51% | 3.49% | 3.40% |
| Equity to assets ("GAAP") | 13.11% | 12.26% | 12.16% |
| Effect of goodwill and other intangibles, net | (2.13) | (2.26) | (1.70) |
| Tangible common equity to tangible assets | 10.98% | 10.00% | 10.46% |
| Return on tangible equity ("GAAP") | 17.3% | 16.2% | 13.1% |
| Impact of effect tax rate decrease on deferred taxes | — | — | 1.6 |
| Impact of merger related expenses | 0.1 | 2.4 | — |
| Return on tangible equity, excluding the above items | 17.4% | 18.6% | 14.7% |
| Return on assets ("GAAP") | 1.80% | 1.63% | 1.33% |
| Impact of effect tax rate decrease on deferred taxes | — | — | 0.17 |
| Impact of merger related expenses | 0.02 | 0.24 | — |
| Return on assets, excluding the above items | 1.82% | 1.87% | 1.50% |
| Effective tax rate ("GAAP") | 21.3% | 20.5% | 40.2% |
| Impact of FIN 48 reserve adjustments | 0.3 | 0.4 | 0.4 |
| Impact of effective tax rate decrease on deferred taxes | — | (0.2) | (7.9) |
| Effective tax rate, excluding the above items | 21.6% | 20.7% | 32.7% |

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

2019 vs. 2018

Selected income statement fluctuations are summarized in the following table (dollars in millions):

| | For the year ended December 31, | | | |
|---|------------------------------------|----------|-----------|----------|
| | 2019 | 2018 | \$ Change | % Change |
| Unrealized gains (losses) recognized on equity securities still held | \$ 0.9 | \$ (0.1) | \$ 1.0 | 1,000.0% |
| Non-interest income, excluding unrealized gains (losses) recognized on equity securities still held | 67.5 | 60.7 | 6.8 | 11.2 |
| Merger related expenses | 0.8 | 13.3 | (12.5) | (94.0) |
| Non-interest expense, excluding merger related expenses | 116.8 | 99.8 | 17.0 | 17.0 |

Non-interest income was \$68.5 million for 2019 as compared to \$60.6 million for 2018. During 2019, the Company reported \$0.9 million of unrealized fair value gains on the Company's equity securities compared to \$0.1 million of unrealized fair value losses on the Company's equity securities during 2018. Exclusive of these unrealized fair value gains and losses, non-interest income increased from \$60.7 million for the year ended December 31, 2018 to \$67.5 million for the year ended December 31, 2019. This increase was primarily attributable to an increase of \$2.7 million, or 14.8%, in bankcard revenues, and an increase of \$1.8 million, or 6.1%, in service charges, with \$1.4 million and \$1.6 million, respectively, attributable to the late 2018 acquisitions of Poage and Farmers Deposit. Additionally, other income increased by \$1.0 million (due largely to the \$0.7 million gain from the sale of our Virginia Beach, VA branch to Select Bank & Trust Company during the second quarter of 2019), bank owned life insurance revenues increased \$0.7 million due to higher death benefit proceeds received during 2019 compared to 2018, and trust and investment management fee income increased \$0.6 million.

During 2019 and 2018, the Company recognized \$0.8 million and \$13.3 million, respectively, of acquisition and integration expenses associated with the completed acquisitions of Poage and Farmers Deposit. Excluding these expenses, non-interest expenses increased from \$99.8 million for 2018 to \$116.8 million for 2019. This increase was primarily due to an increase in salaries and employee benefits of \$7.7 million that was largely attributable to the acquisitions of Poage and Farmers Deposit (\$4.3 million), annual salary adjustments, and increased incentive compensation. Primarily due to the acquisitions of Poage and Farmers Deposit, other expenses increased \$4.5 million, occupancy related expenses increased \$1.3 million, equipment and software related expenses increased \$1.2 million and bankcard expenses increased \$1.1 million, from 2018 to 2019. Partially offsetting these increases was a decrease of \$0.6 million in FDIC insurance expense. As the Deposit Insurance Fund ("DIF") reserve ratio exceeded 1.38% at June 30, 2019, the Company received a Small Bank Assessment Credit for the full amount of its Federal Deposit Insurance Corporation ("FDIC") assessment for the third and fourth quarters of 2019.

2018 vs. 2017

Selected income statement fluctuations are summarized in the following table (dollars in millions):

| | For the year ended December 31, | | | |
|---|------------------------------------|--------|-----------|----------|
| | 2018 | 2017 | \$ Change | % Change |
| Net investment security (losses) gains | \$ (0.1) | \$ 4.5 | \$ (4.6) | (102.2)% |
| Non-interest income, excluding net investment securities (losses) gains | 60.7 | 59.1 | 1.6 | 2.7 |
| Merger related expenses | 13.3 | — | 13.3 | 100.0 |
| Non-interest expense, excluding merger related expenses | 99.8 | 96.0 | 3.8 | 4.0 |

During 2017, the Company realized investment gains of \$4.5 million that represented partial recoveries of impairment charges previously recognized on pools of trust preferred securities. During 2018, the Company recognized \$0.1 million of unrealized investment losses related to its equity and perpetual preferred securities. As a result of the adoption of ASU No. 2016-02, effective January 1, 2018, unrealized gains and losses on equity and equity-like securities are now required to be recognized in the Company's Consolidated Statements of Income.

Exclusive of these gains and losses, non-interest income increased from \$59.1 million for the year ended December 31, 2017 to \$60.7 million for the year ended December 31, 2018. This increase was primarily attributable to an increase of \$1.2 million, or 7.3%, in bankcard revenues and an increase of \$1.1 million, or 4.0%, in service charges. These increases were partially offset by a decrease of \$1.1 million in bank owned life insurance revenues due to lower death benefit proceeds received during 2018 as compared to 2017.

During 2018, the Company recognized \$13.3 million of merger related expenses associated with the completed acquisitions of Poage and Farmers Deposit. Excluding these expenses, non-interest expenses increased from \$96.0 million for 2017 to \$99.8 million for 2018. This increase was primarily due to an increase in salaries and employee benefits of \$3.3 million that was largely attributable to annual salary adjustments, including an adjustment to wages for approximately 50% of the Company's employees late in the first quarter of 2018 to make salaries more competitive in the current employment environment. Additionally, the Company experienced increases in bankcard expenses of \$0.6 million and other expenses of \$0.5 million.

INCOME TAXES

Selected information regarding the Company's income taxes is presented in the table below (dollars in millions):

| | For the year ended December 31, | | |
|--|---------------------------------|---------|---------|
| | 2019 | 2018 | 2017 |
| Income tax expense | \$ 24.1 | \$ 18.0 | \$ 36.4 |
| Effective tax rate | 21.3% | 20.5% | 40.2% |
| Recognition of previously unrecognized tax positions | 0.3 | 0.4 | 0.4 |
| Impact of TCJA | — | (0.2) | (7.9) |
| Effective tax rate, excluding above items | 21.6% | 20.7% | 32.7% |

A reconciliation of the effective tax rate to the statutory rate is included in [Note Fourteen](#) of the Notes to Consolidated Financial Statements. The Company's effective income tax rate for the year ended December 31, 2019 was 21.3%, compared to 20.5% and 40.2% for the years ended December 31, 2018 and 2017, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's net deferred tax assets decreased from \$17.3 million at December 31, 2018 to \$6.7 million at December 31, 2019.

The components of the Company's net deferred tax assets are disclosed in [Note Fourteen](#) of the Notes to Consolidated Financial Statements. Realization of the most significant net deferred tax assets is primarily dependent on future events taking place that will reverse the current deferred tax assets. The deferred tax asset and/or liability associated with unrealized securities losses and/or gains is the tax impact of the unrealized gains and/or losses on the Company's available-for-sale security portfolio. The impact of the Company's unrealized losses is noted in the Company's Consolidated Statements of Changes in Shareholders' Equity as an adjustment to Accumulated Other Comprehensive Income (Loss). This deferred tax asset would be realized if the unrealized securities losses on the Company's securities were realized from either the sales or maturities of the related securities. The deferred tax asset associated with the allowance for loan losses is expected to be realized as additional loan charge-offs, which have already been provided for within the Company's financial statements, are recognized for tax purposes. The Company believes that it is more likely than not that each of the deferred tax assets will be realized and that no significant valuation allowances were necessary as of December 31, 2019 or 2018.

LIQUIDITY

The Company evaluates the adequacy of liquidity at both the Parent Company level and at the banking subsidiary level. At the Parent Company level, the principal source of cash is dividends from its banking subsidiary, City National. Dividends paid by City National to the Parent Company are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At December 31, 2019, City National could pay dividends up to \$76.8 million without prior regulatory permission.

During 2019, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders and (2) fund repurchases of the Company's common shares. Additional information concerning sources and uses of cash by the Parent Company is discussed in Note Twenty-One of the Notes to Consolidated Financial Statements.

On January 29, 2020, the Board of Directors of the Company authorized repayment of its Subordinated Debentures assumed by the Company as part of its acquisition of Poage at a price of 100% of the principal amount. Town Square Statutory Trust I will repay its Capital Securities on March 16, 2020 at a price of 100%. These securities were issued in December 2006 and were callable in whole or in part any time after December 22, 2012. All regulatory approvals have been received by the Company to redeem these securities.

The Parent Company anticipates continuing the payment of dividends, which are expected to approximate \$37.2 million on an annualized basis for 2020 based on common shareholders of record at December 31, 2019 at a dividend rate of \$2.28 per share for 2020. However, dividends to shareholders can, if necessary, be suspended. In addition to these anticipated cash needs, the Parent Company has operating expenses and other contractual obligations, which are estimated to require \$1.4 million of additional cash over the next 12 months. As of December 31, 2019, the Parent Company reported a cash balance of \$26.2 million and management believes that the Parent Company's available cash balance, together with cash dividends from City National, will be adequate to satisfy its funding and cash needs over the next twelve months. Excluding the dividend payments discussed above, the Parent Company has no significant commitments or obligations in years after 2020.

City National manages its liquidity position in an effort to effectively and economically satisfy the funding needs of its customers and to accommodate the scheduled repayment of borrowings. Funds are available to City National from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the Federal Home Loan Bank ("FHLB") and other financial institutions. As of December 31, 2019, City National's assets are significantly funded by deposits and capital. City National maintains borrowing facilities with the FHLB and other financial institutions that can be accessed as necessary to fund operations and to provide contingency funding mechanisms. As of December 31, 2019, City National had the capacity to borrow an additional \$1.9 billion from the FHLB and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systemic financial industry crisis. Also, although it has no current intention to do so, City National could liquidate its unpledged securities, if necessary, to provide an additional funding source. City National also segregates certain mortgage loans, mortgage-backed securities, and other investment securities in a separate subsidiary so that it can separately monitor the asset quality of these primarily mortgage-related assets, which could be used to raise cash through securitization transactions or obtain additional equity or debt financing if necessary.

The Company manages its asset and liability mix to balance its desire to maximize net interest income against its desire to minimize risks associated with capitalization, interest rate volatility, and liquidity. With respect to liquidity, the Company has chosen a conservative posture and believes that its liquidity position is strong. As illustrated in the Consolidated Statements of Cash Flows, the Company generated \$98.6 million of cash from operating activities during 2019, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings.

The Company has obligations to extend credit, but these obligations are primarily associated with existing home equity loans that have predictable borrowing patterns across the portfolio. The Company has investment security balances with carrying values that totaled \$888 million at December 31, 2019, and that greatly exceeded the Company's non-deposit sources of borrowing, which totaled \$215 million.

The Company's net loan to asset ratio is 71.8% as of December 31, 2019 and deposit balances fund 81.2% of total assets as compared to 70.8% for its peers (Bank Holding Company Peer Group, as of the most recent data available of September 30, 2019, which includes commercial banks with assets ranging from \$3 billion to \$10 billion). Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 54.0% of the Company's total assets and the Company uses time deposits over \$250,000 to fund just 3.4% of total assets compared to its peers, which fund 12.0% of total assets with such deposits.

INVESTMENTS

The Company's investment portfolio increased \$75 million from \$813 million at December 31, 2018, to \$888 million at December 31, 2019.

The investment portfolio is structured to provide flexibility in managing liquidity needs and interest rate risk, while providing acceptable rates of return.

The majority of the Company's investment securities continue to be mortgage-backed securities. The mortgage-backed securities in which the Company has invested are predominantly underwritten to the standards of, and guaranteed by government-sponsored agencies such as Fannie Mae ("FNMA"), Freddie Mac ("FHLMC") and Ginnie Mae ("GNMA").

The Company's municipal bond portfolio of \$117 million as of December 31, 2019 has an average tax equivalent yield of 3.83% with an average maturity of 11.1 years. The average dollar amount invested in each security is \$0.6 million. The portfolio has 76% rated "A" or better and the remaining portfolio is unrated, as the issuances represented small issuances of revenue bonds. Additional credit support has been purchased by the issuer for 37% of the portfolio, while 62% has no additional credit support. Management re-underwrites 100% of the portfolio on an annual basis, using the same guidelines that are used to underwrite its commercial loans. Revenue bonds were 54% of the portfolio, while the remaining 46% were general obligation bonds. Geographically, the portfolio supports the Company's footprint, with 42% of the portfolio being from municipalities throughout West Virginia, and the remainder from communities in Colorado, Washington, Ohio and various other states.

TABLE FIVE INVESTMENT PORTFOLIO

The carrying value of the Company's securities are presented in the following table (in thousands):

| | Carrying Values as of December 31, | | |
|--|------------------------------------|-------------------|-------------------|
| | 2019 | 2018 | 2017 |
| Securities available-for-sale: | | | |
| Obligations of states and political subdivisions | \$ 117,187 | \$ 128,070 | \$ 96,196 |
| U.S. Treasuries and U.S. government agencies | 502 | 5,733 | 2 |
| Mortgage-backed securities: | | | |
| U.S. government agencies | 642,104 | 550,758 | 419,347 |
| Private label | 11,485 | 12,043 | 652 |
| Trust preferred securities | 4,461 | 4,799 | 4,736 |
| Corporate securities | 32,126 | 16,658 | 22,268 |
| Total Debt Securities available-for-sale | 807,865 | 718,061 | 543,201 |
| Marketable equity securities | — | — | 5,699 |
| Certificates of deposit | 2,241 | 3,735 | — |
| Investment funds | — | — | 1,489 |
| Total Securities Available-for-Sale | 810,106 | 721,796 | 550,389 |
| Securities held-to-maturity: | | | |
| Mortgage backed securities | 49,036 | 56,827 | 60,449 |
| Trust preferred securities | — | 4,000 | 4,000 |
| Total Securities Held-to-Maturity | 49,036 | 60,827 | 64,449 |
| Other investment securities: | | | |
| Marketable equity securities | 12,634 | 11,771 | — |
| Non-marketable equity securities | 15,856 | 18,497 | 14,147 |
| Total Other Investment Securities | 28,490 | 30,268 | 14,147 |
| Total Securities | \$ 887,632 | \$ 812,891 | \$ 628,985 |

The Company's mortgage-backed U.S. government agency securities consist of both residential and commercial securities, all of which are guaranteed by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), or Ginnie Mae ("GNMA"). Marketable equity securities consist of investments made by the Company in equity positions of various community banks. Non-marketable equity securities consist of Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") stock.

At December 31, 2019, there were no securities of any non-governmental issuers whose aggregate carrying or estimated fair value exceeded 10% of shareholders' equity.

The weighted average yield of the Company's investment portfolio is presented in the following table (dollars in thousands):

| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | |
|--|--------------------|--------------|------------------------------------|--------------|------------------------------------|--------------|--------------------|--------------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Securities available-for-sale: | | | | | | | | |
| Obligations of states and political subdivisions | \$ 1,559 | 3.65% | \$ 12,922 | 3.16% | \$ 29,545 | 3.30% | \$ 73,161 | 3.23% |
| U.S. Treasuries and U.S. government agencies | — | — | — | — | 502 | 3.37 | — | — |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies | 61 | 3.64 | 3,028 | 3.38 | 157,258 | 2.87 | 481,757 | 2.85 |
| Private label | — | — | — | — | — | — | 11,485 | 3.95 |
| Trust preferred securities | — | — | — | — | — | — | 4,461 | 3.68 |
| Corporate securities | — | — | 1,067 | 5.30 | 30,567 | 3.88 | 492 | 5.41 |
| Total Debt Securities available-for-sale | 1,620 | 3.65 | 17,017 | 3.33 | 217,872 | 3.07 | 571,356 | 2.93 |
| Certificates of deposit | 249 | 2.00 | 1,992 | 5.45 | — | — | — | — |
| Total Securities available-for-sale | 1,869 | 3.43 | 19,009 | 3.55 | 217,872 | 3.07 | 571,356 | 2.93 |
| Securities held-to-maturity: | | | | | | | | |
| Mortgage backed securities | — | — | — | — | 4,937 | 3.90 | 44,099 | 2.94 |
| Trust preferred securities | — | — | — | — | — | — | — | — |
| Total Securities Held-to-Maturity | — | — | — | — | 4,937 | 3.90 | 44,099 | 2.94 |
| Total Debt Securities | \$ 1,869 | 3.43% | \$ 19,009 | 3.55% | \$222,809 | 3.00% | \$615,455 | 2.93% |

Weighted-average yields on tax-exempt obligations of states and political subdivisions have been computed on a taxable-equivalent basis using the federal statutory tax rate of 21%. Average yields on investments available-for-sale are computed based on amortized cost. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

TABLE SIX LOAN PORTFOLIO

The composition of the Company's loan portfolio as of the dates indicated follows (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Residential real estate | \$ 1,640,396 | \$ 1,635,338 | \$ 1,468,278 | \$ 1,451,462 | \$ 1,383,133 |
| Home equity | 148,928 | 153,496 | 139,499 | 141,965 | 147,036 |
| Commercial and industrial | 308,015 | 286,314 | 208,484 | 185,667 | 165,340 |
| Commercial real estate | 1,459,737 | 1,454,942 | 1,277,576 | 1,229,516 | 1,127,581 |
| Consumer | 54,263 | 51,190 | 29,162 | 32,545 | 36,083 |
| DDA overdrafts | 4,760 | 6,328 | 4,411 | 5,071 | 3,361 |
| Gross loans | \$ 3,616,099 | \$ 3,587,608 | \$ 3,127,410 | \$ 3,046,226 | \$ 2,862,534 |
| \$ change from the preceding year | \$ 28,491 | \$ 460,198 | \$ 81,184 | \$ 183,692 | \$ 210,544 |
| % change from the preceding year | 0.8% | 14.7% | 2.7% | 6.4% | 7.9% |

Residential real estate loans increased \$5 million from December 31, 2018 to \$1.64 billion at December 31, 2019. Residential real estate loans include loans for the purchase or refinance of consumers' residence and first-priority home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family three- and five-year adjustable rate mortgages with terms that amortize up to 30 years. City National also offers fixed-rate residential real estate

loans that are sold in the secondary market; once sold these loans are not included on the Company's balance sheet and City National does not retain the servicing rights to these loans. Residential purchase real estate loans are generally underwritten to comply with Fannie Mae and Freddie Mac guidelines, while first priority home equity loans are underwritten with typically less documentation, lower loan-to-value ratios and shorter maturities. At December 31, 2019, \$29 million of the residential real estate loans were for properties under construction.

Home equity loans decreased \$5 million from December 31, 2018 to \$149 million at December 31, 2019. City National's home equity loans represent loans to consumers that are secured by a second (or junior) priority lien on a residential property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first priority lien. These loans include home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Second priority lien home equity loans are underwritten with less documentation than first priority lien residential real estate loans but typically have similar loan-to-value ratios and other terms as first priority lien residential real estate loans. The amount of credit extended is directly related to the value of the real estate securing the loan at the time the loan is made.

All mortgage loans, whether fixed rate or adjustable rate, are originated in accordance with acceptable industry standards and comply with regulatory requirements. Fixed rate mortgage loans are processed and underwritten in accordance with Fannie Mae and Freddie Mac guidelines, while adjustable rate mortgage loans are underwritten in accordance with City National's internal loan policy.

The commercial and industrial ("C&I") loan portfolio consists of loans to corporate and other legal entity borrowers, primarily small to mid-size industrial and commercial companies. C&I loans typically involve a higher level of risk than other loan types, including industry specific risks such as the pertinent economy, new technology, labor rates and cyclical, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. C&I loans increased \$22 million to \$308 million at December 31, 2019.

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as C&I loans, but have different collateral risk. Commercial real estate loans increased \$5 million to \$1.46 billion at December 31, 2019. At December 31, 2019, \$64 million of the commercial real estate loans were for commercial properties under construction.

The Company categorizes commercial loans by industry according to the North American Industry Classification System ("NAICS") to monitor the portfolio for possible concentrations in one or more industries. Management monitors industry concentrations against internally established risk-based capital thresholds. As of December 31, 2019, City National was within its internally designated concentration limits. As of December 31, 2019, City National's loans to borrowers within the Lessors of Nonresidential Buildings categories exceeded 10% of total loans (12%). No other NAICS industry classification exceeded 10% of total loans as of December 31, 2019. Management also monitors non-owner occupied commercial real estate as a percent of risk based capital (based upon regulatory guidance). At December 31, 2019, the Company had \$1.35 billion of commercial loans classified as non-owner occupied and was within its designated concentration threshold.

Consumer loans may be secured by automobiles, boats, recreational vehicles, certificates of deposit and other personal property or they may be unsecured. The Company manages the risk associated with consumer loans by monitoring such factors as portfolio size and growth, internal lending policies and pertinent economic conditions. City National's underwriting standards are continually evaluated and modified based upon these factors. Consumer loans increased \$3 million from 2018 to \$54 million at December 31, 2019.

The following table shows the scheduled maturity of loans outstanding as of December 31, 2019 (in thousands):

| | Within One Year | After One But Within Five Years | After Five Years | Total |
|-----------------------------|--------------------|---------------------------------------|---------------------|--------------|
| Residential real estate | \$ 174,674 | \$ 578,416 | \$ 887,306 | \$ 1,640,396 |
| Home equity | 18,213 | 55,542 | 75,173 | 148,928 |
| Commercial and industrial | 92,288 | 164,887 | 50,840 | 308,015 |
| Commercial real estate | 301,498 | 627,848 | 530,391 | 1,459,737 |
| Consumer and DDA overdrafts | 24,365 | 31,974 | 2,684 | 59,023 |
| Total loans | \$ 611,038 | \$ 1,458,667 | \$ 1,546,394 | \$ 3,616,099 |

Loans maturing after one year with interest rates that are:

| | |
|------------------------|--------------|
| Fixed until maturity | \$ 399,534 |
| Variable or adjustable | 2,605,527 |
| Total | \$ 3,005,061 |

ALLOWANCE AND PROVISION FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the appropriateness of the allowance for loan losses ("ALLL") on a quarterly basis to provide for probable losses incurred in the portfolio. Management assesses the risk in each loan type based on historical delinquency and loss trends, the general economic environment of its local markets, individual loan performance, and other relevant factors. Individual credits in excess of \$1 million are selected at least annually for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the appropriateness of the allowance. Due to the nature of commercial lending, evaluation of the appropriateness of the allowance as it relates to these loan types is often based more upon specific credit review, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for general economic conditions and other inherent risk factors. Conversely, due to the homogeneous nature of the real estate and installment portfolios, the portions of the allowance allocated to those portfolios are primarily based on prior loss history of each portfolio, adjusted for general economic conditions and other inherent risk factors. Risk factors considered by the Company in completing this analysis include: (1) unemployment and economic trends in the Company's markets, (2) concentrations of credit, if any, among any industries, (3) trends in loan growth, loan mix, delinquencies, losses or credit impairment, and (4) adherence to lending policies and others. Each risk factor is designated as low, moderate/increasing, or high based on the Company's assessment of the risk to loss associated with each factor. Each risk factor is then weighted to consider probability of occurrence.

The allowance not specifically allocated to individual credits is generally determined by analyzing potential exposure and other qualitative factors that could negatively impact the overall credit risk of the loan portfolio. Loans not individually evaluated for impairment are grouped by pools with similar risk characteristics and the related historical loss rates are adjusted to reflect current inherent risk factors, such as unemployment, overall economic conditions, concentrations of credit, loan growth, classified and impaired loan trends, staffing, adherence to lending policies, and loss trends.

Determination of the allowance for loan losses is subjective in nature and requires management to periodically reassess the validity of its assumptions. Differences between actual losses and estimated losses are assessed such that management can timely modify its assumptions model to ensure that adequate provision has been made for risk in the total loan portfolio.

The Company's (recovery of) provision for loan losses for the past three years are shown in the table below (in thousands):

| | For the year ended December 31, | | |
|---|---------------------------------|------------|----------|
| | 2019 | 2018 | 2017 |
| (Recovery of) provision for loan losses | \$ (1,250) | \$ (2,310) | \$ 3,006 |

The recovery of loan loss provision during 2019 reflects a general improvement in the Company's historical loss rates used to compute the allowance not specifically allocated to individual credits as charge offs have declined over the periods encompassed in the Company's historical loss review. In addition, the Company recovered significant amounts on loans previously charged off, including a \$0.5 million recovery from a loan that had previously been charged off during 2014.

During the year ended December 31, 2018, the Company liquidated repossessed assets associated with the Kentucky Fuels Corporate credit. As a result of the proceeds from this liquidation, the Company recovered \$1.3 million related to this credit. Additionally, as a result of this recovery, the historical loss rate used to compute the allowance not specifically allocated to individual credits in the Company's commercial and industrial mining and energy sector (per the North American Industry Classification system ("NAICS")) improved and an additional release of reserve of \$1.7 million was recognized during the year ended December 31, 2018. The company also received a \$0.4 million recovery through a settlement from a commercial customer during the quarter ended December 31, 2018.

The provision for loan losses recorded in 2017 reflected the revisions to the regulatory rating of a previously classified shared national credit ("SNC") in which the Company is a participant, changes in the quality of the portfolio and general improvement in the Company's historical loss rates used to compute the allowance not specifically allocated to individual credits. This credit was for a local customer that outgrew the lending limit of the Company and involves three local banks. The reserve recorded in 2017 of \$1.1 million related to this credit reflects the loss factors associated with the rating assigned to this credit as a result of the current year review by the Office of the Comptroller of the Currency ("OCC").

Changes in the amount of the allowance and related provision are based on the Company's detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company's loan portfolio. The Company believes its methodology for determining the adequacy of its ALLL adequately provides for probable losses inherent in the loan portfolio and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

The Company's net charge-offs for the past three years are shown in the table below (in thousands):

| | For the year ended December 31, | | |
|-----------------|---------------------------------|--------|----------|
| | 2019 | 2018 | 2017 |
| Net charge-offs | \$ 3,127 | \$ 560 | \$ 3,900 |

Net charge-offs in 2019 consisted primarily of net charge-offs on DDA overdraft loans of \$1.3 million, consumer loans of \$0.9 million, commercial real estate loans of \$0.7 million, and residential real estate loans of \$0.4 million, that were partially offset by net recoveries on commercial and industrial loans of \$0.5 million. Net charge-offs in 2018 consisted primarily of net charge-offs on DDA overdraft loans of \$1.2 million and consumer loans of \$0.6 million that were partially offset by net recoveries on commercial and industrial loans of \$1.4 million and commercial real estate loans of \$0.4 million. Net charge-offs in 2017 consisted primarily of net charge-offs on residential real estate loans of \$1.3 million, DDA overdraft loans of \$1.3 million and commercial real estate loans of \$0.6 million.

Based on the Company's analysis of the appropriateness of the allowance for loan losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for loan losses as of December 31, 2019 is adequate to provide for probable incurred losses inherent in the Company's loan portfolio. Future provisions for loan losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

TABLE SEVEN
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

An analysis of changes in the Company's allowance for loan losses follows (dollars in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance at beginning of period | \$ 15,966 | \$ 18,836 | \$ 19,730 | \$ 19,251 | \$ 20,074 |
| Charge-offs: | | | | | |
| Commercial and industrial | (261) | (733) | (400) | (148) | (5,768) |
| Commercial real estate | (1,358) | (369) | (720) | (1,676) | (580) |
| Residential real estate | (787) | (682) | (1,637) | (1,734) | (1,144) |
| Home equity | (294) | (219) | (403) | (390) | (312) |
| Consumer | (1,177) | (769) | (60) | (126) | (210) |
| DDA overdrafts | (2,777) | (2,701) | (2,714) | (1,412) | (1,414) |
| Total charge-offs | (6,654) | (5,473) | (5,934) | (5,486) | (9,428) |
| Recoveries: | | | | | |
| Commercial and industrial | 764 | 2,152 | 58 | 14 | 74 |
| Commercial real estate | 624 | 732 | 112 | 487 | 366 |
| Residential real estate | 369 | 367 | 294 | 187 | 199 |
| Home equity | — | — | 45 | — | — |
| Consumer | 265 | 166 | 63 | 118 | 186 |
| DDA overdrafts | 1,505 | 1,496 | 1,462 | 764 | 792 |
| Total recoveries | 3,527 | 4,913 | 2,034 | 1,570 | 1,617 |
| Net charge-offs | (3,127) | (560) | (3,900) | (3,916) | (7,811) |
| (Recovery of) provision for loan losses | (1,250) | (2,310) | 3,006 | 4,395 | 6,988 |
| Balance at end of period | \$ 11,589 | \$ 15,966 | \$ 18,836 | \$ 19,730 | \$ 19,251 |
| As a Percent of Average Total Loans: | | | | | |
| Net charge-offs | 0.09 % | 0.02 % | 0.13% | 0.13% | 0.29% |
| (Recovery of) provision for loan losses | (0.04)% | (0.07)% | 0.10% | 0.15% | 0.26% |
| As a Percent of Non-Performing Loans: | | | | | |
| Allowance for loan losses | 98.57 % | 107.82 % | 178.39% | 140.10% | 110.37% |

Credit Losses

As a result of adopting ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," the Company expects the increase in its allowance effective January 1, 2020, to be in the range of \$2.3 million to \$4.1 million. In addition, the adoption of ASU No. 2016-13 will require the Company to gross up its previously purchased credit impaired loans through the allowance at January 1, 2020. As a result, the Company expects an increase in its allowance and loan balances as of January 1, 2020, to be in the range of \$2.2 million to \$3.2 million. These estimates are subject to further refinements based on ongoing evaluations of our model, methodologies, and judgments, as well as prevailing economic conditions and forecasts as of the adoption date.

TABLE EIGHT
NON-ACCRUAL AND PAST-DUE LOANS

The Company's nonperforming assets and past-due loans were as follows (dollars in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Non-accrual loans | \$ 11,490 | \$ 14,551 | \$ 10,297 | \$ 13,701 | \$ 16,948 |
| Accruing loans past due 90 days or more | 267 | 257 | 262 | 382 | 495 |
| Total non-performing loans | \$ 11,757 | \$ 14,808 | \$ 10,559 | \$ 14,083 | \$ 17,443 |
| Other real estate owned ("OREO") | 4,670 | 4,608 | 3,585 | 4,588 | 6,519 |
| Total non-performing assets | \$ 16,427 | \$ 19,416 | \$ 14,144 | \$ 18,671 | \$ 23,962 |
| As a Percentage of Total Loans and OREO | | | | | |
| Non-performing assets | 0.45% | 0.54% | 0.45% | 0.61% | 0.84% |
| Past-due loans | \$ 11,396 | \$ 13,131 | \$ 10,963 | \$ 8,594 | \$ 9,164 |
| As a Percentage of Total Loans | | | | | |
| Past-due loans | 0.32% | 0.37% | 0.35% | 0.28% | 0.32% |

The Company's ratio of non-performing assets to total loans and other real estate owned decreased from 0.54% at December 31, 2018 to 0.45% at December 31, 2019. Excluded from this ratio are purchased credit-impaired ("PCI") loans in which the Company estimated cash flows and estimated a credit mark. Such loans would be considered nonperforming loans if the loan's performance deteriorates below the Company's initial expectation. Total past due loans decreased from \$13.1 million, or 0.37% of total loans outstanding, at December 31, 2018 to \$11.4 million, or 0.32% of total loans outstanding, at December 31, 2019.

TABLE NINE
IMPAIRED LOANS

Information pertaining to the Company's impaired loans is included in the following table (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------|-----------|----------|----------|----------|
| Impaired loans with a valuation allowance | \$ 2,644 | \$ 2,985 | \$ 5,782 | \$ 2,832 | \$ — |
| Impaired loans with no valuation allowance | 4,047 | 7,521 | 3,885 | 4,749 | 8,482 |
| Total impaired loans | \$ 6,691 | \$ 10,506 | \$ 9,667 | \$ 7,581 | \$ 8,482 |
| Allowance for loan losses allocated to impaired loans | \$ 87 | \$ 428 | \$ 647 | \$ 665 | \$ — |
| Interest income forgone on non-accrual and impaired loans | \$ 200 | \$ 200 | \$ 200 | \$ 400 | \$ 800 |

Impaired loans with a valuation allowance at the end of 2019 were comprised of one commercial borrowing relationship that was evaluated during 2017 and determined that an allowance was necessary, as the present value of expected cash flows was less than the outstanding amount of the loan.

There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at December 31, 2019 and 2018.

**TABLE TEN
RESTRUCTURED LOANS**

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-02, whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

Regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged by the bankruptcy court and the borrower has not reaffirmed the debt. The filing of bankruptcy is deemed to be evidence that the borrower is in financial difficulty and the discharge of the debt by the bankruptcy court is deemed to be a concession granted to the borrower.

The following table sets forth the Company's TDRs (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Commercial and industrial | \$ — | \$ 98 | \$ 135 | \$ 42 | \$ 58 |
| Commercial real estate | 4,973 | 8,205 | 8,381 | 5,525 | 1,746 |
| Residential real estate | 21,029 | 23,521 | 21,089 | 20,815 | 17,987 |
| Home equity | 3,628 | 3,030 | 3,097 | 3,135 | 2,693 |
| Consumer | — | — | — | — | — |
| Total TDRs | \$ 29,630 | \$ 34,854 | \$ 32,702 | \$ 29,517 | \$ 22,484 |

The Company's troubled debt restructurings ("TDRs") related to its borrowers who had filed for Chapter 7 bankruptcy protection made up 81% of the Company's total TDRs as of December 31, 2019. The average age of these TDRs was 12.6 years; the average current balance as a percentage of the original balance was 68.5%; and the average loan-to-value ratio was 64.2% as of December 31, 2019. Of the total 452 Chapter 7 related TDRs, 29 had an estimated loss exposure based on the current balance and appraised value at December 31, 2019.

**TABLE ELEVEN
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES**

The allocation of the allowance for loan losses by portfolio segment and the percent of loans in each category to total loans is shown in the table below (dollars in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments.

| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|----------------------------------|------------------|--|------------------|--|------------------|--|------------------|--|------------------|--|
| | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans |
| Commercial and industrial | \$ 2,059 | 9% | \$ 4,060 | 8% | \$ 4,571 | 7% | \$ 4,206 | 6% | \$ 3,271 | 6% |
| Commercial real estate | 2,606 | 40 | 4,495 | 41 | 6,183 | 41 | 6,573 | 40 | 6,985 | 39 |
| Residential real estate | 3,448 | 45 | 4,116 | 46 | 5,212 | 47 | 6,680 | 48 | 6,778 | 48 |
| Home equity | 1,187 | 4 | 1,268 | 4 | 1,138 | 4 | 1,417 | 5 | 1,463 | 5 |
| Consumer | 975 | 2 | 319 | 1 | 62 | 1 | 82 | 1 | 97 | 2 |
| DDA overdrafts | 1,314 | — | 1,708 | — | 1,670 | — | 772 | — | 657 | — |
| Allowance for Loan Losses | \$ 11,589 | 100% | \$ 15,966 | 100% | \$ 18,836 | 100% | \$ 19,730 | 100% | \$ 19,251 | 100% |

The allowance attributed to the commercial and industrial loan portfolio decreased \$2.0 million from \$4.1 million at December 31, 2018 to \$2.1 million at December 31, 2019. This decrease is primarily attributable to an improvement in the overall average historical loss rate.

The allowance attributed to the commercial real estate loan portfolio decreased \$1.9 million from \$4.5 million at December 31, 2018 to \$2.6 million at December 31, 2019. This decrease is primarily attributable to improvements in the historical loss rates in the portfolio.

The allowance attributed to the residential real estate portfolio decreased \$0.7 million from \$4.1 million at December 31, 2018 to \$3.4 million at December 31, 2019. The decrease is primarily attributable to improvements in the historical loss rates in the portfolio.

The allowance attributed to the consumer loan portfolio increased \$0.7 million from \$0.3 million at December 31, 2018 to \$1.0 million at December 31, 2019. The increase is primarily attributable to an increase in historical loss rates, as well as an increase in loan balances.

GOODWILL

The Company evaluates the recoverability of goodwill and indefinite lived intangible assets annually as of November 30th, or more frequently if events or changes in circumstances warrant, such as a material adverse change in the Company's business. Goodwill is considered to be impaired when the carrying value of a reporting unit exceeds its estimated fair value. Indefinite-lived intangible assets are considered impaired if their carrying value exceeds their estimated fair value. As described in [Note One](#) of the Notes to Consolidated Financial Statements, the Company conducts its business activities through one reportable business segment – community banking. Fair values are estimated by reviewing the Company's stock price as it compares to book value and the Company's reported earnings. In addition, the impact of future earnings and activities are considered in the Company's analysis. The Company had approximately \$109 million and \$110 million of goodwill at December 31, 2019 and 2018, respectively, and no impairment was required to be recognized in 2019 or 2018, as the estimated fair value of the Company has continued to exceed its book value.

CERTIFICATES OF DEPOSIT

Scheduled maturities of time certificates of deposit of \$100,000 or more at December 31, 2019 are summarized in the table below (in thousands). The Company has time certificates of deposit that meet or exceed the FDIC insurance limit of \$250,000 totaling \$184.4 million (approximately 14% of total time deposits).

TABLE TWELVE
MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT OF \$100,000 OR MORE

| | Amounts | Percentage |
|---------------------------------------|-------------------|-------------|
| Three months or less | \$ 148,367 | 23% |
| Over three months through six months | 114,061 | 18 |
| Over six months through twelve months | 147,078 | 23 |
| Over twelve months | 227,671 | 36 |
| Total | \$ 637,177 | 100% |

FAIR VALUE MEASUREMENTS

The Company determines the fair value of its financial instruments based on the fair value hierarchy established in ASC Topic 820, whereby the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC Topic 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The hierarchy classification is based on whether the inputs in the methodology for determining fair value are observable or unobservable. Observable inputs reflect market-based information obtained from independent sources (Level 1 or Level 2), while unobservable inputs reflect management's estimate of market data (Level 3). Assets and liabilities that are actively traded and have quoted prices or observable market data require a minimal amount of subjectivity concerning fair value. Management's judgment is necessary to estimate fair value when quoted prices or observable market data are not available.

At December 31, 2019, approximately 17% of total assets, or \$842 million, consisted of financial instruments recorded at fair value. Most of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. At December 31, 2019, approximately \$19 million of derivative liabilities were recorded at fair value using methodologies involving observable market data. The Company does not believe that any changes in the unobservable inputs used to value the financial instruments mentioned above would have a material impact on the Company's results of operations, liquidity, or capital resources. See [Note Twenty](#) of the Notes to Consolidated Financial Statements for additional information regarding ASC Topic 820 and its impact on the Company's financial statements.

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations that may require future cash payments according to the terms of the obligations. Demand, both noninterest- and interest-bearing, and savings deposits are, generally, payable immediately upon demand at the request of the customer. Therefore, the contractual maturity of these obligations is presented in the following table as "less than one year." Time deposits, typically certificates of deposit, are customer deposits that are evidenced by an agreement between the Company and the customer that specify stated maturity dates; early withdrawals by the customer are subject to penalties assessed by the Company. Short-term borrowings and long-term debt represent borrowings of the Company and have stated maturity dates. Operating leases between the Company and the lessor have stated expiration dates and renewal terms.

TABLE THIRTEEN

CONTRACTUAL OBLIGATIONS

The composition of the Company's contractual obligations as of December 31, 2019 is presented in the following table (in thousands):

| | Contractual Maturity in | | | | |
|---|-------------------------|-----------------------------|------------------------------|-------------------------|---------------------|
| | Less than One Year | Between One and Three Years | Between Three and Five Years | Greater than Five Years | Total |
| Noninterest-bearing demand deposits | \$ 805,087 | \$ — | \$ — | \$ — | \$ 805,087 |
| Interest-bearing demand deposits ⁽¹⁾ | 896,500 | — | — | — | 896,500 |
| Savings deposits ⁽¹⁾ | 1,009,797 | — | — | — | 1,009,797 |
| Time deposits ⁽¹⁾ | 871,539 | 462,191 | 48,372 | 479 | 1,382,581 |
| Short-term borrowings ⁽¹⁾ | 213,721 | — | — | — | 213,721 |
| Long-term debt ⁽¹⁾⁽²⁾ | 152 | 304 | 304 | 5,880 | 6,640 |
| Real estate leases | 1,043 | 1,485 | 999 | 2,058 | 5,585 |
| Total Contractual Obligations | \$ 3,797,839 | \$ 463,980 | \$ 49,675 | \$ 8,417 | \$ 4,319,911 |

- (1) Includes interest on both fixed- and variable-rate obligations. The interest associated with variable-rate obligations is based upon interest rates in effect at December 31, 2019. The contractual amounts to be paid on variable-rate obligations are affected by market interest rates that could materially affect the contractual amounts to be paid.
- (2) On January 29, 2020, the Board of Directors of the Company authorized repayment of its Subordinated Debentures. All regulatory approvals have been received by the Company and the Company anticipates the repayment to be completed during the first quarter of 2020.

The Company's liability for uncertain tax positions at December 31, 2019 was \$1.8 million pursuant to ASC Topic 740. This liability represents an estimate of tax positions that the Company has taken in its tax returns that may ultimately not be sustained upon examination by tax authorities. As the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable reliability, this estimated liability has been excluded from the contractual obligations table.

OFF-BALANCE SHEET ARRANGEMENTS

As disclosed in [Note Seventeen](#) of the Notes to Consolidated Financial Statements, the Company has also entered into agreements with its customers to extend credit or to provide conditional commitments to provide payment on drafts presented in accordance with the terms of the underlying credit documents (including standby and commercial letters of credit). The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. As a result of the Company's off-balance sheet arrangements for 2019 and 2018, no material revenue, expenses, or cash flows were recognized. In addition, the Company had no other indebtedness or retained interests nor entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit.

CAPITAL RESOURCES

During 2019, Shareholders' Equity increased \$57 million, or 9.5%, from \$601 million at December 31, 2018 to \$658 million at December 31, 2019. This increase was primarily due to net income of \$89 million and other comprehensive income of \$20 million, partially offset by cash dividends declared of \$36 million and common share repurchases of \$19 million.

On September 24, 2014, the Company announced that the Board of Directors authorized the Company to buy back up to 1,000,000 shares of its common shares (approximately 7% of outstanding shares at the time) in open market transactions at prices that are accretive to the earnings per share of continuing shareholders. On February 27, 2019, the Company announced that the Board of Directors rescinded the 2014 plan and authorized the Company to buy back up to 1,000,000 shares of its common stock (approximately 6% of the outstanding shares), in open market transactions, at prices that are accretive to continuing shareholders. No timetable was placed on the duration of this share repurchase program. During the year ended December 31, 2019, the Company repurchased approximately 261,000 common shares at a weighted average price of \$74.54. At December 31, 2019, the Company could repurchase approximately 739,000 shares under the current plan.

As of January 1, 2019, the Basel III Capital Rules require City Holding and City National to maintain minimum CET 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios (which are shown in the table below). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have any current applicability to City Holding Company or City National Bank.

The Company’s regulatory capital ratios for both City Holding and City National are illustrated in the following tables (in thousands):

| | Actual | | Minimum Required - Basel III | | Required to be Considered Well Capitalized | |
|--------------------------|----------------|-------|------------------------------|-------|--|-------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| December 31, 2019 | | | | | | |
| CET 1 Capital | | | | | | |
| City Holding Company | \$ 532,640 | 16.0% | \$ 232,358 | 7.0% | \$ 215,761 | 6.5% |
| City National Bank | 459,006 | 13.9% | 230,808 | 7.0% | 214,322 | 6.5% |
| Tier 1 Capital | | | | | | |
| City Holding Company | 536,640 | 16.2% | 282,150 | 8.5% | 265,552 | 8.0% |
| City National Bank | 459,006 | 13.9% | 280,267 | 8.5% | 263,781 | 8.0% |
| Total Capital | | | | | | |
| City Holding Company | 548,291 | 16.5% | 348,538 | 10.5% | 331,941 | 10.0% |
| City National Bank | 470,656 | 14.3% | 346,213 | 10.5% | 329,726 | 10.0% |
| Tier 1 Leverage Ratio | | | | | | |
| City Holding Company | 536,640 | 11.0% | 195,558 | 4.0% | 244,448 | 5.0% |
| City National Bank | 459,006 | 9.5% | 193,074 | 4.0% | 241,342 | 5.0% |

| | Actual | | Minimum Required - Basel III Phase-In Schedule | | Minimum Required - Basel III Fully Phased-In (*) | | Required to be Considered Well Capitalized | |
|---------------------------|----------------|-------|--|--------|--|-------|--|-------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| December 31, 2018: | | | | | | | | |
| CET 1 Capital | | | | | | | | |
| City Holding Company | \$ 492,526 | 15.1% | \$ 208,294 | 6.375% | \$ 228,715 | 7.0% | \$ 212,378 | 6.5% |
| City National Bank | 423,099 | 13.1% | 206,676 | 6.375% | 226,938 | 7.0% | 210,728 | 6.5% |
| Tier 1 Capital | | | | | | | | |
| City Holding Company | 496,526 | 15.2% | 257,304 | 7.875% | 277,725 | 8.5% | 261,389 | 8.0% |
| City National Bank | 423,099 | 13.1% | 255,306 | 7.875% | 275,568 | 8.5% | 259,358 | 8.0% |
| Total Capital | | | | | | | | |
| City Holding Company | 512,801 | 15.7% | 322,651 | 9.875% | 343,072 | 10.5% | 326,736 | 10.0% |
| City National Bank | 439,374 | 13.6% | 320,145 | 9.875% | 340,408 | 10.5% | 324,198 | 10.0% |
| Tier 1 Leverage Ratio | | | | | | | | |
| City Holding Company | 496,526 | 11.4% | 174,833 | 4.000% | 174,833 | 4.0% | 218,542 | 5.0% |
| City National Bank | 423,099 | 9.8% | 172,594 | 4.000% | 172,594 | 4.0% | 215,742 | 5.0% |

(*) Represents the minimum required capital levels as of January 1, 2019 when Basel III Capital Rules have been fully phased in.

As of December 31, 2019, management believes that City Holding Company, and its banking subsidiary, City National, were “well capitalized.” City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National is subject to regulatory capital requirements administered by the OCC and the FDIC. Regulatory agencies can initiate certain mandatory actions if either City Holding or City National fails to meet the minimum capital requirements, as shown above. As of December 31, 2019, management believes that City Holding and City National meet all capital adequacy requirements.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Regulatory Relief Act”) went into effect. The Regulatory Relief Act provides for a simplification of the minimum capital level requirements applicable to the Company. The FDIC issued its final rules regarding this change on September 17, 2019. Beginning on March 31, 2020, the Company will have the option of using a single community bank leverage ratio (Tier 1 capital to average consolidated assets) requirement of over nine percent to qualify as “well-capitalized.” This new framework will replace the Basel III Capital Rules applicable to the Company. As of December 31, 2019, the Company would have satisfied the community bank leverage ratio requirement had it been in effect.

LEGAL ISSUES

The Company is engaged in various legal actions that it deems to be in the ordinary course of business. As these legal actions are resolved, the Company could realize impacts to its financial performance in the period in which these legal actions are ultimately decided. There can be no assurance that current actions will have immaterial results, or that no material actions may be presented in the future.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note Two, “Recent Accounting Pronouncements,” of the Notes to Consolidated Financial Statements discusses recently issued new accounting pronouncements and their expected impact on the Company’s consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss due to adverse changes in current and future cash flows, fair values, earnings or capital due to adverse movements in interest rates and other factors, including foreign exchange rates, underlying credit risk and commodity prices. Because the Company has no significant foreign exchange activities and holds no commodities, interest rate risk represents the primary risk factor affecting the Company's balance sheet and net interest margin. Significant changes in interest rates by the Federal Reserve could result in similar changes in LIBOR interest rates, prime rates, and other benchmark interest rates that could materially affect the estimated fair value of the Company's investment securities portfolio, interest paid on the Company's short-term and long-term borrowings, interest earned on the Company's loan portfolio and interest paid on its deposit accounts. The Company utilizes derivative instruments, primarily interest rate swaps, to help manage its interest rate risk on commercial loans.

The Company's Asset and Liability Committee ("ALCO") has been delegated the responsibility of managing the Company's interest-sensitive balance sheet accounts to maximize earnings while managing interest rate risk. ALCO, comprised of various members of executive and senior management, is also responsible for establishing policies to monitor and limit the Company's exposure to interest rate risk and to manage the Company's liquidity position. ALCO satisfies its responsibilities through quarterly meetings during which product pricing issues, liquidity measures and interest sensitivity positions are monitored.

In order to measure and manage its interest rate risk, the Company uses an asset/liability management simulation software model to periodically update the interest sensitivity position of the Company's balance sheet. The model is also used to perform analyses that measure the impact on net interest income and capital as a result of various changes in the interest rate environment. Such analyses quantify the effects of various interest rate scenarios on projected net interest income.

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase of 300 points or decrease of 200 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity.

The following table summarizes the sensitivity of the Company's net income to various interest rate scenarios. The results of the sensitivity analyses presented below differ from the results used internally by ALCO in that, in the analyses below, interest rates are assumed to have an immediate and sustained parallel shock. The Company recognizes that rates are volatile, but rarely move with immediate and parallel effects. Internally, the Company considers a variety of interest rate scenarios that are deemed to be possible while considering the level of risk it is willing to assume in "worst-case" scenarios such as shown by the following:

| Immediate Basis Point Change in Interest Rates | Implied Federal Funds Rate Associated with Change in Interest Rates | Estimated Increase (Decrease) in Net Income Over 12 Months |
|--|---|--|
| December 31, 2019 | | |
| +300 | 4.75% | +3.8% |
| +200 | 3.75 | +4.8 |
| +100 | 2.75 | +3.7 |
| -50 | 1.25 | -3.9 |
| -100 | 0.75 | -10.0 |
| December 31, 2018 | | |
| +300 | 5.50 % | +1.6 % |
| +200 | 4.50 | +2.6 |
| +100 | 3.50 | +2.8 |
| -50 | 2.00 | -3.1 |
| -100 | 1.50 | -6.9 |
| -200 | 0.50 | -16.3 |

These estimates are highly dependent upon assumptions made by management, including, but not limited to, assumptions regarding the manner in which interest-bearing demand deposit and savings deposit accounts reprice in different interest rate scenarios, changes in the composition of deposit balances, pricing behavior of competitors, prepayments of loans and deposits under alternative rate environments, and new business volumes and pricing. As a result, there can be no assurance that the

estimates above will be achieved in the event that interest rates increase or decrease during 2020 and beyond. The estimates above do not necessarily imply that the Company will experience increases in net income if market interest rates rise. The table above indicates how the Company's net income and the economic value of equity behave relative to an increase or decrease in rates compared to what would otherwise occur if rates remain stable.

Based upon the estimates above, the Company believes that its net income is positively correlated with increasing rates as compared to the level of net income the Company would expect if interest rates remain flat or decrease.

REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of City Holding Company is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements of City Holding Company have been prepared in accordance with U.S. generally accepted accounting principles and necessarily include some amounts that are based on the best estimates and judgments of management.

The management of City Holding Company is responsible for establishing and maintaining adequate internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. generally accepted accounting principles. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audits with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 Framework). Based on our assessment, management believes that, as of December 31, 2019, the Company's system of internal control over financial reporting is effective based on those criteria. Crowe LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting. This report appears on page 51.

February 27, 2020

/s/ Charles R. Hageboeck
 Charles R. Hageboeck
 President & Chief Executive Officer
 Principal Executive Officer

/s/ David L. Bumgarner
 David L. Bumgarner
 Chief Financial Officer
 Principal Financial Officer

Shareholders and the Board of Directors
 of City Holding Company and Subsidiaries
 Charleston, West Virginia

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of City Holding Company and Subsidiaries (the "Company") as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses - Qualitative Factors

As more fully described in Note 1 and Note 7 to the consolidated financial statements, the Company's allowance for loan losses represents management's best estimate of probable incurred losses in the loan portfolio.

A quantitative and qualitative analysis is performed in determination of the general reserve portion of the allowance for loan losses. Historical loss experience is adjusted using a systematic weighted probability of potential risk factors that could result in actual losses deviating from prior loss experience. Risk factors considered by the Company in completing this analysis include: (1) unemployment and economic trends in the Company's markets, (2) concentrations of credit, if any, among any industries, (3) trends in loan growth, loan mix, delinquencies, losses or credit impairment, (4) adherence to lending policies and others. Each risk factor is designated as low, moderate/increasing, or high based on the Company's assessment of the risk of loss associated with each factor. Each risk factor is then weighted to consider inherent risk in the portfolio.

The principal consideration for our determination that auditing the allowance for loan losses risk factors applied to adjust historical loss experience (qualitative factors) is a critical audit matter is the high degree of subjectivity involved in management's assessment of the risk of loss associated with each risk factor, and the determination of weightings applied to each risk factor.

Our audit procedures related to the allowance loan losses qualitative factors included the following procedures to address the critical audit matter.

- We tested management review controls over the reasonableness of the qualitative factors and the underlying documentation used in the review.
- We tested management's control over the mathematical application of the qualitative factors to adjust the historical loss experience.
- We substantively tested management's qualitative factors by evaluating the reliability of the underlying objective data used to derive the qualitative factors. Based on the underlying data, we evaluated the reasonableness of management's designation of the risk factor as low, moderate/increasing or high and the resulting adjustment to the historical loss experience. We also evaluated the reasonableness of weightings applied to each risk factor.
- We substantively tested the accuracy of the mathematical application of the qualitative factors to adjust the historical loss experience.
- We performed analytical review procedures to determine if the overall result was consistent with trends in the loan portfolio and economic conditions.

/s/ Crowe LLP

We have served as the Company's auditor since 2019.

Louisville, Kentucky

February 27, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors of City Holding Company and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of City Holding Company and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company's auditor from 1982 to 2019.

Charleston, West Virginia

March 11, 2019

FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands)

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 88,658 | \$ 55,016 |
| Interest-bearing deposits in depository institutions | 51,486 | 67,975 |
| Cash and Cash Equivalents | 140,144 | 122,991 |
| Investment securities available for sale, at fair value | 810,106 | 721,796 |
| Investment securities held-to-maturity, at amortized cost (approximate fair value at December 31, 2019 and 2018 - \$50,598 and \$60,706, respectively) | 49,036 | 60,827 |
| Other securities | 28,490 | 30,268 |
| Total Investment Securities | 887,632 | 812,891 |
| Gross loans | 3,616,099 | 3,587,608 |
| Allowance for loan losses | (11,589) | (15,966) |
| Net Loans | 3,604,510 | 3,571,642 |
| Bank owned life insurance | 115,261 | 113,544 |
| Premises and equipment, net | 76,965 | 78,383 |
| Accrued interest receivable | 11,569 | 12,424 |
| Deferred tax assets, net | 6,669 | 17,338 |
| Goodwill and other intangible assets, net | 120,241 | 122,848 |
| Other assets | 55,765 | 46,951 |
| Total Assets | \$ 5,018,756 | \$ 4,899,012 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 805,087 | \$ 789,119 |
| Interest-bearing: | | |
| Demand deposits | 896,465 | 899,568 |
| Savings deposits | 1,009,771 | 934,218 |
| Time deposits | 1,364,571 | 1,352,654 |
| Total Deposits | 4,075,894 | 3,975,559 |
| Short-term borrowings: | | |
| Federal Home Loan Bank advances | — | 40,000 |
| Securities sold under agreements to repurchase | 211,255 | 221,911 |
| Long-term debt | 4,056 | 4,053 |
| Other liabilities | 69,568 | 56,725 |
| Total Liabilities | 4,360,773 | 4,298,248 |
| 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; 19,047,548 shares issued at December 31, 2019 and 2018, less 2,744,109 and 2,492,403 shares in treasury, respectively | 47,619 | 47,619 |
| Capital surplus | 170,309 | 169,555 |
| Retained earnings | 539,253 | 485,967 |
| Cost of common stock in treasury | (105,038) | (87,895) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized gain (loss) on securities available-for-sale | 12,110 | (8,611) |
| Underfunded pension liability | (6,270) | (5,871) |
| Total Accumulated Other Comprehensive Income (Loss) | 5,840 | (14,482) |
| Total Shareholders' Equity | 657,983 | 600,764 |
| Total Liabilities and Shareholders' Equity | \$ 5,018,756 | \$ 4,899,012 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands, except earnings per share data)

| | Year Ended December 31 | | |
|--|------------------------|----------------|----------------|
| | 2019 | 2018 | 2017 |
| Interest Income | | | |
| Interest and fees on loans | \$ 170,012 | \$ 142,055 | \$ 125,752 |
| Interest on investment securities: | | | |
| Taxable | 23,389 | 17,337 | 14,387 |
| Tax-exempt | 2,967 | 2,843 | 2,706 |
| Interest on deposits in depository institutions | 1,332 | 1,666 | 85 |
| Total Interest Income | 197,700 | 163,901 | 142,930 |
| Interest Expense | | | |
| Interest on deposits | 32,666 | 21,397 | 14,826 |
| Interest on short-term borrowings | 3,491 | 3,415 | 1,214 |
| Interest on long-term debt | 182 | 880 | 765 |
| Total Interest Expense | 36,339 | 25,692 | 16,805 |
| Net Interest Income | 161,361 | 138,209 | 126,125 |
| (Recovery of) provision for loan losses | (1,250) | (2,310) | 3,006 |
| Net Interest Income After (Recovery of) Provision for Loan Losses | 162,611 | 140,519 | 123,119 |
| Non-Interest Income | | | |
| Net gains on sale of investment securities | 69 | — | 4,476 |
| Unrealized gains (losses) recognized on equity securities still held | 888 | (90) | — |
| Service charges | 31,515 | 29,704 | 28,574 |
| Bankcard revenue | 21,093 | 18,369 | 17,120 |
| Trust and investment management fee income | 7,159 | 6,529 | 6,269 |
| Bank owned life insurance | 3,766 | 3,090 | 4,212 |
| Other income | 4,000 | 2,962 | 2,956 |
| Total Non-Interest Income | 68,490 | 60,564 | 63,607 |
| Non-Interest Expense | | | |
| Salaries and employee benefits | 62,138 | 54,385 | 51,057 |
| Occupancy related expenses | 10,595 | 9,323 | 9,557 |
| Equipment and software related expenses | 8,964 | 7,729 | 7,732 |
| FDIC insurance expense | 638 | 1,251 | 1,348 |
| Advertising | 3,344 | 2,974 | 2,914 |
| Bankcard expenses | 5,555 | 4,503 | 3,924 |
| Postage, delivery, and statement mailings | 2,416 | 2,157 | 2,094 |
| Office supplies | 1,559 | 1,319 | 1,437 |
| Legal and professional fees | 2,371 | 1,847 | 1,956 |
| Telecommunications | 2,455 | 1,750 | 1,988 |
| Repossessed asset losses, net of expenses | 634 | 845 | 735 |
| Merger related costs | 797 | 13,257 | — |
| Other expenses | 16,148 | 11,726 | 11,239 |
| Total Non-Interest Expense | 117,614 | 113,066 | 95,981 |
| Income Before Income Taxes | 113,487 | 88,017 | 90,745 |

CONSOLIDATED STATEMENTS OF INCOME CONTINUED
CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands, except earnings per share data)

| | Year Ended December 31 | | |
|--|------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Income tax expense | 24,135 | 18,015 | 36,435 |
| Net Income Available to Common Shareholders | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Average shares outstanding, basic | 16,314 | 15,421 | 15,412 |
| Effect of dilutive securities | 19 | 18 | 24 |
| Average shares outstanding, diluted | 16,333 | 15,439 | 15,436 |
| Basic earnings per common share | \$ 5.43 | \$ 4.50 | \$ 3.49 |
| Diluted earnings per common share | \$ 5.42 | \$ 4.49 | \$ 3.48 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands)

| | Year Ended December 31 | | |
|---|------------------------|-----------|-----------|
| | 2019 | 2018 | 2017 |
| Net income available to common shareholders | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| <i>Available-for-Sale Securities</i> | | | |
| Unrealized gain (loss) on available-for-sale securities arising during period | 27,115 | (7,054) | 7,396 |
| Reclassification adjustment for net (gains) losses | (69) | 90 | (4,476) |
| Other comprehensive income (loss) related to available-for-sale securities | 27,046 | (6,964) | 2,920 |
| <i>Defined Benefit Pension Plan</i> | | | |
| Amortization of actuarial net gains | 917 | 890 | 849 |
| Recognition of unrealized losses | (1,447) | (1,982) | (11) |
| Change in underfunded pension liability | (530) | (1,092) | 838 |
| Other comprehensive income (loss) before income taxes | 26,516 | (8,056) | 3,758 |
| Tax effect | (6,194) | 1,875 | (1,391) |
| Other comprehensive income (loss), net of tax | 20,322 | (6,181) | 2,367 |
| Comprehensive income, net of tax | \$ 109,674 | \$ 63,821 | \$ 56,677 |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
CITY HOLDING COMPANY AND SUBSIDIARIES**

(dollars and shares in thousands)

| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|--|-----------------|--------------------|----------------------|-------------------|---|----------------------------------|
| Balances at December 31, 2016 | \$ 46,518 | \$ 112,873 | \$ 417,017 | \$ (126,958) | \$ (7,012) | \$ 442,438 |
| Net income | — | — | 54,310 | — | — | 54,310 |
| Other comprehensive income, net of tax | — | — | — | — | 2,367 | 2,367 |
| Adoption of ASU No. 2018-02 | — | — | 999 | — | (999) | — |
| Cash dividends declared (\$1.78 per share) | — | — | (27,845) | — | — | (27,845) |
| Stock-based compensation expense, net | — | 2,097 | — | — | — | 2,097 |
| Restricted awards granted | — | (1,351) | — | 1,351 | — | — |
| Issuance of 441 shares of common stock | 1,101 | 27,307 | — | — | — | 28,408 |
| Exercise of 17 stock options | — | 34 | — | 698 | — | 732 |
| Balances at December 31, 2017 | \$ 47,619 | \$ 140,960 | \$ 444,481 | \$ (124,909) | \$ (5,644) | \$ 502,507 |
| Balances at December 31, 2017 | \$ 47,619 | \$ 140,960 | \$ 444,481 | \$ (124,909) | \$ (5,644) | \$ 502,507 |
| Net income | — | — | 70,002 | — | — | 70,002 |
| Other comprehensive income, net of tax | — | — | — | — | (6,181) | (6,181) |
| Adoption of ASU No. 2016-01 | — | — | 2,657 | — | (2,657) | — |
| Cash dividends declared (\$1.98 per share) | — | — | (31,173) | — | — | (31,173) |
| Stock-based compensation expense, net | — | 2,151 | — | — | — | 2,151 |
| Restricted awards granted | — | (1,585) | — | 1,585 | — | — |
| Exercise of 30 stock options | — | (736) | — | 1,900 | — | 1,164 |
| Purchase of 290 treasury shares | — | — | — | (20,271) | — | (20,271) |
| Acquisition of Poage (1,142 shares) | — | 28,765 | — | 53,800 | — | 82,565 |
| Balances at December 31, 2018 | \$ 47,619 | \$ 169,555 | \$ 485,967 | \$ (87,895) | \$ (14,482) | \$ 600,764 |
| Balances at December 31, 2018 | \$ 47,619 | \$ 169,555 | \$ 485,967 | \$ (87,895) | \$ (14,482) | \$ 600,764 |
| Net income | — | — | 89,352 | — | — | 89,352 |
| Other comprehensive income, net of tax | — | — | — | — | 20,322 | 20,322 |
| Cash dividends declared (\$2.20 per share) | — | — | (36,066) | — | — | (36,066) |
| Stock-based compensation expense, net | — | 2,516 | — | — | — | 2,516 |
| Restricted awards granted | — | (1,657) | — | 1,657 | — | — |
| Exercise of 12 stock options | — | (105) | — | 631 | — | 526 |
| Purchase of 261 treasury shares | — | — | — | (19,431) | — | (19,431) |
| Balances at December 31, 2019 | \$ 47,619 | \$ 170,309 | \$ 539,253 | \$ (105,038) | \$ 5,840 | \$ 657,983 |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
CITY HOLDING COMPANY AND SUBSIDIARIES**

(in thousands)

| | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Net income available to common shareholders | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization and accretion, net | 699 | 1,281 | 1,005 |
| (Recovery of) provision for loan losses | (1,250) | (2,310) | 3,006 |
| Depreciation of premises and equipment | 5,003 | 5,087 | 5,884 |
| Deferred income tax expense (benefit) | 4,939 | (1,244) | 14,909 |
| Net periodic employee benefit cost | 622 | 471 | 298 |
| Pension contributions | — | (1,509) | — |
| Unrealized and realized investment securities (gains) losses | (957) | 90 | (4,476) |
| Stock-based compensation expense | 2,516 | 2,151 | 2,097 |
| Excess tax benefit from stock-compensation expense | (461) | (506) | (558) |
| Increase in value of bank-owned life insurance | (3,766) | (3,090) | (2,708) |
| Loans held for sale | | | |
| Loans originated for sale | (18,757) | (15,196) | (16,451) |
| Proceeds from the sale of loans originated for sale | 20,917 | 13,993 | 19,290 |
| Gain on sale of loans | (589) | (351) | (516) |
| Asset write down | 297 | 491 | — |
| Change in accrued interest receivable | 855 | (1,500) | (815) |
| Change in other assets | (7,489) | 480 | (2,102) |
| Change in other liabilities | 6,712 | 4,308 | 2,953 |
| Net Cash Provided by Operating Activities | 98,643 | 72,648 | 76,126 |
| Net increase in loans | (30,146) | (95,284) | (85,489) |
| Securities available-for-sale | | | |
| Purchases | (209,588) | (130,876) | (159,317) |
| Proceeds from sales | 70,404 | — | 5,776 |
| Proceeds from maturities and calls | 75,717 | 56,841 | 58,358 |
| Securities held-to-maturity | | | |
| Purchases | — | (4,925) | — |
| Proceeds from maturities and calls | 11,706 | 8,439 | 10,580 |
| Other investments | | | |
| Purchases | (11,100) | (35,350) | (27,714) |
| Proceeds from sales | 13,790 | 31,271 | 27,918 |
| Purchases of premises and equipment | (4,729) | (10,192) | (6,574) |
| Proceeds from the disposals of premises and equipment | 598 | 3,884 | 3,057 |
| Proceeds from the disposition of assets held-for-sale | 2,285 | — | — |
| Proceeds from bank-owned life insurance policies | 2,423 | 425 | 1,717 |
| Sale of Virginia Beach branch, net | (24,661) | — | — |
| Acquisition of Farmers Deposit Bancorp, Inc., net of cash acquired of \$4,209 | — | (20,691) | — |
| Acquisition of Poage Bankshares, Inc., net of cash acquired of \$34,288 | — | 32,917 | — |
| Net Cash Used in Investing Activities | (103,301) | (163,541) | (171,688) |
| Net increase (decrease) in noninterest-bearing deposits | 26,727 | 32,097 | (5,647) |
| Net increase (decrease) in interest-bearing deposits | 100,192 | 156,302 | 89,644 |
| Net (decrease) increase in short-term borrowings | (50,656) | 7,667 | 3,914 |
| Repayment of long-term debt | — | (16,495) | — |
| Proceeds from sale of capital securities | — | 495 | — |
| Issuance of common stock | — | — | 28,408 |
| Purchases of treasury stock | (19,431) | (20,271) | — |

**CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED
CITY HOLDING COMPANY AND SUBSIDIARIES**

(in thousands)

| | Year Ended December 31 | | |
|---|------------------------|-------------------|------------------|
| | 2019 | 2018 | 2017 |
| Proceeds from exercise of stock options | 526 | 1,164 | 732 |
| Dividends paid | (35,547) | (29,583) | (27,120) |
| Net Cash Provided by Financing Activities | 21,811 | 131,376 | 89,931 |
| Increase (Decrease) in Cash and Cash Equivalents | 17,153 | 40,483 | (5,631) |
| Cash and cash equivalents at beginning of period | 122,991 | 82,508 | 88,139 |
| Cash and Cash Equivalents at End of Period | \$ 140,144 | \$ 122,991 | \$ 82,508 |

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CITY HOLDING COMPANY AND SUBSIDIARIES**

NOTE ONE – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Summary of Significant Accounting and Reporting Policies: The accounting and reporting policies of City Holding Company and its subsidiaries (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. Actual results could differ from management’s estimates. The following is a summary of the more significant policies.

Principles of Consolidation: The consolidated financial statements include the accounts of City Holding Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity in conformity with U. S. generally accepted accounting principles. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company’s wholly owned subsidiary, Town Square Statutory Trust I, is a VIE for which the Company is not the primary beneficiary. The Company also invests in certain limited partnerships that operate qualified low-income housing tax credit developments. These investments are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company’s consolidated financial statements.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no impact on total shareholders’ equity or net income for any period.

Description of Principal Markets and Services: The Company is a registered financial holding company under the Bank Holding Company Act headquartered in Charleston, West Virginia, and conducts its principal activities through its wholly-owned subsidiary, City National Bank of West Virginia (“City National”). City National is a retail and consumer-oriented community bank with 95 banking offices in West Virginia, Kentucky, Virginia and southeastern Ohio. City National provides credit, deposit, and trust and investment management services to its customers. In addition to its branch network, City National’s delivery channels include automated-teller-machines (“ATMs”), interactive-teller-machines (“ITMs”), mobile banking, debit cards, interactive voice response systems and Internet technology. The Company conducts its business activities through one reportable business segment - community banking.

Cash and Due from Banks: The Company considers cash, due from banks, and interest-bearing deposits in depository institutions as cash and cash equivalents. City National is required to maintain an average reserve balance with the Federal Reserve Bank of Richmond to compensate for services provided by the Federal Reserve and to meet statutory required reserves for demand deposits.

Securities: Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold debt securities to maturity, they are classified as investment securities held-to-maturity and are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts. Debt securities which the Company may not hold to maturity are classified as investment securities available-for-sale. Securities available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, reported in comprehensive income. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability and liquidity management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors. Certain investment securities that do not have readily determinable fair values and for which the Company does not exercise significant influence are carried at cost and classified as other investment securities on the Consolidated Balance Sheets. These cost-method investments are reviewed for impairment at least annually or sooner if events or changes in circumstances indicate the carrying value may not be recoverable. Marketable equity securities that consist of investments made by the Company in equity positions of various community banks are also classified as other investment securities on the Consolidated Balance Sheets. Changes in the fair value of the marketable equity securities are recorded in the Consolidated Statements of Income.

Also, on a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are indicative that investment securities are other than temporarily impaired. Management considers the following, among 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, capital strength, and near-term (within 12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; and (v) 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. The Company continues to actively monitor the market value of these investments along with the financial strength of the issuers behind these securities, as well as its entire investment portfolio.

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

Fair Value of Financial Instruments: ASC Topic 825 “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. ASC Topic 825 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.

Loans: Loans, excluding previously securitized loans, which are discussed separately below, are reported at the principal amount outstanding, net of unearned income. Portfolio loans include those for which management has the intent and the Company has the ability to hold for the foreseeable future, or until maturity or payoff. The foreseeable future is based upon management’s judgment of current business strategies and market conditions, the type of loan, asset/liability management, and liquidity.

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding, using methods that generally result in level rates of return. Loan origination fees, and certain direct costs, are deferred and amortized as an adjustment to the yield over the term of the loan. The accrual of interest income generally is discontinued when a loan becomes 90 days past due as to principal or interest for all loan types. However, any loan may be placed on non-accrual status if the Company receives information that indicates that it is probable a borrower will be unable to meet the contractual terms of their respective loan agreement. Other indicators considered for placing a loan on non-accrual status include the borrower’s involvement in bankruptcies, foreclosures, repossessions, litigation and any other situation resulting in doubt as to whether full collection of contractual principal and interest is attainable. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in process of collection.

Generally for all loan classes, payments during the period the loan is non-performing are recorded on a cash basis. Payments received on nonperforming loans are typically applied directly against the outstanding principal balance until the loan is fully repaid. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Generally, all loan types are considered past due when the contractual terms of a loan are not met and the borrower is 30 days or more past due on a payment. Furthermore, residential and home equity loans are generally subject to charge-off when the loan becomes 120 days past due, depending on the estimated fair value of the collateral less cost to dispose, versus the outstanding loan balance. Commercial loans are generally charged off when the loan becomes 120 days past due and consumer loans are generally charged off when the loan becomes 120 days past due.

Acquired Loans: Acquired loans are initially recorded at their estimated fair value. Acquired loans are accounted for using one of the two following accounting standards:

- (1) ASC Topic 310-20 is used to value loans that do not have evidence of credit quality deterioration. For these loans, the difference between the fair value of the loan and the amortized cost of the loan is amortized or accreted into income using the interest method.

- (2) ASC Topic 310-30 is used to value loans that have evidence of credit quality deterioration. For these loans, the expected cash flows that exceed the fair value of the loan represent the accretable yield, which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans. The non-accretable difference represents the difference between the contractually required principal and interest payments and the cash flows expected to be collected based upon management’s estimation. Subsequent decreases in the expected cash flows will require the Company to evaluate the need for additions to the Company’s allowance for loan losses. Subsequent increases in the expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges with a corresponding adjustment to the accretable yield, which will result in the recognition of additional interest income over the remaining lives of the loans.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level that represents management’s best estimate of probable incurred losses in the loan portfolio. Management’s determination of the appropriateness 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. These evaluations are conducted at least quarterly and more frequently if deemed necessary. 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. Loan losses are charged against the allowance and recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management’s periodic evaluation of the appropriateness of the allowance after considering factors noted above, among others.

In evaluating the appropriateness of its allowance for loan losses, the Company stratifies the loan portfolio into six major groupings, including commercial real estate, commercial and industrial, residential real estate, home equity, consumer and DDA overdrafts. Historical loss experience, as adjusted, is applied to the then outstanding balance of loans in each classification to estimate probable losses inherent in each segment of the portfolio. Historical loss experience is adjusted using a systematic weighted probability of potential risk factors that could result in actual losses deviating from prior loss experience. Risk factors considered by the Company in completing this analysis include: (1) unemployment and economic trends in the Company’s markets, (2) concentrations of credit, if any, among any industries, (3) trends in loan growth, loan mix, delinquencies, losses or credit impairment, (4) adherence to lending policies and others. Each risk factor is designated as low, moderate/increasing, or high based on the Company’s assessment of the risk of loss associated with each factor. Each risk factor is then weighted to consider inherent risk in the portfolio.

Additionally, all commercial loans within the portfolio are subject to internal risk grading. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company’s internal loan review process. Based on an individual loan’s risk grade, estimated loss percentages are applied to the outstanding balance of the loan to determine the amount of probable loss.

The Company’s policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring (“TDR”) in accordance with ASU 2011-02, whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor’s ability to continue as a going concern, or the debtor’s projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

Bank Owned Life Insurance: The Company has purchased life insurance on certain executive officers and employees. The Company receives the cash surrender value of each policy upon its termination or benefits are payable upon the death of the insured. These policies are recorded on the Consolidated Balance Sheets at their net cash surrender value. Changes in the net cash surrender value are recognized in Bank Owned Life Insurance in the Consolidated Statements of Income.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets. Depreciation of leasehold improvements is computed using the straight-line method over the lesser of the term of the respective lease or the estimated useful life of the respective asset. Maintenance and repairs are charged to expense as incurred, while improvements that extend the useful life of premises and equipment are capitalized and depreciated over the estimated remaining life of the asset.

Other Real Estate Owned: Other real estate owned (“OREO”) is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is included in Other Assets at the lower of estimated fair value of the asset, less estimated selling costs or the carrying amount of the loan. Changes to the value subsequent to transfer are recorded in non-interest expense, along with direct operating expenses. Gains or losses not previously recognized from sales of OREO are recognized in non-interest expense on the date of the sale. As of December 31, 2019 and 2018, the amount of OREO included in Other Assets was \$4.7 million and \$4.6 million, respectively. Physical possession of property collateralizing a loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Goodwill and Other Intangible Assets: Goodwill is the excess of the cost of an acquisition over the fair value of tangible and intangible assets acquired. Goodwill is not amortized. Intangible assets represent purchased assets that also lack physical substance, but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. Intangible assets with determinable useful lives, such as core deposits, are amortized over their estimated useful lives.

The Company performs an annual review for impairment in the recorded value of goodwill and indefinite lived intangible assets. Goodwill is tested for impairment between the annual tests if an event occurs or circumstances change that more than likely reduce the fair value of a reporting unit below its carrying value. An indefinite-lived intangible asset is tested for impairment between the annual tests if an event occurs or circumstances change indicating that the asset might be impaired.

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities sold primarily consists of U.S. government, federal agency, and municipal securities pledged as collateral under these financing arrangements and cannot be repledged or sold, unless replaced by the secured party.

Derivative Financial Instruments: Derivative instruments are carried at fair value in the Company’s financial statements. The accounting for changes in the fair value of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. The Company primarily utilizes non-hedging derivative financial instruments with commercial banking customers to facilitate their interest rate management strategies. For these instruments, the Company acts as an intermediary for its customers and has offsetting contracts with financial institution counterparties. Changes in the fair value of these underlying derivative contracts generally offset each other and do not significantly impact the Company’s results of operations.

Trust Assets: Assets held in a fiduciary or agency capacity for customers are not included in the accompanying financial statements since such items are not assets of the Company.

Income Taxes: The consolidated provision for income taxes is based upon reported income and expense. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities, computed using enacted tax rates. The income tax effects related to settlements of share-based compensation awards are reported in earnings as an increase (or decrease) to income tax expense. The Company files a consolidated income tax return. The respective subsidiaries generally provide for income taxes on a separate return basis and remit amounts determined to be currently payable to the Parent Company.

The Company and its subsidiaries are subject to examinations and challenges from federal and state taxing authorities regarding positions taken in returns. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination. These positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority and assuming full knowledge of the position and all relevant facts by the taxing authority.

The Company invests in certain limited partnerships that operate qualified low-income housing tax credit developments. The tax credits are reflected in the Consolidated Statements of Income as a reduction in income tax expense. The unamortized amount of the investments is recorded within Other Assets within the Consolidated Balance Sheets. The Company’s investments in affordable housing limited partnerships were \$10.1 million and \$5.4 million at December 31, 2019 and 2018, respectively. The unfunded commitments associated with these investments were \$3.2 million at December 31, 2019 and were recorded within Other Liabilities within the Consolidated Balance Sheets.

Advertising Costs: Advertising costs are expensed as incurred.

Stock-Based Compensation: Compensation expense related to stock options and restricted stock awards issued to employees is based upon the fair value of the award at the date of grant. The fair value of stock options is estimated utilizing a Black Scholes pricing model, while the fair value of restricted stock awards is based upon the stock price at the date of grant. Compensation expense is recognized on a straight line basis over the vesting period for options and the respective period for stock awards. Forfeitures are recognized as they occur, rather than estimated over the life of the award.

Basic and Diluted Earnings per Common Share: Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding, excluding participating securities. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding, excluding participating securities, increased by the number of shares of common stock which would be issued assuming the exercise of stock options and other common stock equivalents.

Statements of Cash Flows: Cash paid for interest, including interest paid on long-term debt and trust preferred securities, was \$37.0 million, \$24.8 million, and \$16.4 million in 2019, 2018, and 2017, respectively. During 2019, 2018 and 2017, the Company paid \$14.9 million, \$20.8 million, and \$22.6 million, respectively, for income taxes.

NOTE TWO – RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted:

Leases

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*.” This standard requires organizations to recognize right-of-use (“ROU”) assets and lease liabilities on the balance sheet and disclose key information about leasing requirements for leases that were historically classified as operating leases under previous generally accepted accounting principles. Leases will be classified as financing or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Topic 842 was subsequently amended by ASU No. 2018-01 “*Land Easement Practical Expedient for Transition to Topic 842*,” ASU No. 2018-10, “*Codification Improvements to Topic 842, Leases*,” ASU No. 2018-11 “*Targeted Improvements*,” ASU No. 2018-20 “*Narrow-Scope Improvements for Lessors*,” and ASU No. 2019-01 “*Codification Improvements*.” The Company adopted the new standard on January 1, 2019 and has chosen to use that date as the effective date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company has elected the “package of practical expedients,” which permits it to not reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. As part of the adoption of this standard, the Company recognized lease liabilities within Other Liabilities, with corresponding ROU assets within Other Assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The adoption of this standard did not have a material impact on the Company’s financial statements. Operating lease expense is recognized on a straight-line basis over the lease term.

Others

In March 2017, the FASB issued ASU No. 2017-08, “*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*.” The amendments in this update shorten the amortization period for certain callable debt securities held at a premium and require the premium to be amortized to the earliest call date. This ASU became effective for the Company on January 1, 2019. The adoption of ASU No. 2017-08 did not have a material impact on the Company’s financial statements.

In October 2018, the FASB issued ASU No. 2018-16, “*Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*.” This amendment permits the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Federal Funds Effective Rate, and the SIFMA Municipal Swap Rate. This ASU became effective for the Company on January 1, 2019 with anticipation the LIBOR index will be phased out by the end of 2021. The Company is in the process of reviewing all of its contracts that will be impacted by changing from LIBOR to SOFR.

Pending Adoption:

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."* This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures. In November 2018, the FASB issued ASU No. 2018-19, *"Codification Improvements to Topic 326, Financial Instruments—Credit Losses."* This amendment clarifies the scope of the guidance in ASU No. 2016-13. In December 2018, the federal bank regulators issued a final rule that would provide an optional three-year phase-in period for the day-one regulatory capital effects of the adoption of ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*, as amended, on January 1, 2020. In April 2019, the FASB issued ASU No. 2019-04, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments."* This amendment clarifies the guidance in ASU No. 2016-13. In May 2019, the FASB issued ASU No. 2019-05, *"Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief."* The amendments in this update provide targeted transition relief that is optional for, and will be available to, all reporting entities within the scope of Topic 326. These ASUs became effective for the Company for interim and annual periods on January 1, 2020.

Management has completed its implementation plan, segmentation and testing, and model validation. The implementation plan included drafting of additional controls and policies to govern data uploads to its third-party vendor, balancing and reconciling, testing and auditing of inputs, and review and decision-making surrounding segmentation, methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion techniques. Parallel runs were processed during all four quarters of 2019 and the results were consistent with management's expectations. The implementation plan is currently going through the Company's control structure and internal control testing is being performed.

As a result of adopting these ASUs, the Company expects the increase in its allowance effective January 1, 2020, to be in the range of \$2.3 million to \$4.1 million. In addition, the adoption of ASU No. 2016-13 will require the Company to gross up its previously purchased credit impaired loans through the allowance at January 1, 2020. As a result, the Company expects an increase in its allowance and loan balances as of January 1, 2020, to be in the range of \$2.2 million to \$3.2 million. These estimates are subject to further refinements based on ongoing evaluations of our model, methodologies, and judgments, as well as prevailing economic conditions and forecasts as of the adoption date.

Others

In January 2017, the FASB issued ASU No. 2017-04, *"Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment."* This amendment simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This ASU became effective for the Company on January 1, 2020. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company's financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *"Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities."* This amendment expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This ASU became effective for the Company on January 1, 2019. The adoption of this ASU did not have a material impact on the Company's financial statements. In April 2019, the FASB issued ASU No. 2019-04, *"Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments."* This amendment clarifies the guidance in ASU No. 2017-12. This amendment became effective for the Company on January 1, 2020. Effective January 1, 2020, the Company reclassified its held-to-maturity securities as available-for-sale utilizing the transition guidance under ASU 2019-04, and the unrealized gains/losses on these investments will be recorded through Other Comprehensive Income. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement."* This amendment removes, modifies, and clarifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This ASU became effective for the

Company on January 1, 2020. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *"Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans."* This amendment removes, modifies, and clarifies certain disclosure requirements for defined benefit plans and other post-employment benefit plans. This ASU will become effective for the Company on January 1, 2021. The adoption of ASU No. 2018-14 is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *"Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract."* The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU became effective for the Company on January 1, 2020. The adoption of ASU No. 2018-15 is not expected to have a material impact on the Company's financial statements.

In October 2018, the FASB issued ASU No. 2018-17, *"Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities."* This amendment simplifies the analysis of fees paid to decision makers or service providers in determining variable interest entities. This ASU became effective for the Company on January 1, 2020. The adoption of ASU No. 2018-17 is not expected to have a material impact on the Company's financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes."* The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying and amending existing guidance. This ASU will become effective for the Company on January 1, 2021. The adoption of ASU No. 2019-12 is not expected to have a material impact on the Company's financial statements.

NOTE THREE – ACQUISITIONS AND PURCHASE PRICE ALLOCATION

On December 7, 2018, the Company acquired 100% of the outstanding common stock of Poage Bankshares, Inc., the parent company of Town Square Bank (collectively, "Poage"). The acquisition of Poage was structured as a stock transaction in which the Company issued approximately 1.1 million shares, valued at approximately \$82.6 million, or \$24.22 per share of Poage common stock.

On December 7, 2018, the Company acquired 100% of the outstanding common stock of Farmers Deposit Bancorp, Inc., the parent company of Farmers Deposit Bank (collectively, "Farmers Deposit"). The acquisition of Farmers Deposit was structured as a cash transaction valued at \$24.9 million, or \$1,174.14 per share of Farmers Deposit common stock.

The Company accounted for both acquisitions using the acquisition method pursuant to "Topic 805 Business Combinations" of the FASB Accounting Standards Codification. The acquisition method requires the acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of acquisition (in thousands):

| | Farmers | | |
|----------------------------------|------------------|------------------|-------------------|
| | Deposit | Poage | Total |
| Consideration: | | | |
| Cash | \$ 24,900 | \$ 16 | \$ 24,916 |
| Common stock | — | 82,565 | 82,565 |
| Stock option buyout | — | 1,355 | 1,355 |
| | <u>24,900</u> | <u>83,936</u> | <u>108,836</u> |
| Identifiable assets: | | | |
| Cash and cash equivalents | 4,173 | 34,325 | 38,498 |
| Investment securities | 46,235 | 72,321 | 118,556 |
| Loans | 58,485 | 304,359 | 362,844 |
| Bank owned life insurance | — | 7,439 | 7,439 |
| Premises and equipment | 568 | 4,547 | 5,115 |
| Deferred tax assets, net | 25 | 2,454 | 2,479 |
| Other assets | 2,302 | 8,757 | 11,059 |
| Total identifiable assets | <u>111,788</u> | <u>434,202</u> | <u>545,990</u> |
| Identifiable liabilities: | | | |
| Deposits | 92,241 | 379,285 | 471,526 |
| Short-term borrowings | 2,025 | — | 2,025 |
| Long-term debt | — | 4,053 | 4,053 |
| Other liabilities | 650 | 3,032 | 3,682 |
| Total identifiable liabilities | <u>94,916</u> | <u>386,370</u> | <u>481,286</u> |
| Net identifiable assets | 16,872 | 47,832 | 64,704 |
| Goodwill | 4,694 | 28,050 | 32,744 |
| Core deposit intangible | 3,334 | 8,054 | 11,388 |
| | <u>\$ 24,900</u> | <u>\$ 83,936</u> | <u>\$ 108,836</u> |

Acquired Loans

The following table presents information regarding the purchased credit-impaired and noncredit-impaired loans acquired in conjunction with both acquisitions (in thousands):

| | Total |
|---|-----------------|
| Contractually required principal and interest | \$ 25,315 |
| Contractual cash flows not expected to be collected (non-accretable difference) | (13,593) |
| Expected cash flows | <u>11,722</u> |
| Interest component of expected cash flows (accretable difference) | (2,375) |
| Carrying value of purchased credit impaired loans acquired | <u>\$ 9,347</u> |

Acquired Noncredit-Impaired

| | |
|---|-------------------|
| Outstanding balance | \$ 354,343 |
| Less: fair value adjustment | (846) |
| Carrying value of acquired noncredit-impaired loans | <u>\$ 353,497</u> |

Acquired Deposits

The fair values of non-time deposits approximated their carrying value at the acquisition date. For time deposits, the fair values were estimated based on discounted cash flows, using interest rates that are currently being offered compared to the contractual interest rates. Based on this analysis, management recorded a premium on time deposits acquired of \$0.1 million and \$1.7 million for the Farmers Deposit and Poage acquisitions, respectively, each of which is being amortized over 5 years.

Core Deposit Intangible

The Company believes that the customer relationships with the deposits acquired have an intangible value. In connection with the acquisitions, the Company recorded a core deposit intangible asset of \$3.3 million and \$8.1 million for Farmers Deposit and Poage, respectively. Each of the core deposit intangible assets represent the value that the acquiree had with their deposit customers. The fair value was estimated based on a discounted cash flow methodology that considered type of deposit, deposit retention and the cost of the deposit base. The core deposit intangibles are being amortized over 10 years.

Goodwill

Under GAAP, management has up to twelve months following the date of the acquisition to finalize the fair value of acquired assets and liabilities. The measurement period ends as soon as the Company receives information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is not obtainable. Any subsequent adjustments to the fair value of the acquired assets and liabilities, intangible assets or other purchase accounting adjustments will result in adjustments to the goodwill recorded. Given the form of the respective transactions, the goodwill recorded in conjunction with the Farmers Deposit acquisition is deductible for tax purposes, while the goodwill recorded in conjunction with the Poage acquisition is not deductible for tax purposes (See Note Nine).

Merger Related Costs

During the year ended December 31, 2019, the Company incurred \$0.8 million of merger-related costs in connection with the acquisitions of Farmers Deposit and Poage. During the year ended December 31, 2018, the Company incurred \$13.3 million of merger-related costs in connection with the acquisitions of Farmers Deposit and Poage, primarily for severance (\$3.2 million), professional fees (\$3.7 million) and data processing costs (\$5.2 million). Also included in merger related costs during the year ended December 31, 2018 were asset write-down charges of \$0.5 million, pertaining to the two existing City National branches that were merged into existing former Poage branches during 2019.

NOTE FOUR – RESTRICTIONS ON CASH AND DUE FROM BANKS

City National is required to maintain an average reserve balance with the Federal Reserve Bank of Richmond to compensate for services provided by the Federal Reserve and to meet statutory required reserves for demand deposits. The average amounts of the reserve balances for the years ended December 31, 2019 and 2018 were approximately \$47.3 million and \$40.6 million, respectively.

NOTE FIVE – INVESTMENTS

The aggregate carrying and approximate fair market values of investment securities follow (in thousands). 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.

| | December 31, 2019 | | | | December 31, 2018 | | | |
|--|-------------------|------------------------|-------------------------|----------------------|-------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| <i>Securities available-for-sale:</i> | | | | | | | | |
| U.S. Treasuries and U.S. government agencies | | | | | | | | |
| | \$ 500 | \$ 2 | \$ — | \$ 502 | \$ 5,713 | \$ 20 | \$ — | \$ 5,733 |
| Obligations of states and political subdivisions | | | | | | | | |
| | 112,393 | 4,800 | 6 | 117,187 | 128,089 | 1,033 | 1,052 | 128,070 |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies | | | | | | | | |
| | 631,637 | 12,292 | 1,825 | 642,104 | 561,799 | 1,950 | 12,991 | 550,758 |
| Private label | | | | | | | | |
| | 10,896 | 589 | — | 11,485 | 11,948 | 95 | — | 12,043 |
| Trust preferred securities | | | | | | | | |
| | 4,781 | 27 | 347 | 4,461 | 4,774 | 25 | — | 4,799 |
| Corporate securities | | | | | | | | |
| | 31,669 | 500 | 43 | 32,126 | 16,795 | 30 | 167 | 16,658 |
| Total Debt Securities | | | | | | | | |
| | 791,876 | 18,210 | 2,221 | 807,865 | 729,118 | 3,153 | 14,210 | 718,061 |
| Certificates of deposit held for investment | | | | | | | | |
| | 2,241 | — | — | 2,241 | 3,735 | — | — | 3,735 |
| Total Securities | | | | | | | | |
| Available-for-Sale | | | | | | | | |
| | \$794,117 | \$ 18,210 | \$ 2,221 | \$810,106 | \$732,853 | \$ 3,153 | \$ 14,210 | \$721,796 |
| <i>Securities held-to-maturity:</i> | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies | | | | | | | | |
| | \$ 49,036 | \$ 1,562 | \$ — | \$ 50,598 | \$ 56,827 | \$ 173 | \$ 294 | \$ 56,706 |
| Trust preferred securities | | | | | | | | |
| | — | — | — | — | 4,000 | — | — | 4,000 |
| Total Securities | | | | | | | | |
| Held-to-Maturity | | | | | | | | |
| | \$ 49,036 | \$ 1,562 | \$ — | \$ 50,598 | \$ 60,827 | \$ 173 | \$ 294 | \$ 60,706 |

The Company's other investment securities include marketable and non-marketable equity securities. At December 31, 2019 and 2018, the Company held \$12.6 million and \$11.8 million, respectively, in marketable equity securities. Marketable equity securities mainly consist of investments made by the Company in equity positions of various community banks. Included within this portfolio are ownership positions in the following community bank holding companies: First National Corporation (FXNC) (4%) and Eagle Financial Services, Inc. (EFSI) (1.5%). The Company's non-marketable securities consist of securities with limited marketability, such as stock in the Federal Reserve Bank ("FRB") or the Federal Home Loan Bank ("FHLB"). At December 31, 2019 and 2018, the Company held \$15.9 million and \$18.5 million, respectively, in non-marketable equity securities. These securities are carried at cost due to the restrictions placed on their transferability.

The Company's mortgage-backed U.S. government agency securities consist of both residential and commercial securities, all of which are guaranteed by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), or Ginnie Mae ("GNMA"). At December 31, 2019 and 2018, there were no securities of any non-governmental issuer whose aggregate carrying value or estimated fair value exceeded 10% of shareholders' equity.

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 December 31, 2019 and 2018. 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 (in thousands):

| | December 31, 2019 | | | | | |
|--|-------------------------|-----------------|--------------------------|-----------------|----------------------|-----------------|
| | Less Than Twelve Months | | Twelve Months or Greater | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| <i>Securities available-for-sale:</i> | | | | | | |
| Obligations of states and political subdivisions | \$ 230 | \$ — | \$ 1,439 | \$ 6 | \$ 1,669 | \$ 6 |
| Mortgage-backed securities: | | | | | | |
| U.S. Government agencies | | | | | | |
| | 123,289 | 1,247 | 34,746 | 578 | 158,035 | 1,825 |
| Trust preferred securities | | | | | | |
| | 4,200 | 347 | — | — | 4,200 | 347 |
| Corporate securities | | | | | | |
| | 11,248 | 43 | — | — | 11,248 | 43 |
| Total available-for-sale | | | | | | |
| | \$ 138,967 | \$ 1,637 | \$ 36,185 | \$ 584 | \$ 175,152 | \$ 2,221 |

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2019.

| | December 31, 2018 | | | | | |
|--|-------------------------|-----------------|--------------------------|------------------|----------------------|------------------|
| | Less Than Twelve Months | | Twelve Months or Greater | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| <i>Securities available-for-sale:</i> | | | | | | |
| Obligations of states and political subdivisions | \$ 11,837 | \$ 272 | \$ 22,068 | \$ 780 | \$ 33,905 | \$ 1,052 |
| Mortgage-backed securities: | | | | | | |
| U.S. Government agencies | | | | | | |
| | 84,975 | 1,593 | 282,560 | 11,398 | 367,535 | 12,991 |
| Corporate securities | | | | | | |
| | 12,995 | 167 | — | — | 12,995 | 167 |
| Total available-for-sale | | | | | | |
| | \$ 109,807 | \$ 2,032 | \$ 304,628 | \$ 12,178 | \$ 414,435 | \$ 14,210 |
| <i>Securities held-to-maturity:</i> | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. Government agencies | | | | | | |
| | \$ 28,274 | \$ 126 | \$ 5,960 | \$ 168 | \$ 34,234 | \$ 294 |
| Total held-to-maturity | | | | | | |
| | \$ 28,274 | \$ 126 | \$ 5,960 | \$ 168 | \$ 34,234 | \$ 294 |

During the years ended December 31, 2019, and 2018 and 2017, the Company had no credit-related net investment impairment losses. At December 31, 2019, the cumulative amount of credit-related investment impairment losses that have been recognized by the Company on investments that remain in the Company's investment portfolio as of that date was \$1.6 million.

Declines in the fair value of held-to-maturity and available-for-sale securities below their respective 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, capital strength, and near-term (within 12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent to sell the investment security and if it's more likely than not that the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holdings. Although the regional community bank stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.2% of each respective company being traded on a daily basis. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of December 31, 2019, 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 fluctuations on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions should 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 December 31, 2019, management believes the unrealized losses detailed in the table above are temporary and no additional 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 will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

The amortized cost and estimated fair value of debt securities at December 31, 2019, by contractual maturity, are shown in the following table (in thousands). 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.

| | Cost | Estimated Fair Value |
|--|-------------------|----------------------|
| <i>Securities Available-for-Sale</i> | | |
| Due in one year or less | \$ 1,610 | \$ 1,620 |
| Due after one year through five years | 16,578 | 17,017 |
| Due after five years through ten years | 213,829 | 217,872 |
| Due after ten years | 559,859 | 571,356 |
| | <u>\$ 791,876</u> | <u>\$ 807,865</u> |
| <i>Securities Held-to-Maturity</i> | | |
| Due in one year or less | \$ — | \$ — |
| Due after one year through five years | — | — |
| Due after five years through ten years | 4,937 | 5,241 |
| Due after ten years | 44,099 | 45,357 |
| | <u>\$ 49,036</u> | <u>\$ 50,598</u> |

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

| | For the year ended December 31, | | |
|---|---------------------------------|----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Gross unrealized gains recognized on securities still held | \$ 888 | \$ 208 | \$ — |
| Gross unrealized losses recognized on securities still held | — | (298) | — |
| Net unrealized (losses) gains recognized on securities still held | <u>\$ 888</u> | <u>\$ (90)</u> | <u>\$ —</u> |
| Gross realized gains | \$ 226 | \$ — | \$ 4,476 |
| Gross realized losses | (157) | — | — |
| Net realized investment security gains | <u>\$ 69</u> | <u>\$ —</u> | <u>\$ 4,476</u> |

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$508 million and \$510 million at December 31, 2019 and 2018, respectively.

Effective January 1, 2020, the Company reclassified its held-to-maturity securities as available-for-sale utilizing the transition guidance under ASU 2019-04, and the unrealized gains/losses on these investments will be recorded through Other Comprehensive Income.

NOTE SIX – LOANS

The following summarizes the Company's major classifications for loans (in thousands):

| | December 31, 2019 | December 31, 2018 |
|---------------------------------|----------------------|----------------------|
| Residential real estate | \$ 1,640,396 | \$ 1,635,338 |
| Home equity | 148,928 | 153,496 |
| Commercial and industrial | 308,015 | 286,314 |
| Commercial real estate | 1,459,737 | 1,454,942 |
| Consumer | 54,263 | 51,190 |
| DDA overdrafts | 4,760 | 6,328 |
| Gross loans | <u>3,616,099</u> | <u>3,587,608</u> |
| Allowance for loan losses | (11,589) | (15,966) |
| Net loans | <u>\$ 3,604,510</u> | <u>\$ 3,571,642</u> |
| Construction loans included in: | | |
| Residential real estate | \$ 29,033 | \$ 21,834 |
| Commercial real estate | 64,049 | 37,869 |

The Company's commercial and residential real estate construction loans are primarily secured by real estate within the Company's principal markets. These loans were originated under the Company's loan policy, which is focused on the risk characteristics of the loan portfolio, including construction loans. In the judgment of the Company's management, adequate consideration has been given to these loans in establishing the Company's allowance for loan losses.

NOTE SEVEN – ALLOWANCE FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the appropriateness of the allowance for loan losses on a quarterly basis to provide for probable incurred losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance and other relevant factors.

Individual credits in excess of \$1 million are selected at least annually for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the appropriateness of the allowance. Due to the nature of commercial lending, evaluation of the appropriateness of the allowance as it relates to these types of loan types is often based more upon specific credit reviews, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for economic conditions and other inherent risk factors.

The following summarizes the activity in the allowance for loan loss, by portfolio segment (in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments. The following also presents the balance in the allowance for loan loss disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment (in thousands).

| | Commercial and industrial | Commercial real estate | Residential real estate | Home equity | Consumer | DDA overdrafts | Total |
|---|---------------------------|------------------------|-------------------------|-------------|-----------|----------------|--------------|
| December 31, 2019 | | | | | | | |
| <i>Allowance for loan loss</i> | | | | | | | |
| Beginning balance | \$ 4,060 | \$ 4,495 | \$ 4,116 | \$ 1,268 | \$ 319 | \$ 1,708 | \$ 15,966 |
| Charge-offs | (261) | (1,358) | (787) | (294) | (1,177) | (2,777) | (6,654) |
| Recoveries | 764 | 624 | 369 | — | 265 | 1,505 | 3,527 |
| (Recovery of) provision | (2,504) | (1,155) | (250) | 213 | 1,568 | 878 | (1,250) |
| Ending balance | \$ 2,059 | \$ 2,606 | \$ 3,448 | \$ 1,187 | \$ 975 | \$ 1,314 | \$ 11,589 |
| December 31, 2018 | | | | | | | |
| <i>Allowance for loan loss</i> | | | | | | | |
| Beginning balance | \$ 4,571 | \$ 6,183 | \$ 5,212 | \$ 1,138 | \$ 62 | \$ 1,670 | \$ 18,836 |
| Charge-offs | (733) | (369) | (682) | (219) | (769) | (2,701) | (5,473) |
| Recoveries | 2,152 | 732 | 367 | — | 166 | 1,496 | 4,913 |
| (Recovery of) provision | (1,930) | (2,051) | (781) | 349 | 860 | 1,243 | (2,310) |
| Ending balance | \$ 4,060 | \$ 4,495 | \$ 4,116 | \$ 1,268 | \$ 319 | \$ 1,708 | \$ 15,966 |
| December 31, 2017 | | | | | | | |
| <i>Allowance for loan loss</i> | | | | | | | |
| Beginning balance | \$ 4,206 | \$ 6,573 | \$ 6,680 | \$ 1,417 | \$ 82 | \$ 772 | \$ 19,730 |
| Charge-offs | (400) | (720) | (1,637) | (403) | (60) | (2,714) | (5,934) |
| Recoveries | 58 | 112 | 294 | 45 | 63 | 1,462 | 2,034 |
| (Recovery of) provision | 707 | 218 | (125) | 79 | (23) | 2,150 | 3,006 |
| Ending balance | \$ 4,571 | \$ 6,183 | \$ 5,212 | \$ 1,138 | \$ 62 | \$ 1,670 | \$ 18,836 |
| As of December 31, 2019 | | | | | | | |
| <i>Allowance for loan loss</i> | | | | | | | |
| Evaluated for impairment: | | | | | | | |
| Individually | \$ — | \$ 87 | \$ — | \$ — | \$ — | \$ — | \$ 87 |
| Collectively | 1,784 | 2,488 | 3,448 | 1,187 | 968 | 1,314 | 11,189 |
| Acquired with deteriorated credit quality | 275 | 31 | — | — | 7 | — | 313 |
| Total | \$ 2,059 | \$ 2,606 | \$ 3,448 | \$ 1,187 | \$ 975 | \$ 1,314 | \$ 11,589 |
| <i>Loans</i> | | | | | | | |
| Evaluated for impairment: | | | | | | | |
| Individually | \$ 501 | \$ 6,190 | \$ — | \$ — | \$ — | \$ — | \$ 6,691 |
| Collectively | 306,372 | 1,445,522 | 1,638,204 | 148,928 | 54,160 | 4,760 | 3,597,946 |
| Acquired with deteriorated credit quality | 1,142 | 8,025 | 2,192 | — | 103 | — | 11,462 |
| Total | \$ 308,015 | \$ 1,459,737 | \$ 1,640,396 | \$ 148,928 | \$ 54,263 | \$ 4,760 | \$ 3,616,099 |

| | Commercial and industrial | Commercial real estate | Residential real estate | Home equity | Consumer | DDA overdrafts | Total |
|---|---------------------------|------------------------|-------------------------|-------------|-----------|----------------|--------------|
| As of December 31, 2018 | | | | | | | |
| <i>Allowance for loan loss</i> | | | | | | | |
| Evaluated for impairment: | | | | | | | |
| Individually | \$ — | \$ 428 | \$ — | \$ — | \$ — | \$ — | \$ 428 |
| Collectively | 4,059 | 4,015 | 4,116 | 1,268 | 312 | 1,708 | 15,478 |
| Acquired with deteriorated credit quality | 1 | 52 | — | — | 7 | — | 60 |
| Total | \$ 4,060 | \$ 4,495 | \$ 4,116 | \$ 1,268 | \$ 319 | \$ 1,708 | \$ 15,966 |
| <i>Loans</i> | | | | | | | |
| Evaluated for impairment: | | | | | | | |
| Individually | \$ 651 | \$ 9,855 | \$ — | \$ — | \$ — | \$ — | \$ 10,506 |
| Collectively | 284,018 | 1,433,674 | 1,633,241 | 153,496 | 51,077 | 6,328 | 3,561,834 |
| Acquired with deteriorated credit quality | 1,645 | 11,413 | 2,097 | — | 113 | — | 15,268 |
| Total | \$ 286,314 | \$ 1,454,942 | \$ 1,635,338 | \$ 153,496 | \$ 51,190 | \$ 6,328 | \$ 3,587,608 |

Credit Quality Indicators

All non-commercial loans are evaluated based on payment history. A performing loan is a loan to a borrower that has and is expected to fulfill the contractual terms of the loan agreement. The borrower generally makes the contractual payments on the due date, is expected to continue to pay timely, is not in default and has not been placed on nonaccrual. A non-performing loan is a loan that is generally past due 90 days or greater and/or is classified as non-accrual. All commercial loans within the portfolio are subject to internal risk grading. The Company's internal risk ratings for commercial loans are: Exceptional, Good, Acceptable, Pass/Watch, Special Mention, Substandard and Doubtful. Each internal risk rating is defined in the loan policy using the following criteria: balance sheet yields, ratios and leverage, cash flow spread and coverage, prior history, capability of management, market position/industry, potential impact of changing economic, legal, regulatory or environmental conditions, purpose, structure, collateral support, and guarantor support. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. Based on an individual loan's risk grade, estimated loss percentages are applied to the outstanding balance of the loan to determine the amount of probable loss.

The Company categorizes loans into risk categories based on relevant information regarding the customer's debt service ability, capacity, overall collateral position along with other economic trends, and historical payment performance. The risk grades for each credit are updated when the Company receives current financial information, the loan is reviewed by the Company's internal loan review/credit administration departments, or the loan becomes delinquent or impaired. The risk grades are updated a minimum of annually for loans rated Exceptional, Good, Acceptable, or Pass/Watch. Loans rated Special Mention, Substandard or Doubtful are reviewed at least quarterly. The Company uses the following definitions for its risk ratings:

| Risk Rating | Description |
|-----------------|--|
| Pass Ratings: | |
| (a) Exceptional | Loans classified as exceptional are secured with liquid collateral conforming to the internal loan policy. Loans rated within this category pose minimal risk of loss to the bank and the risk grade within this pool of loans is generally updated on an annual basis. |
| (b) Good | Loans classified as good have similar characteristics that include a strong balance sheet, satisfactory debt service coverage ratios, strong management and/or guarantors, and little exposure to economic cycles. Loans within this category are generally reviewed on an annual basis. Loans in this category generally have a low chance of loss to the bank. |
| (c) Acceptable | Loans classified as acceptable have acceptable liquidity levels, adequate debt service coverage ratios, experienced management, and have average exposure to economic cycles. Loans within this category generally have a low risk of loss to the bank. |
| (d) Pass/watch | Loans classified as pass/watch have erratic levels of leverage and/or liquidity, cash flow is volatile and the borrower is subject to moderate economic risk. A borrower in this category poses a low to moderate risk of loss to the bank. |
| Special mention | Loans classified as special mention have a potential weakness(es) that deserves management's close attention. The potential weakness could result in deterioration of the loan repayment or the bank's credit position at some future date. A loan rated in this category poses a moderate loss risk to the bank. |
| Substandard | Loans classified as substandard reflect a customer with a well defined weakness that jeopardizes the liquidation of the debt. Loans in this category have the possibility that the bank will sustain some loss if the deficiencies are not corrected or the bank's collateral value is weakened by the financial deterioration of the borrower. |
| Doubtful | Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that make collection of the full contract amount highly improbable. Loans rated in this category are most likely to cause the bank to have a loss due to a collateral shortfall or a negative capital position. |

The following table presents the Company's commercial loans by credit quality indicators, by class (in thousands):

| | Commercial and industrial | Commercial real estate | Total |
|--------------------------|---------------------------|------------------------|--------------|
| December 31, 2019 | | | |
| Pass | \$ 276,847 | \$ 1,408,644 | \$ 1,685,491 |
| Special mention | 2,472 | 13,838 | 16,310 |
| Substandard | 28,696 | 37,255 | 65,951 |
| Doubtful | — | — | — |
| Total | \$ 308,015 | \$ 1,459,737 | \$ 1,767,752 |
| December 31, 2018 | | | |
| Pass | \$ 250,856 | \$ 1,402,821 | \$ 1,653,677 |
| Special mention | 27,886 | 5,696 | 33,582 |
| Substandard | 7,572 | 46,425 | 53,997 |
| Doubtful | — | — | — |
| Total | \$ 286,314 | \$ 1,454,942 | \$ 1,741,256 |

The following table presents the Company's non-commercial loans by payment performance, by class (in thousands):

| | Performing | Non-Performing | Total |
|--------------------------|--------------|----------------|--------------|
| December 31, 2019 | | | |
| Residential real estate | \$ 1,636,920 | \$ 3,476 | \$ 1,640,396 |
| Home equity | 148,397 | 531 | 148,928 |
| Consumer | 54,263 | — | 54,263 |
| DDA overdrafts | 4,760 | — | 4,760 |
| Total | \$ 1,844,340 | \$ 4,007 | \$ 1,848,347 |
| December 31, 2018 | | | |
| Residential real estate | \$ 1,630,892 | \$ 4,446 | \$ 1,635,338 |
| Home equity | 153,334 | 162 | 153,496 |
| Consumer | 51,188 | 2 | 51,190 |
| DDA overdrafts | 6,322 | 6 | 6,328 |
| Total | \$ 1,841,736 | \$ 4,616 | \$ 1,846,352 |

Aging Analysis of Accruing and Non-Accruing Loans

The following presents an aging analysis of the Company's accruing and non-accruing loans, by class (in thousands):

| | December 31, 2019 | | | | | |
|---------------------------|-------------------|------------|------------|--------------|-------------|--------------|
| | Accruing | | | | | |
| | Current | 30-59 days | 60-89 days | Over 90 days | Non-accrual | Total |
| Residential real estate | \$ 1,629,519 | \$ 5,758 | \$ 1,643 | \$ 83 | \$ 3,393 | \$ 1,640,396 |
| Home equity | 147,441 | 840 | 116 | — | 531 | 148,928 |
| Commercial and industrial | 306,375 | 243 | 31 | 184 | 1,182 | 308,015 |
| Commercial real estate | 1,451,773 | 1,514 | 66 | — | 6,384 | 1,459,737 |
| Consumer | 54,075 | 156 | 32 | — | — | 54,263 |
| DDA overdrafts | 4,030 | 644 | 86 | — | — | 4,760 |
| Total | \$ 3,593,213 | \$ 9,155 | \$ 1,974 | \$ 267 | \$ 11,490 | \$ 3,616,099 |
| December 31, 2018 | | | | | | |
| Accruing | | | | | | |
| | Current | 30-59 days | 60-89 days | Over 90 days | Non-accrual | Total |
| Residential real estate | \$ 1,621,073 | \$ 8,607 | \$ 1,213 | \$ 170 | \$ 4,275 | \$ 1,635,338 |
| Home equity | 152,083 | 1,240 | 11 | 24 | 138 | 153,496 |
| Commercial and industrial | 284,140 | 397 | 49 | 52 | 1,676 | 286,314 |
| Commercial real estate | 1,445,896 | 487 | 94 | 4 | 8,461 | 1,454,942 |
| Consumer | 50,894 | 253 | 41 | 1 | 1 | 51,190 |
| DDA overdrafts | 5,840 | 467 | 15 | 6 | — | 6,328 |
| Total | \$ 3,559,926 | \$ 11,451 | \$ 1,423 | \$ 257 | \$ 14,551 | \$ 3,587,608 |

The following presents the Company's individually evaluated impaired loans, by class (in thousands):

| | December 31, 2019 | | | December 31, 2018 | | |
|--|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| <i>With no related allowance recorded:</i> | | | | | | |
| Commercial and industrial | \$ 501 | \$ 501 | \$ — | \$ 651 | \$ 651 | \$ — |
| Commercial real estate | 3,546 | 3,572 | — | 6,870 | 6,895 | — |
| Total | \$ 4,047 | \$ 4,073 | \$ — | \$ 7,521 | \$ 7,546 | \$ — |
| <i>With an allowance recorded:</i> | | | | | | |
| Commercial and industrial | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Commercial real estate | 2,644 | 2,644 | 87 | 2,985 | 2,985 | 428 |
| Total | \$ 2,644 | \$ 2,644 | \$ 87 | \$ 2,985 | \$ 2,985 | \$ 428 |

The following table presents information related to the average recorded investment and interest income recognized on the Company's impaired loans, by class (in thousands):

| | For the year ended | | | | | |
|--|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | December 31, 2019 | | December 31, 2018 | | December 31, 2017 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| <i>With no related allowance recorded:</i> | | | | | | |
| Commercial and industrial | \$ 578 | \$ — | \$ 845 | \$ — | \$ 1,086 | \$ — |
| Commercial real estate | 4,388 | 41 | 4,623 | 39 | 4,534 | 69 |
| Total | \$ 4,966 | \$ 41 | \$ 5,468 | \$ 39 | \$ 5,620 | \$ 69 |
| <i>With an allowance recorded:</i> | | | | | | |
| Commercial and industrial | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Commercial real estate | 4,261 | 162 | 5,043 | 220 | 4,307 | 149 |
| Total | \$ 4,261 | \$ 162 | \$ 5,043 | \$ 220 | \$ 4,307 | \$ 149 |

If the Company's non-accrual and impaired loans had been current in accordance with their original terms, approximately \$0.2 million of interest income would have been recognized during the years ended December 31, 2019, 2018 and 2017. There were no commitments to provide additional funds on non-accrual or impaired loans at December 31, 2019.

Loan Modifications

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-02, whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

Regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged by the bankruptcy court and the borrower has not reaffirmed the debt. The filing of bankruptcy is deemed to be evidence that the borrower is in financial difficulty and the discharge of the debt by the bankruptcy court is deemed to be a concession granted to the borrower.

The following tables set forth the Company's TDRs (in thousands):

| | December 31, 2019 | December 31, 2018 |
|---------------------------|-------------------|-------------------|
| Commercial and industrial | \$ — | \$ 98 |
| Commercial real estate | 4,973 | 8,205 |
| Residential real estate | 21,029 | 23,521 |
| Home equity | 3,628 | 3,030 |
| Consumer | — | — |
| Total TDRs | \$ 29,630 | \$ 34,854 |

| | New TDRs For the year ended December 31, 2019 | | New TDRs For the year ended December 31, 2018 | | New TDRs For the year ended December 31, 2017 | |
|---------------------------|---|-------------------------------|---|-------------------------------|---|-------------------------------|
| | Pre Modification Outstanding | Post Modification Outstanding | Pre Modification Outstanding | Post Modification Outstanding | Pre Modification Outstanding | Post Modification Outstanding |
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| Commercial and industrial | — | \$ — | — | \$ — | — | \$ — |
| Commercial real estate | — | — | — | — | 2 | 3,098 |
| Residential real estate | 31 | 2,531 | 33 | 2,326 | 33 | 3,987 |
| Home equity | 10 | 967 | 10 | 274 | 13 | 271 |
| Consumer | — | — | — | — | — | — |
| | 41 | \$ 3,498 | 43 | \$ 2,600 | 48 | \$ 7,356 |

The Company had one TDR that subsequently defaulted in 2019. The loan balance was approximately \$3.0 million and the subsequent default resulted in a charge-off of \$0.7 million and the remaining balance was transferred to OREO during 2019.

NOTE EIGHT – PREMISES AND EQUIPMENT

A summary of premises and equipment and related accumulated depreciation is summarized as follows (in thousands):

| | Estimated Useful Life | 2019 | 2018 |
|--------------------------------|-----------------------|------------------|------------------|
| Land | | \$ 34,185 | \$ 34,538 |
| Buildings and improvements | 10 to 30 yrs. | 95,662 | 95,873 |
| Equipment | 3 to 7 yrs. | 43,135 | 41,856 |
| | | 172,982 | 172,267 |
| Less: accumulated depreciation | | (96,017) | (93,884) |
| | | \$ 76,965 | \$ 78,383 |

The depreciation expense for the years ended December 31, 2019, 2018, and 2017 was \$5.0 million, \$5.1 million, and \$5.9 million, respectively.

NOTE NINE – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company completed its annual assessment of the carrying value of goodwill during 2019 and concluded that its carrying value was not impaired. The following table presents a roll forward of the Company's goodwill activity (in thousands):

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Beginning balance | \$ 109,567 | \$ 76,196 |
| Goodwill and adjustments acquired in conjunction with the acquisition of Poage | (583) | 28,633 |
| Goodwill and adjustments acquired in conjunction with the acquisition of Farmers Deposit | (43) | 4,738 |
| Ending balance | <u>\$ 108,941</u> | <u>\$ 109,567</u> |

The Company believes that the customer relationships with the deposits acquired have an intangible value. In connection with acquisitions, the Company recorded a core deposit intangible, which represented the value that the acquiree had with their deposit customers. The fair value was estimated based on a discounted cash flow methodology that considered the type of deposit, estimated deposit retention, the cost of the deposit base and an alternate cost of funds. The following tables present the details of the Company's core deposit intangibles (in thousands):

| | 2019 | 2018 |
|---|------------------|------------------|
| Gross carrying amount | \$ 21,190 | \$ 21,190 |
| Accumulated amortization | (9,890) | (7,909) |
| | <u>\$ 11,300</u> | <u>\$ 13,281</u> |
| Beginning balance | \$ 13,281 | \$ 2,399 |
| Core deposit intangible acquired in conjunction with the acquisition of Poage | — | 8,054 |
| Core deposit intangible acquired in conjunction with the acquisition of Farmers Deposit | — | 3,334 |
| Amortization expense | (1,981) | (506) |
| Ending balance | <u>\$ 11,300</u> | <u>\$ 13,281</u> |

The core deposit intangibles are being amortized over 10 years. The estimated amortization expense for core deposit intangible assets for each of the next five years is as follows (in thousands):

| | |
|------------|------------------|
| 2020 | \$ 1,649 |
| 2021 | 1,472 |
| 2022 | 1,386 |
| 2023 | 1,220 |
| 2024 | 1,209 |
| Thereafter | 4,364 |
| | <u>\$ 11,300</u> |

NOTE TEN – SCHEDULED MATURITIES OF TIME DEPOSITS

Scheduled maturities of the Company's time deposits outstanding at December 31, 2019 are summarized as follows (in thousands):

| | |
|-----------------|---------------------|
| 2020 | \$ 859,387 |
| 2021 | 316,340 |
| 2022 | 140,575 |
| 2023 | 33,240 |
| 2024 | 14,563 |
| Over five years | 466 |
| | <u>\$ 1,364,571</u> |

The Company's time deposits that meet or exceed the FDIC insurance limit of \$250,000 were \$184.4 million and \$172.2 million at December 31, 2019 and 2018, respectively.

NOTE ELEVEN – SHORT-TERM DEBT

A summary of the Company's short-term borrowings are as follows (dollars in thousands):

| | 2019 | 2018 | 2017 |
|--|------------|------------|------------|
| Balance at end of year: | | | |
| Federal Home Loan Bank advances | \$ — | \$ 40,000 | \$ 54,000 |
| Securities sold under agreements to repurchase | 211,255 | 221,911 | 198,219 |
| Federal Funds purchased | — | — | — |
| Avg. outstanding during the year: | | | |
| Federal Home Loan Bank advances | \$ 10,752 | \$ 74,102 | \$ 46,639 |
| Securities sold under agreements to repurchase | 200,697 | 190,702 | 183,890 |
| Federal Funds purchased | 3 | 353 | — |
| Max. outstanding at any month end: | | | |
| Federal Home Loan Bank advances | \$ 154,000 | \$ 185,000 | \$ 126,500 |
| Securities sold under agreements to repurchase | 226,603 | 221,911 | 257,034 |
| Federal Funds purchased | — | 10,000 | — |
| Weighted-average interest rate: | | | |
| During the year: | | | |
| Federal Home Loan Bank advances | 2.72% | 2.21% | 1.30% |
| Securities sold under agreements to repurchase | 1.59 | 0.93 | 0.33 |
| Federal Funds purchased | 2.84 | 2.10 | — |
| End of the year: | | | |
| Federal Home Loan Bank advances | 1.85% | 2.76% | 1.57% |
| Securities sold under agreements to repurchase | 1.51 | 0.80 | 0.31 |
| Federal Funds purchased | — | — | — |

Through City National, the Company has approximately 41,000 shares of Federal Home Loan Bank ("FHLB") stock at par value as of December 31, 2019. Purchases of FHLB stock are required based on City National's maximum borrowing capacity with the FHLB. Additionally, FHLB stock entitles the Company to dividends declared by the FHLB and provides an additional source of short-term and long-term funding, in the form of collateralized advances. Financing obtained from the

FHLB is based, in part, on the amount of qualifying collateral available, specifically 1-4 family residential mortgages, other residential mortgages, and commercial real estate and other non-residential mortgage loans. Collateral pledged to the FHLB included approximately \$2.3 billion at December 31, 2019 and \$2.1 billion at December 31, 2018 in investment securities and 1-4 family residential property loans. In addition to the short-term financing discussed above and long-term financing (see [Note Twelve](#)) City National had an additional \$1.9 billion available from unused portions of lines of credit with the FHLB and other financial institutions at December 31, 2019 and 2018.

Securities sold under agreements to repurchase consist of securities with overnight and continuous maturities.

NOTE TWELVE – LONG-TERM DEBT

The components of the Company's long-term debt are summarized below (dollars in thousands):

| | 2019 | 2018 |
|--|-----------------|-----------------|
| Subordinated debentures owed to Town Square Statutory Trust I, due 2036, interest at a rate of 3.74% and 4.64%, at December 31, 2019 and 2018, respectively. | \$ 4,124 | \$ 4,124 |
| Fair value adjustment of subordinated debentures | (68) | (71) |
| | <u>\$ 4,056</u> | <u>\$ 4,053</u> |

Town Square Statutory Trust I

As a part of its Poage acquisition, the Company assumed Poage's subordinated debentures. In December 2006, Town Square Statutory Trust I, a trust formed by the Town Square Financial Corporation, closed a pooled private offering of 4,000 trust preferred securities with a liquidation amount of \$1,000 per security. Poage issued \$4,124,000 of subordinated debentures to the trust in exchange for ownership of all the common security of the trust and the proceeds of the preferred securities sold by the trust.

The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1,000, on or after December 22, 2012 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on December 22, 2036. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three month LIBOR rate plus 1.83%.

Payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities are guaranteed by the Company. The Company also entered into an agreement as to expenses and liabilities with the trust pursuant to which it agreed, on a subordinated basis, to pay any cost, expenses or liabilities of the trust other than those arising under the trust preferred securities. The obligations of the Company under the junior subordinated debentures, the related indentures, the trust agreement establishing the trust and the guarantees, and the agreements as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust preferred securities. The trust preferred securities issued by the statutory business trusts qualify as Tier 1 capital for the Company under current Federal Reserve Board guidelines.

On January 29, 2020, the Board of Directors of the Company authorized repayment of its Subordinated Debentures assumed by the Company as part of its acquisition of Poage at a price of 100% of the principal amount. Town Square Statutory Trust I will repay its Capital Securities on March 16, 2020 at a price of 100%. All regulatory approvals have been received by the Company to redeem these securities.

NOTE THIRTEEN – DERIVATIVE INSTRUMENTS

As of December 31, 2019 and 2018, the Company primarily utilizes non-hedging derivative financial instruments with commercial banking customers to facilitate their interest rate management strategies. For these instruments, the Company acts as an intermediary for its customers and has offsetting contracts with financial institution counterparties. Changes in the fair value of these underlying derivative contracts generally offset each other and do not significantly impact the Company's results of operations.

The following table summarizes the notional and fair value of these derivative instruments (in thousands):

| | December 31, 2019 | | December 31, 2018 | |
|--|-------------------|------------|-------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Non-hedging interest rate derivatives: | | | | |
| Customer counterparties: | | | | |
| Loan interest rate swap - assets | \$ 377,534 | \$ 16,094 | \$ 132,146 | \$ 3,131 |
| Loan interest rate swap - liabilities | 189,803 | 3,214 | 372,223 | 13,774 |
| Non-hedging interest rate derivatives: | | | | |
| Financial institution counterparties: | | | | |
| Loan interest rate swap - assets | 189,803 | 3,214 | 403,500 | 13,902 |
| Loan interest rate swap - liabilities | 382,566 | 16,133 | 132,146 | 3,131 |

The following table summarizes the change in fair value of these derivative instruments (in thousands):

| | Year Ended December 31, | | |
|---|-------------------------|----------|------------|
| | 2019 | 2018 | 2017 |
| Change in Fair Value Non-Hedging Interest Rate Derivatives: | | | |
| Other income - derivative assets | \$ 4,342 | \$ 1,316 | \$ (3,379) |
| Other income - derivative liabilities | (4,342) | (1,316) | 3,379 |
| Other expense - derivative liabilities | 165 | 50 | 86 |

Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company's derivative transactions with financial institution counterparties are generally executed under International Swaps and Derivative Association ("ISDA") master agreements which include "right of setoff" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset financial instruments for financial reporting purposes.

Pursuant to the Company's agreements with certain of its derivative financial institution counterparties, the Company may receive collateral or post collateral, which may be in the form of cash or securities, based upon mark-to-market positions. The Company has posted collateral with a market value of \$28.3 million as of December 31, 2019.

Loans associated with a customer counterparty loan interest rate swap agreement may be subject to a make whole penalty upon termination of the agreement. The dollar amount of the make whole penalty varies based on the remaining term of the agreement and market rates at that time. The make whole penalty is secured by equity in the specific collateral securing the loan. The Company estimates the make whole penalty when determining if there is sufficient collateral to pay off both the potential make whole penalty and the outstanding loan balance at the origination of the loan. In the event of a customer default, the make whole penalty is capitalized into the existing loan balance; however, no guarantees can be made that the collateral will be sufficient to cover both the make whole provision and the outstanding loan balance at the time of foreclosure.

NOTE FOURTEEN – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

| | 2019 | 2018 |
|---------------------------------------|-----------------|------------------|
| Allowance for loan losses | \$ 2,708 | \$ 3,742 |
| Deferred compensation payable | 2,912 | 2,734 |
| Underfunded pension liability | 1,912 | 1,794 |
| Accrued expenses | 1,196 | 2,276 |
| Impaired asset losses | 703 | 1,201 |
| Unrealized securities losses | — | 1,871 |
| Intangible assets | 479 | 783 |
| Other | 6,584 | 6,492 |
| Total Deferred Tax Assets | 16,494 | 20,893 |
| Unrealized securities gains | 3,709 | — |
| Other | 6,116 | 3,555 |
| Total Deferred Tax Liabilities | 9,825 | 3,555 |
| Net Deferred Tax Assets | \$ 6,669 | \$ 17,338 |

No material valuation allowances for deferred tax assets were recorded at December 31, 2019 and 2018 as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

On December 22, 2017, the President signed the Tax Cut and Jobs Act ("TCJA") into law. Among other things, the TCJA reduced the corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of this decrease in the corporate income tax, the Company re-measured its deferred tax assets and liabilities, which resulted in a provisional charge to earnings of \$7.1 million in 2017, which is included in total deferred tax expense in the table below. Upon final analysis of available information and refinement of the Company's calculations during 2018, the Company increased its provisional amount by \$0.1 million, which is included as a component of income tax expense. Significant components of the provision for income taxes are as follows (in thousands):

| | 2019 | 2018 | 2017 |
|----------------------------------|------------------|------------------|------------------|
| Current: | | | |
| Federal | \$ 16,636 | \$ 16,846 | \$ 20,090 |
| State | 2,560 | 2,413 | 1,436 |
| Total current tax expense | 19,196 | 19,259 | 21,526 |
| Total deferred tax expense | 4,939 | (1,244) | 14,909 |
| Income tax expense | \$ 24,135 | \$ 18,015 | \$ 36,435 |

A reconciliation of the significant differences between the federal statutory income tax rate and the Company's effective income tax rate is as follows (in thousands):

| | 2019 | 2018 | 2017 |
|--|------------------|------------------|------------------|
| Computed federal taxes at statutory rate | \$ 23,832 | \$ 18,483 | \$ 31,761 |
| State income taxes, net of federal tax benefit | 2,376 | 1,730 | 1,321 |
| Tax effects of: | | | |
| Tax-exempt interest income | (733) | (694) | (1,098) |
| Bank-owned life insurance | (791) | (649) | (1,474) |
| Change in statutory tax rate | — | — | 7,070 |
| Other items, net | (549) | (855) | (1,145) |
| Income tax expense | \$ 24,135 | \$ 18,015 | \$ 36,435 |

The entire amount of the Company's unrecognized tax benefits, if recognized, would favorably affect the Company's effective tax rate. The Company anticipates that it will release \$0.6 million over the next 12 months. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows (in thousands):

| | 2019 | 2018 |
|--|-----------------|-----------------|
| Beginning balance | \$ 1,811 | \$ 1,889 |
| Additions for current year tax positions | 115 | 184 |
| Additions for prior year tax positions | 377 | 241 |
| Decreases related to lapse of applicable statute of limitation | (496) | (503) |
| Ending balance | \$ 1,807 | \$ 1,811 |

Interest and penalties on income tax uncertainties are included in income tax expense. During 2019, 2018 and 2017, the provision related to interest and penalties was approximately \$0.6 million, \$0.2 million, and \$0.2 million, respectively. The balance of accrued interest and penalties at December 31, 2019 and 2018 was \$0.7 million and \$0.5 million, respectively.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2016 and forward.

NOTE FIFTEEN – EMPLOYEE BENEFIT PLANS

Pursuant to the terms of the City Holding Company 2013 Incentive Plan (the "2013 Plan"), the Compensation Committee of the Board of Directors, or its delegate, may, from time-to-time, grant stock options, stock appreciation rights ("SARs"), or stock awards to employees, directors and individuals who provide service to the Company (collectively, "Plan Participants"). The 2013 Plan was approved by the shareholders in April 2013. A maximum of 750,000 shares of the Company's common stock may be issued under the 2013 Plan upon the exercise of stock options, SARs and stock awards, subject to certain limitations. These limitations may be adjusted in the event of a change in the number of outstanding shares of common stock by reason of a stock dividend, stock split or other similar event. Specific terms of options and SARs awarded, including vesting periods, exercise prices (stock price at date of grant) and expiration dates are determined at the date of grant and are evidenced by agreements between the Company and the awardee. The exercise price of the option grants equals the market price of the Company's stock on the date of grant. All incentive stock options and SARs will be exercisable up to 10 years from the date granted and all options and SARs are exercisable for the period specified in the individual agreement. As of December 31, 2019, approximately 451,000 shares were still available to be issued under the 2013 Plan.

Each award from the 2013 Plan is evidenced by an award agreement that specifies the option price, the duration of the option, the number of shares to which the option pertains, and such other provisions as the Compensation Committee, or its delegate, determines. Upon a change-in-control of the Company, as defined in the 2013 Plan, all outstanding options and awards shall immediately vest.

Certain stock options and restricted stock awards granted pursuant to the 2013 Plan have performance-based vesting requirements. These shares will vest in three separate annual installments of approximately 33.33% per installment on the third, fourth and fifth anniversaries of the grant date, subject further to performance-based vesting requirements. To meet the performance-based vesting requirement, the Company's mean return on average assets of the three, four and five year period prior to the respective vesting date must meet or exceed the median return on average assets over the 20 year period immediately preceding the vesting date of all FDIC insured depository institutions. The mean return on average assets excludes merger and acquisition expenses and other nonrecurring items as determined by the Board of Directors of the Company.

In 2018, the Board of Directors granted the named executive officers ("NEOs") of the Company restricted stock units ("RSUs") and performance share units ("PSUs"). The RSUs will vest in three separate annual installments of approximately 33.33% per installment on the first, second and third anniversaries of the grant date, subject to a two-year holding period. The PSUs will vest on the third anniversary of the grant date. The payout for the PSUs will be determined based on two factors: (1) the Company's three-year average return on assets ("ROA") during the three-year performance period relative to the ROA for the selected peer companies and (2) the Company's total shareholder return ("TSR") during the three-year performance period relative to the TSR of the selected peer companies.

Stock Options

A summary of the Company's stock option activity and related information is presented below:

| | 2019 | | 2018 | | 2017 | |
|--------------------------------|----------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| Outstanding at January 1 | 57,972 | \$ 51.15 | 87,605 | \$ 47.15 | 86,613 | \$ 41.08 |
| Granted | — | — | — | — | 17,631 | 66.32 |
| Exercised | (11,721) | 44.87 | (29,633) | 39.31 | (16,639) | 35.91 |
| Forfeited | — | — | — | — | — | — |
| Outstanding at December 31 | 46,251 | \$ 52.74 | 57,972 | \$ 51.15 | 87,605 | \$ 47.15 |
| Exercisable at end of year | 8,063 | \$ 44.48 | 2,697 | \$ 45.13 | 7,887 | \$ 37.37 |
| Nonvested at beginning of year | 55,275 | 51.40 | 79,718 | 48.08 | 83,613 | 41.47 |
| Granted during the year | — | — | — | — | 17,631 | 66.32 |
| Vested during the year | (17,087) | 44.65 | (24,443) | 40.58 | (21,526) | 37.31 |
| Forfeited during the year | — | — | — | — | — | — |
| Nonvested at end of year | 38,188 | \$ 54.42 | 55,275 | \$ 51.40 | 79,718 | \$ 48.08 |

Information regarding stock option exercises and stock-based compensation expense associated with stock options is provided in the following table (in thousands):

| | For the year ended December 31, | | |
|--|---------------------------------|----------|--------|
| | 2019 | 2018 | 2017 |
| Proceeds from stock option exercises | \$ 526 | \$ 1,164 | \$ 597 |
| Intrinsic value of stock options exercised | 368 | 944 | 481 |
| Stock-based compensation expense associated with stock options | \$ 119 | \$ 178 | \$ 246 |
| Income tax benefit recognized related to stock-based compensation | 12 | 19 | 42 |
| At period-end: | 2019 | | |
| Unrecognized stock-based compensation expense | \$ 84 | | |
| Weighted average period in which the above amount is expected to be recognized | 1.5 | years | |

Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares would be issued from available authorized shares. During 2019, 2018 and 2017, all shares issued in connection with stock option exercises and restricted stock awards were issued from available treasury stock. For the stock options that have performance-based criteria, management has evaluated those criteria and has determined that, as of December 31, 2019, the criteria were probable of being met.

Restricted Shares

The Company measures compensation expense with respect to restricted shares in an amount equal to the fair 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 charged to expense over the respective vesting periods.

Restricted shares are generally forfeited if officers and employees terminate employment with the Company 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, and 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. For the restricted shares that have performance-based criteria, management has evaluated those criteria and has determined that, as of December 31, 2019, the criteria were probable of being met.

A summary of the Company's restricted shares activity and related information is presented below:

| | 2019 | | 2018 | | 2017 | |
|----------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | Restricted Awards | Average Market Price at Grant | Restricted Awards | Average Market Price at Grant | Restricted Awards | Average Market Price at Grant |
| Outstanding at January 1 | 149,692 | | 170,033 | | 180,622 | |
| Granted | 44,598 | \$ 77.78 | 28,363 | \$ 69.94 | 28,839 | \$ 64.42 |
| Forfeited/Vested | (46,207) | | (48,704) | | (39,428) | |
| Outstanding at December 31 | 148,083 | | 149,692 | | 170,033 | |

Information regarding stock-based compensation associated with restricted shares is provided in the following table (in thousands):

| | For the year ended December 31, | | |
|--|---------------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Stock-based compensation expense associated with restricted shares | \$ 2,022 | \$ 1,609 | \$ 1,507 |
| At period-end: | 2019 | | |
| Unrecognized stock-based compensation expense | \$ 5,018 | | |
| Weighted average period in which the above amount is expected to be recognized | 2.9 | years | |

401(k) Plan

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). Information regarding the Company's 401(k) plan is provided in the following table (dollars in thousands):

| | For the year ended December 31, | | |
|---|---------------------------------|--------|--------|
| | 2019 | 2018 | 2017 |
| Expense associated with the Company's 401(k) Plan | \$ 1,023 | \$ 905 | \$ 841 |

| | | | |
|--|---------|---------|---------|
| At period-end: | | | |
| Number of shares of the Company's common stock held by the 401(k) Plan | 203,989 | 229,276 | 228,662 |

Defined Benefit Plans

The Company maintains two defined benefit pension plans (the "Defined Benefit Plans"), which were inherited from the Company's acquisition of the plan sponsors (Horizon Bancorp, Inc. and Community Financial Corporation). The Horizon Defined Benefit Plan was frozen in 1999 and maintains a December 31st year-end for purposes of computing its benefit obligations. The Community Defined Benefit Plan was frozen in 2012 and was terminated during the year-ended December 31, 2018.

Primarily as a result of the interest rate environment over the past several years and mortality table revisions, the benefit obligation exceeded the estimated fair value of plan assets as of December 31, 2019 and December 31, 2018. The following table summarizes activity within the Company's Defined Benefit Plans (dollars in thousands):

| | Pension Benefits | |
|---|------------------|------------|
| | 2019 | 2018 |
| Change in fair value of plan assets: | | |
| Fair value at beginning of measurement period | \$ 12,041 | \$ 16,360 |
| Actual gain (loss) on plan assets | 880 | (434) |
| Contributions | — | 1,509 |
| Benefits paid | (1,037) | (5,394) |
| Fair value at end of measurement period | 11,884 | 12,041 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of measurement period | (14,222) | (18,488) |
| Interest cost | (561) | (590) |
| Actuarial (loss) gain | (21) | (1,488) |
| Assumption changes | (1,452) | 825 |
| Benefits paid | 1,037 | 5,394 |
| Settlement loss | — | 125 |
| Benefit obligation at end of measurement period | (15,219) | (14,222) |
| Funded status | \$ (3,335) | \$ (2,181) |
| Weighted-average assumptions for benefit obligation: | | |
| Discount rate | 3.05% | 4.10% |
| Expected long-term rate of return | 6.75% | 6.75% |
| Weighted-average assumptions for net periodic pension cost: | | |
| Discount rate | 4.10% | 3.38% |
| Expected long-term rate of return | 6.75% | 6.56% |

Based on the funding status of the Horizon Defined Benefit Plan, no contributions were required during the years ended December 31, 2019 and 2018, and no significant contributions are anticipated being required for the year ending December 31, 2020.

During 2017, the Company initiated the process to terminate the Community Defined Benefit plan. The Company made a \$1.5 million terminal contribution in 2018 to terminate the plan.

The following table presents the components of the net periodic pension cost of the Company's Defined Benefit Plans, which is recognized in Other Expenses in the Consolidated Statements of Income (in thousands):

| | 2019 | 2018 | 2017 |
|-------------------------------------|---------------|---------------|---------------|
| Components of net periodic benefit: | | | |
| Interest cost | \$ 561 | \$ 590 | \$ 772 |
| Expected return on plan assets | (856) | (1,080) | (1,219) |
| Settlement | — | 71 | (104) |
| Net amortization and deferral | 917 | 890 | 849 |
| Net Periodic Pension Cost | \$ 622 | \$ 471 | \$ 298 |

Amounts related to the Company's Defined Benefit Pension Plans recognized as a component of other comprehensive income were as follows (in thousands):

| | 2019 | 2018 | 2017 |
|---|----------|------------|----------|
| Net actuarial gain (loss) | \$ (530) | \$ (1,092) | \$ 838 |
| Deferred tax (expense) benefit | 131 | 254 | (1,211) |
| Other comprehensive income (loss), net of tax | \$ (399) | \$ (838) | \$ (373) |

Amounts recognized as a component of accumulated other comprehensive loss as of December 31, 2019 and 2018 were as follows (in thousands):

| | 2019 | 2018 |
|--|----------|----------|
| Net actuarial loss | \$ 8,182 | \$ 7,652 |
| Deferred tax benefit | (1,912) | (1,781) |
| Amounts included in accumulated other comprehensive loss, net of tax | \$ 6,270 | \$ 5,871 |

The following table summarizes the expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter (in thousands):

| Plan Year Ending December 31, | Expected Benefits to be Paid |
|-------------------------------|------------------------------|
| 2020 | \$ 995 |
| 2021 | 994 |
| 2022 | 1,002 |
| 2023 | 994 |
| 2024 | 1,008 |
| 2025 through 2028 | 4,747 |

The major categories of assets in the Company's Defined Benefit Plans as of year-end are presented in the following table (in thousands). Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (See [Note Twenty](#)).

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------|-----------|-----------|----------|---------|
| 2019 | | | | |
| Cash and cash equivalents | \$ 79 | \$ 79 | \$ — | \$ — |
| Common stocks | 6,787 | 6,787 | — | — |
| Corporate bonds | 5,018 | — | 5,018 | — |
| Total | \$ 11,884 | \$ 6,866 | \$ 5,018 | \$ — |
| 2018 | | | | |
| Cash and cash equivalents | \$ 12,041 | \$ 12,041 | \$ — | \$ — |
| Total | \$ 12,041 | \$ 12,041 | \$ — | \$ — |

Horizon Defined Benefit Plan (Investment Strategy)

During the fourth quarter of 2018, the Company changed the administrator of The Horizon Defined Benefit Plan to its trust department. The Company's pension committee has revised the plan's investment strategy and set a target allocation of 50% equity securities and 50% fixed income securities. The assets will be reallocated periodically to meet the above target allocations. A range is developed around each of these target allocations such that at any given time the actual allocation may be higher or lower than stated above (+ or - 10%). The overall investment return goal is to achieve a rate of return greater than a blended index of the S&P 500 and the Barclay's Capital Aggregate Bond Index, which is tailored to the same asset mix of the retirement plans assets, by 1/2 or 1% annualized after fees over a rolling five year moving average basis. At December 31, 2019, the plan assets were invested in equity securities (57%), fixed income securities (42%), and cash and cash equivalents (1%), which are in the allowable allocation range under the policy.

Pentegra Defined Benefit Plan

The Company and its subsidiary participate in the Pentegra Defined Benefit Plan for Financial Institutions ("The Pentegra DB Plan"), a tax-qualified defined benefit pension plan. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan. The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers. The funded statuses below are as of July 1, 2019 (the latest available valuation report). It is the policy of the Company to fund the normal cost of the Pentegra DB Plan on an annual basis. Other than for normal plan expenses, no contributions were required for the years ended December 31, 2019, 2018 and 2017. The benefits of the original Pentegra Defined Benefit Plan were frozen prior to the acquisition of Classic Bancshares ("Classic") in 2005, and the benefits of the Poage Pentegra Defined Benefit Plan were frozen prior to the acquisition of Poage in 2018. It is the intention of the Company to fund benefit amounts when assets of the plan are not sufficient.

| | |
|---|------------|
| Pentegra DB Plan's Employer Identification Number | 13-5645888 |
| Plan Number | 333 |
| Funded status for plan inherited with Classic acquisition | 89.02% |
| Funded status for plan inherited with Poage acquisition | 94.35% |

Employment Contracts

The Company has entered into employment contracts with certain of its current executive officers. The employment contracts provide for, among other things, the payment of termination compensation in the event an executive officer either voluntarily or involuntarily terminates his employment with the Company for other than "Just Cause" as defined in the applicable employment contract. Certain of the employment contracts provide for a termination benefit that became fully vested in 2005 and is payable if and when the executive officer terminates his employment with the Company. The termination benefit grows each year at an amount equal to the one-year constant maturity treasury rate and cannot be forfeited except where the executive officer personally profits from willful fraudulent activity that materially and adversely affects the Company. The costs of this vested termination benefit have been fully accrued and expensed by the Company as of December 31, 2019. The liability was \$2.1 million at December 31, 2019 and 2018.

Other Post-Retirement Benefit Plans

Certain entities previously acquired by the Company had entered into individual deferred compensation and supplemental retirement agreements with certain current and former directors and officers. The Company has assumed the liabilities associated with these agreements, the cost of which is being accrued over the period of active service from the date of the respective agreement. To assist in funding these liabilities, the acquired entities had insured the lives of certain current and former directors and officers. The Company is the current owner and beneficiary of those insurance policies. The following table presents a summary of the Company's other post-retirement benefit plans (in thousands).

| | For the year ended December 31 | | |
|---|--------------------------------|--------|--------|
| | 2019 | 2018 | 2017 |
| Cost of other post-retirement benefits | \$ 304 | \$ 280 | \$ 278 |
| At period-end: | | | |
| Other post-retirement benefit liability (included in Other Liabilities) | 6,570 | 6,923 | 5,695 |
| Cash surrender value of insurance policies (included in Other Assets) | 6,544 | 6,807 | 6,954 |

NOTE SIXTEEN – RELATED PARTY TRANSACTIONS

City National has granted loans to certain non-executive officers and directors of the Company and its subsidiaries, and to their associates.

| | December 31, 2018 | | December 31, 2019 | |
|----------------------|---------------------|----------------------|---------------------|----------------------|
| | Principal Additions | Principal Reductions | Principal Additions | Principal Reductions |
| Related Party Loans | \$ 22,032 | \$ 204 | \$ (1,854) | \$ 20,382 |
| Unfunded commitments | 16,109 | | | 13,006 |

NOTE SEVENTEEN – 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 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 majority of the Company's commitments have variable interest rates. 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):

| | December 31, 2019 | December 31, 2018 |
|-------------------------------|----------------------|----------------------|
| Commitments to extend credit: | | |
| Home equity lines | \$ 214,715 | \$ 207,509 |
| Commercial real estate | 56,941 | 68,649 |
| Other commitments | 213,904 | 201,687 |
| Standby letters of credit | 6,748 | 7,183 |
| Commercial letters of credit | 1,249 | 811 |

Loan commitments and standby and commercial letters of credit have credit risks essentially the same as those 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.

In addition, the Company is engaged in various legal actions that it deems to be in the ordinary course of business. As these legal actions are resolved, the Company could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately decided. There can be no assurance that current actions will have immaterial results, either positive or negative, or that no material actions may be presented in the future.

NOTE EIGHTEEN – PREFERRED STOCK

The Company's Board of Directors has the authority to issue preferred stock, and to determine the designation, preferences, rights, dividends and all other attributes of such preferred stock, without any vote or action by the shareholders. As of December 31, 2019, no such shares were outstanding, nor were any expected to be issued.

NOTE NINETEEN – REGULATORY REQUIREMENTS AND CAPITAL RATIOS

The principal source of income and cash for City Holding (the "Parent Company") is dividends from City National. Dividends paid by City National to the Parent Company are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. Approval is also required if dividends declared would cause City National's regulatory capital to fall below specified minimum levels. At December 31, 2019, City National could pay dividends up to \$76.8 million without prior regulatory permission.

During 2019, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders and (2) fund repurchases of the Company's common shares. As of December 31, 2019, the Parent Company reported a cash balance of approximately \$26.2 million. Management believes that the Parent Company's available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2020.

In July 2013, the Federal Reserve published the final rules that established a new comprehensive capital framework for banking organizations, commonly referred to as Basel III. These final rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions. The final rule became effective January 1, 2015 for smaller, non-complex banking organizations, with full implementation on January 1, 2019.

As of January 1, 2019, the Basel III Capital Rules require City Holding and City National to maintain minimum CET 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios (which are shown in the table below). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to City Holding Company or City National Bank.

The Company's regulatory capital ratios for both City Holding and City National are illustrated in the following tables (in thousands):

| | Actual | | Minimum Required - Basel III | | Required to be Considered Well Capitalized | | | |
|---------------------------|-------------------|-------|--|--------|---|-------|--|-------|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | | |
| December 31, 2019 | | | | | | | | |
| CET 1 Capital | | | | | | | | |
| City Holding Company | \$ 532,640 | 16.0% | \$ 232,358 | 7.0% | \$ 215,761 | 6.5% | | |
| City National Bank | 459,006 | 13.9% | 230,808 | 7.0% | 214,322 | 6.5% | | |
| Tier 1 Capital | | | | | | | | |
| City Holding Company | 536,640 | 16.2% | 282,150 | 8.5% | 265,552 | 8.0% | | |
| City National Bank | 459,006 | 13.9% | 280,267 | 8.5% | 263,781 | 8.0% | | |
| Total Capital | | | | | | | | |
| City Holding Company | 548,291 | 16.5% | 348,538 | 10.5% | 331,941 | 10.0% | | |
| City National Bank | 470,656 | 14.3% | 346,213 | 10.5% | 329,726 | 10.0% | | |
| Tier 1 Leverage Ratio | | | | | | | | |
| City Holding Company | 536,640 | 11.0% | 195,558 | 4.0% | 244,448 | 5.0% | | |
| City National Bank | 459,006 | 9.5% | 193,074 | 4.0% | 241,342 | 5.0% | | |
| | | | Minimum Required - Basel III Phase-In Schedule | | Minimum Required - Basel III Fully Phased- In (*) | | Required to be Considered Well Capitalized | |
| December 31, 2018: | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| CET 1 Capital | | | | | | | | |
| City Holding Company | \$ 492,526 | 15.1% | \$ 208,294 | 6.375% | \$ 228,715 | 7.0% | \$ 212,378 | 6.5% |
| City National Bank | 423,099 | 13.1% | 206,676 | 6.375% | 226,938 | 7.0% | 210,728 | 6.5% |
| Tier 1 Capital | | | | | | | | |
| City Holding Company | 496,526 | 15.2% | 257,304 | 7.875% | 277,725 | 8.5% | 261,389 | 8.0% |
| City National Bank | 423,099 | 13.1% | 255,306 | 7.875% | 275,568 | 8.5% | 259,358 | 8.0% |
| Total Capital | | | | | | | | |
| City Holding Company | 512,801 | 15.7% | 322,651 | 9.875% | 343,072 | 10.5% | 326,736 | 10.0% |
| City National Bank | 439,374 | 13.6% | 320,145 | 9.875% | 340,408 | 10.5% | 324,198 | 10.0% |
| Tier 1 Leverage Ratio | | | | | | | | |
| City Holding Company | 496,526 | 11.4% | 174,833 | 4.000% | 174,833 | 4.0% | 218,542 | 5.0% |
| City National Bank | 423,099 | 9.8% | 172,594 | 4.000% | 172,594 | 4.0% | 215,742 | 5.0% |

(*) Represents the minimum required capital levels as of January 1, 2019 when Basel III Capital Rules have been fully phased in.

As of December 31, 2019, management believes that City Holding Company, and its banking subsidiary, City National, were "well capitalized." City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). Regulatory agencies can initiate certain mandatory actions if either City Holding or City National fails to meet the minimum capital requirements, as shown above. As of December 31, 2019, management believes that City Holding and City National meet all capital adequacy requirements.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") went into effect. The Regulatory Relief Act provides for a simplification of the minimum capital level requirements applicable to the Company. The FDIC issued its final rules regarding this change on September 17, 2019. Beginning on March 31, 2020, the Company will have the option of using a single community bank leverage ratio (Tier 1 capital to average consolidated assets) requirement of over nine percent to qualify as "well-capitalized." This new framework will replace the Basel III Capital

Rules applicable to the Company. As of December 31, 2019, the Company would have satisfied the community bank leverage ratio requirement had it been in effect.

NOTE TWENTY –FAIR VALUE MEASUREMENTS

Fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that 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. ASC Topic 820 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 is as follows:

Level 1: Quoted prices (unadjusted) for 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 less 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 bases fair value of assets and liabilities on quoted market prices, 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. If such information is not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amount presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Liabilities

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

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 utilizing a market approach by obtaining quoted prices on nationally recognized securities exchanges (other than forced or distressed transactions) that occur in sufficient volume 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. If such measurements are unavailable, the security is classified as Level 3. Significant judgment is required to make this determination.

The Company utilizes a third party pricing service provider to value its Level 1 and Level 2 investment securities. Annually, the Company obtains an independent auditor's report from its third party pricing service provider regarding its controls over investment securities. Although an unqualified opinion regarding the design and operating effectiveness of controls was issued, the report did contain caveats and disclaimers regarding the pricing information, such as the Company should review market values for reasonableness. On a quarterly basis, the Company reprices its debt securities with a third party that is independent of the primary pricing service provider to verify the reasonableness of the fair values.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes a market approach by obtaining dealer quotations to value its customer interest rate swaps. These quotes utilize the overnight indexed swap ("OIS") curve as a basis for discounting cash flows. The OIS curve is based on the Federal Funds rate. The Company's derivatives are included within its Other Assets and Other Liabilities in the accompanying consolidated balance sheets. Derivative assets are

typically secured through securities with financial counterparties or cross collateralization with a borrowing customer. Derivative liabilities are typically secured through the Company pledging securities to financial counterparties or, in the case of a borrowing customer, by the right of setoff. The Company considers such factors such as the likelihood of default by itself and its counterparties, right of setoff, and remaining maturities in determining the appropriate fair value adjustments. All derivative counterparties approved by the Company's Asset and Liability Committee ("ALCO") are regularly reviewed, and appropriate business action is taken to adjust the exposure to certain counterparties, if necessary. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of marketable collateral securing the position. This approach used to estimate impacted exposures to counterparties is also used by the Company to estimate its own credit risk in derivative liability positions. To date, no material losses have been incurred due to a counterparty's inability to pay any undercollateralized position. There was no significant change in the value of derivative assets and liabilities attributed to credit risk during the year ended December 31, 2019.

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using inputs based on observable market data. The following table presents the Company's assets and liabilities measured at fair value (in thousands):

| | Total | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
|--|----------|---------|---------|----------|-------------------------|
| December 31, 2019 | | | | | |
| Recurring fair value measurements | | | | | |
| <i>Financial Assets</i> | | | | | |
| U.S. Government agencies | \$ 502 | \$ — | \$ 502 | \$ — | |
| Obligations of states and political subdivisions | 117,187 | — | 117,187 | — | |
| <i>Mortgage-backed securities:</i> | | | | | |
| U.S. Government agencies | 642,104 | — | 642,104 | — | |
| Private label | 11,485 | — | 11,485 | — | |
| Trust preferred securities | 4,461 | — | 4,461 | — | |
| Corporate securities | 32,126 | — | 32,126 | — | |
| Marketable equity securities | 12,634 | 7,787 | 4,847 | — | |
| Certificates of Deposit held for investment | 2,241 | — | 2,241 | — | |
| Derivative assets | 19,310 | — | 19,310 | — | |
| <i>Financial Liabilities</i> | | | | | |
| Derivative liabilities | 19,380 | — | 19,380 | — | |
| Nonrecurring fair value measurements | | | | | |
| <i>Financial Assets</i> | | | | | |
| Impaired loans | \$ 8,925 | \$ — | \$ — | \$ 8,925 | \$ (87) |
| <i>Non-Financial Assets</i> | | | | | |
| Other real estate owned | 4,670 | — | — | 4,670 | (470) |
| Other assets | 100 | — | — | 100 | (297) |

| | Total | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
|--|-----------|---------|----------|-----------|-------------------------|
| December 31, 2018 | | | | | |
| Recurring fair value measurements | | | | | |
| <i>Financial Assets</i> | | | | | |
| U.S. Government agencies | \$ 5,733 | \$ — | \$ 5,733 | \$ — | |
| Obligations of states and political subdivisions | 128,070 | — | 128,070 | — | |
| Mortgage-backed securities: | | | | | |
| U.S. Government agencies | 550,758 | — | 550,758 | — | |
| Private label | 12,043 | — | 12,043 | — | |
| Trust preferred securities | 4,799 | — | 4,538 | 261 | |
| Corporate securities | 16,658 | — | 16,658 | — | |
| Marketable equity securities | 11,771 | 7,365 | 4,406 | — | |
| Certificates of Deposit held for investment | 3,735 | — | 3,735 | — | |
| Derivative assets | 17,100 | — | 17,100 | — | |
| <i>Financial Liabilities</i> | | | | | |
| Derivative liabilities | 16,905 | — | 16,905 | — | |
| Nonrecurring fair value measurements | | | | | |
| <i>Financial Assets</i> | | | | | |
| Impaired loans | \$ 10,078 | \$ — | \$ — | \$ 10,078 | \$ (428) |
| <i>Non-Financial Assets</i> | | | | | |
| Other real estate owned | 4,608 | — | — | 4,608 | (838) |
| Other assets | 600 | — | — | 600 | (491) |

The Company's financial assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) include impaired loans that were re-measured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral (in thousands). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to discounts applied to the customers' reported amount of collateral. The amount of collateral discount depends upon the marketability of the underlying collateral. During December 31, 2019 and 2018, collateral discounts ranged from 20% to 30%. During December 31, 2019 and 2018, the Company had no Level 2 financial assets and liabilities that were measured on a nonrecurring basis.

Non-Financial Assets and Liabilities

The Company has no non-financial assets or liabilities measured at fair value on a recurring basis. Certain non-financial assets measured at fair value on a non-recurring basis include other real estate owned ("OREO"), which is measured at the lower of cost or fair value, and goodwill and other intangible assets, which are measured at fair value for impairment assessments.

Fair Value of Financial Instruments

The following table represents the estimates of fair value of financial instruments (in thousands). This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest-bearing demand, interest-bearing demand and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------|--------------------|------------|------------|-----------|-----------|
| December 31, 2019 | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 140,144 | \$ 140,144 | \$ 140,144 | \$ — | \$ — |
| Securities available-for-sale | 810,106 | 810,106 | — | 810,106 | — |
| Securities held-to-maturity | 49,036 | 50,598 | — | 50,598 | — |
| Marketable equity securities | 12,634 | 12,634 | 7,787 | 4,847 | — |
| Net loans | 3,604,510 | 3,574,435 | — | — | 3,574,435 |
| Accrued interest receivable | 11,569 | 11,569 | 11,569 | — | — |
| Derivative assets | 19,310 | 19,310 | — | 19,310 | — |
| Liabilities: | | | | | |
| Deposits | 4,075,894 | 4,094,493 | 2,711,323 | 1,383,170 | — |
| Short-term debt | 211,255 | 211,255 | — | 211,255 | — |
| Long-term debt | 4,056 | 4,124 | — | 4,124 | — |
| Accrued interest payable | 2,849 | 2,849 | 2,849 | — | — |
| Derivative liabilities | 19,380 | 19,380 | — | 19,380 | — |
| December 31, 2018 | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 122,991 | \$ 122,991 | \$ 122,991 | \$ — | \$ — |
| Securities available-for-sale | 721,796 | 721,796 | — | 721,535 | 261 |
| Securities held-to-maturity | 60,827 | 60,706 | — | 60,706 | — |
| Marketable equity securities | 11,771 | 11,771 | 7,365 | 4,406 | — |
| Net loans | 3,571,642 | 3,516,557 | — | — | 3,516,557 |
| Accrued interest receivable | 12,424 | 12,424 | 12,424 | — | — |
| Derivative assets | 17,100 | 17,100 | — | 17,100 | — |
| Liabilities: | | | | | |
| Deposits | 3,975,559 | 3,985,534 | 2,622,905 | 1,362,629 | — |
| Short-term debt | 261,911 | 261,911 | — | 261,911 | — |
| Long-term debt | 4,053 | 4,115 | — | 4,115 | — |
| Accrued interest payable | 2,630 | 2,630 | 2,630 | — | — |
| Derivative liabilities | 16,905 | 16,905 | — | 16,905 | — |

NOTE TWENTY-ONE – CITY HOLDING COMPANY (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Condensed Balance Sheets

The following table presents the condensed balance sheets of City Holding Company, parent company only (in thousands):

| | December 31 | |
|---|-------------------|-------------------|
| | 2019 | 2018 |
| Assets | | |
| Cash | \$ 26,171 | \$ 20,621 |
| Securities available-for-sale | 6,286 | 5,908 |
| Investment in subsidiaries | 638,490 | 583,673 |
| Loans | 663 | 701 |
| Fixed assets | 23 | 5 |
| Other assets | 643 | 3,316 |
| Total Assets | \$ 672,276 | \$ 614,224 |
| Liabilities | | |
| Junior subordinated debentures | \$ 4,056 | \$ 4,053 |
| Dividends payable | 9,293 | 8,774 |
| Deferred tax liability | 534 | 366 |
| Other liabilities | 410 | 267 |
| Total Liabilities | 14,293 | 13,460 |
| Total Shareholders' Equity | 657,983 | 600,764 |
| Total Liabilities and Shareholders' Equity | \$ 672,276 | \$ 614,224 |

In 2018, the Parent Company repaid its junior subordinated debentures that were owed to City Holding Capital Trust III. In connection with the acquisition of Poage, the Parent Company assumed Poage's junior subordinated debentures that are owed to Town Square Statutory Trust I.

Condensed Statements of Comprehensive Income

The following table presents the condensed statements of comprehensive income of City Holding Company, parent company only (in thousands):

| | Year Ended December 31 | | |
|--|------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Income | | | |
| Dividends from subsidiaries | \$ 58,000 | \$ 50,000 | \$ 30,000 |
| Realized and unrealized investment securities gains | 425 | 208 | 200 |
| Other income | 151 | 130 | 115 |
| | 58,576 | 50,338 | 30,315 |
| Expenses | | | |
| Interest expense | 182 | 880 | 765 |
| Merger related expenses | — | 1,899 | — |
| Other expenses | 1,794 | 1,842 | 1,636 |
| | 1,976 | 4,621 | 2,401 |
| Income Before Income Tax Benefit and Equity in Undistributed Net Income of Subsidiaries | 56,600 | 45,717 | 27,914 |
| Income tax benefit | (455) | (1,114) | (1,197) |
| Income Before Equity in Undistributed Net Income of Subsidiaries | 57,055 | 46,831 | 29,111 |
| Equity in undistributed net income of subsidiaries | 32,297 | 23,171 | 25,199 |
| Net Income | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Total Comprehensive Income | \$ 109,674 | \$ 63,821 | \$ 56,677 |

Condensed Statements of Cash Flows

The following table presents the condensed statements of cash flows of City Holding Company, parent company only (in thousands):

| | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Operating Activities | | | |
| Net income | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Unrealized and realized investment securities gains | (425) | (208) | (200) |
| Provision (benefit) for deferred income taxes | 173 | (88) | 1,347 |
| Depreciation, amortization and accretion, net | 3 | 1 | 1 |
| Stock based compensation | 2,516 | 2,151 | 2,097 |
| Asset write down | — | 193 | — |
| Change in other assets | 2,696 | 2,668 | (405) |
| Change in other liabilities | (2,060) | (1,816) | (1,660) |
| Equity in undistributed net income | (32,297) | (23,171) | (25,199) |
| Net Cash Provided by Operating Activities | 59,958 | 49,732 | 30,291 |
| Investing Activities | | | |
| Proceeds from sales of available for sale securities | 6 | — | 200 |
| Net decrease in loans | 38 | — | — |
| Acquisition of Farmers Deposit Bancorp, Inc., net of cash acquired of \$946 | — | (23,954) | — |
| Acquisition of Poage Bankshares, Inc., net of cash acquired of \$518 | — | 502 | — |
| Net Cash Provided by (Used in) Investing Activities | 44 | (23,452) | 200 |
| Financing Activities | | | |
| Repayment of long-term debt | — | (16,495) | — |
| Proceeds from sale of capital securities | — | 495 | — |
| Dividends paid | (35,547) | (29,583) | (27,120) |
| Issuance of common stock | — | — | 28,408 |
| Purchases of treasury stock | (19,431) | (20,271) | — |
| Exercise of stock options | 526 | 1,164 | 732 |
| Net Cash (Used in) Provided by Financing Activities | (54,452) | (64,690) | 2,020 |
| Increase (Decrease) in Cash and Cash Equivalents | 5,550 | (38,410) | 32,511 |
| Cash and cash equivalents at beginning of year | 20,621 | 59,031 | 26,520 |
| Cash and Cash Equivalents at End of Year | \$ 26,171 | \$ 20,621 | \$ 59,031 |

NOTE TWENTY-TWO – SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information (unaudited) is presented below (in thousands, except for per share data):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---------------|----------------|---------------|----------------|
| 2019 | | | | |
| Interest income | \$ 48,933 | \$ 50,238 | \$ 49,981 | \$ 48,548 |
| Taxable equivalent adjustment | 208 | 202 | 192 | 189 |
| Interest income (FTE) | 49,141 | 50,440 | 50,173 | 48,737 |
| Interest expense | 8,867 | 9,327 | 9,444 | 8,701 |
| Net interest income | 40,274 | 41,113 | 40,729 | 40,036 |
| (Recovery of) provision for loan losses | (849) | (600) | 274 | (75) |
| Non-interest income | 15,925 | 17,825 | 16,698 | 18,042 |
| Non-interest expense | 29,411 | 30,772 | 28,397 | 29,034 |
| Income before income tax expense | 27,637 | 28,766 | 28,756 | 29,119 |
| Income tax expense | 5,810 | 5,813 | 6,193 | 6,319 |
| Taxable equivalent adjustment | (208) | (202) | (192) | (189) |
| Net income available to common shareholders | \$ 21,619 | \$ 22,751 | \$ 22,371 | \$ 22,611 |
| Net earnings allocated to common shareholders | \$ 21,433 | \$ 22,554 | \$ 22,179 | \$ 22,409 |
| Basic earnings per common share | \$ 1.31 | \$ 1.38 | \$ 1.36 | \$ 1.38 |
| Diluted earnings per common share | 1.30 | 1.38 | 1.36 | 1.38 |
| Average common shares outstanding: | | | | |
| Basic | 16,411 | 16,368 | 16,271 | 16,207 |
| Diluted | 16,429 | 16,386 | 16,289 | 16,230 |
| 2018 | | | | |
| Interest income | \$ 37,644 | \$ 39,180 | \$ 42,729 | \$ 44,348 |
| Taxable equivalent adjustment | 187 | 187 | 187 | 194 |
| Interest income (FTE) | 37,831 | 39,367 | 42,916 | 44,542 |
| Interest expense | 4,997 | 5,607 | 7,171 | 7,917 |
| Net interest income | 32,834 | 33,760 | 35,745 | 36,625 |
| Provision for (recovery of) loan losses | 181 | (2,064) | (27) | (400) |
| Non-interest income | 14,492 | 15,611 | 15,753 | 14,706 |
| Non-interest expense | 24,937 | 24,911 | 25,040 | 38,178 |
| Income before income tax expense | 22,208 | 26,524 | 26,485 | 13,553 |
| Income tax expense | 4,405 | 5,358 | 5,606 | 2,646 |
| Taxable equivalent adjustment | (187) | (187) | (187) | (194) |
| Net income available to common shareholders | \$ 17,616 | \$ 20,979 | \$ 20,692 | \$ 10,713 |
| Net earnings allocated to common shareholders | \$ 17,421 | \$ 20,768 | \$ 20,491 | \$ 10,623 |
| Basic earnings per common share | \$ 1.13 | \$ 1.36 | \$ 1.34 | \$ 0.68 |
| Diluted earnings per common share | 1.13 | 1.35 | 1.33 | 0.68 |
| Average common shares outstanding: | | | | |
| Basic | 15,414 | 15,326 | 15,340 | 15,603 |
| Diluted | 15,436 | 15,345 | 15,358 | 15,618 |

NOTE TWENTY-THREE – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | For the Year Ended December 31, | | |
|---|---------------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Net income available to common shareholders | \$ 89,352 | \$ 70,002 | \$ 54,310 |
| Less: earnings allocated to participating securities | (806) | (654) | (591) |
| Net earnings allocated to common shareholders | <u>\$ 88,546</u> | <u>\$ 69,348</u> | <u>\$ 53,719</u> |
| Distributed earnings allocated to common shares outstanding | \$ 35,542 | \$ 32,483 | \$ 27,497 |
| Undistributed earnings allocated to common shares outstanding | 53,004 | 36,865 | 26,222 |
| Net earnings allocated to common shareholders | <u>\$ 88,546</u> | <u>\$ 69,348</u> | <u>\$ 53,719</u> |
| Average shares outstanding, basic | 16,314 | 15,421 | 15,412 |
| Effect of dilutive securities | 19 | 18 | 24 |
| Average shares outstanding, diluted | <u>16,333</u> | <u>15,439</u> | <u>15,436</u> |
| Basic earnings per share | \$ 5.43 | \$ 4.50 | \$ 3.49 |
| Diluted earnings per share | <u>\$ 5.42</u> | <u>\$ 4.49</u> | <u>\$ 3.48</u> |

Anti-dilutive options are 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. Anti-dilutive options were not significant for any of the periods shown above.

NOTE TWENTY-FOUR – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive income (loss) is presented in the tables below (in thousands). The activity is shown net of tax, which is calculated using a combined Federal and state income tax rate approximating 23%.

| | Accumulated Other Comprehensive Income (Loss) | | |
|---|---|---|-----------------|
| | Defined Benefit Pension Plans | Unrealized Gains (Losses) on Securities | |
| | | Available-for-Sale | Total |
| Balance at December 31, 2017 | \$ (5,033) | \$ (611) | \$ (5,644) |
| Other comprehensive loss before reclassifications | (963) | (5,343) | (6,306) |
| Amounts reclassified from other comprehensive loss | 125 | — | 125 |
| | <u>(838)</u> | <u>(5,343)</u> | <u>(6,181)</u> |
| Adoption of ASU No. 2016-01 | — | (2,657) | (2,657) |
| Balance at December 31, 2018 | \$ (5,871) | \$ (8,611) | \$ (14,482) |
| Other comprehensive (loss) income before reclassifications | (399) | 20,775 | 20,376 |
| Amounts reclassified from other comprehensive income (loss) | — | (54) | (54) |
| | <u>(399)</u> | <u>20,721</u> | <u>20,322</u> |
| Balance at December 31, 2019 | <u>\$ (6,270)</u> | <u>\$ 12,110</u> | <u>\$ 5,840</u> |

| | Amount reclassified from Other Comprehensive Income (Loss) | | | Affected line item in the Consolidated Statements of Income |
|---|--|---------------|-------------------|---|
| | December 31, | | | |
| | 2019 | 2018 | 2017 | |
| <i>Securities available-for-sale:</i> | | | | |
| Net securities gains reclassified into earnings | \$ (69) | \$ — | \$ (4,476) | Gains on sale of investment securities |
| Related income tax expense | 15 | — | 1,657 | Income tax expense |
| Net effect on accumulated other comprehensive income (loss) | <u>\$ (54)</u> | <u>\$ —</u> | <u>\$ (2,819)</u> | |
| <i>Defined benefit pension plans:</i> | | | | |
| Gain on termination of defined benefit plan | \$ — | \$ 163 | \$ — | Other expense |
| Related income tax expense | — | (38) | — | Income tax expense |
| Net effect on accumulated other comprehensive income (loss) | <u>\$ —</u> | <u>\$ 125</u> | <u>\$ —</u> | |

NOTE TWENTY-FIVE – CONTRACTS WITH CUSTOMERS

The Company's largest source of revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), and non-interest income. The Company's significant sources of non-interest income are: service charges, bankcard revenue, trust and investment management fee income and bank owned life insurance (which is also excluded from ASC 606).

The Company's significant policies related to contracts with customers are discussed below.

Service Charges: Service charges consist of service charges on deposit accounts (monthly service fees, account analysis fees, non-sufficient funds ("NSF") fees and other deposit account related fees). For transaction based fees, the Company's performance obligation is generally satisfied, and the related revenue recognized, at a point in time. For nontransaction based fees, the Company's performance obligation is generally satisfied, and the related revenue recognized, over the period in which the service is provided (typically a month). Generally, payments are received immediately through a direct charge to the customer's account.

Bankcard Revenue: Bankcard revenue is primarily comprised of debit card income and ATM fees. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a non-Company cardholder uses a Company ATM or when a Company cardholder uses a non-Company ATM. The Company's performance obligation for bankcard revenue is generally satisfied, and the related revenue recognized, when the services are rendered. Generally, payments are received immediately or in the following month.

Trust and Investment Management Fee Income: Trust and investment management fee income is primarily comprised of fees earned from the management and administration of customer assets. The Company's performance obligation is generally satisfied over time (typically a quarter), and the related revenue recognized, based upon the quarter-end market value of the assets under management and the applicable fee rate. Generally, payments are received a few days after quarter-end through a direct charge to the customer's account.

The following table illustrates the disaggregation by the Company's major revenue streams (in thousands):

| | Point of Revenue | 2019 | 2018 |
|---|----------------------------------|-----------|-----------|
| | Recognition | | |
| Major revenue streams | | | |
| Service charges | At a point in time and over time | \$ 31,515 | \$ 29,704 |
| Bankcard revenue | At a point in time | 21,093 | 18,369 |
| Trust and investment management fee income | Over time | 7,159 | 6,529 |
| Other income | At a point in time and over time | 4,000 | 2,851 |
| Net revenue from contracts with customers | | 63,767 | 57,453 |
| Non-interest income within the scope of other GAAP topics | | 4,723 | 3,111 |
| Total non-interest income | | \$ 68,490 | \$ 60,564 |

NOTE TWENTY-SIX – SUBSEQUENT EVENT

On January 22, 2020, the Company announced that City National had entered into an agreement to sell 86,605 shares of Visa Inc. Class B common stock at a pre-tax gain of approximately \$17.8 million on January 17, 2020. The carrying value of the Visa Class B shares on City National's balance sheet was \$0, as City National had no historical cost basis in the shares. This transaction settled in January 2020 and will be reported as a gain in the Company's first quarter 2020 results. The Company has no remaining shares of Visa stock.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic Securities and Exchange Commission filings.

- Management's annual report on internal control over financial reporting appears on page 50 of the Annual Report on Form 10-K of City Holding Company for the year ended December 31, 2019.
- The attestation report of the Company's independent registered public accounting firm appears on page 51 of the Annual Report on Form 10-K of City Holding Company for the year ended December 31, 2019.
- The Company did not have any changes in internal control over financial reporting during its fourth quarter for the year ending December 31, 2019, that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

The Report of Management's Assessment of Internal Control Over Financial Reporting and the Report of Crowe LLP, Independent Registered Public Accounting Firm are included in Item 8 of this Annual Report on Form 10-K.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information regarding executive officers is included under the section captioned "Executive Officers of the Registrant" in Part I, Item 1, elsewhere in this Annual Report on Form 10-K. Other information required by this Item appears under the captions "ELECTION OF DIRECTORS", "ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS", "REPORT OF THE AUDIT COMMITTEE", and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's 2020 Proxy Statement that will be filed within 120 days of December 31, 2019 and is hereby incorporated by reference.

In December 2009, the Company adopted a new Code of Business Conduct and Ethics which applies to all employees (including its chief executive officer, chief financial officer and principal accounting officer). Members of the Board of Directors are governed by a separate Code of Business Conduct and Ethics approved in January 2004. Both of the Codes of Business Conduct and Ethics have been posted on the Company's website at www.bankatcity.com under the "Corporate Governance" link located at the bottom of the page. A copy of the Company's Code of Business Conduct and Ethics covering all employees and/or a copy of the Code of Business Conduct and Ethics covering the Board of Directors will be mailed without charge upon request to Investor Relations, City Holding Company, 25 Gatewater Road, P.O. Box 7520, Charleston, WV 25356-0520. Any amendments to or waivers from any provision of the Code of Ethics applicable to the Company's chief executive officer, chief financial officer, or principal accounting officer will be disclosed by timely posting such information on the Company's Internet website.

Item 11. Executive Compensation

Certain information regarding securities authorized for issuance under equity compensation plans is included in the section captioned "STOCK-BASED COMPENSATION PLAN" in Part II, Item 5, elsewhere in this Annual Report on Form 10-K. Other information required by Item 11 of Form 10-K appears under the captions "COMPENSATION OF DIRECTORS", "COMPENSATION DISCUSSION AND ANALYSIS", "EQUITY HOLDINGS", "POST-EMPLOYMENT PAYMENTS", "BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION" and "PAY RATIO DISCLOSURE" in the Company's 2020 Proxy Statement that will be filed within 120 days of the end of the fiscal year covered by this Annual Report and is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 of Form 10-K appears under the caption "COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Company's 2020 Proxy Statement that will be filed within 120 days of the end of the fiscal year covered by this Annual Report and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 of Form 10-K appears under the captions "CERTAIN TRANSACTIONS INVOLVING DIRECTORS AND EXECUTIVE OFFICERS" and "ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS" in the Company's 2020 Proxy Statement that will be filed within 120 days of the end of the fiscal year covered by this Annual Report and is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K appears under the caption "PRINCIPAL ACCOUNTING FEES AND SERVICES" in the Company's 2020 Proxy Statement that will be filed within 120 days of the end of the fiscal year covered by this Annual Report and is hereby incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) (1) Financial Statements. Reference is made to Part II, Item 8, of this Annual Report on Form 10-K.
- (a) (2) Financial Statement Schedules. These schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.
- (a) (3) Exhibits. The exhibits listed in the "Exhibit Index" on pages 108-110 of this Annual Report on Form 10-K included herein are filed herewith or incorporated by reference from previous filings.
- (b) See (a) (3) above.
- (c) See (a) (1) and (2) above.

Item 16. Form 10-K Summary

None.

EXHIBIT INDEX

The following exhibits are filed herewith or are incorporated herein by reference.

| Exhibit | Description |
|---------|--|
| 2(a) | <u>Agreement and Plan of Merger, dated November 14, 2011, by and among Virginia Savings Bancorp, Inc., Virginia Savings Bank, F.S.B., City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated November 14, 2011, and filed with the Securities and Exchange Commission on November 14, 2011).</u> |
| 2(b) | <u>Agreement and Plan of Merger, dated August 2, 2012, by and among Community Financial Corporation, Community Bank, City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from City Holding Company's Form 8-K dated August 7, 2012, and filed with the Securities and Exchange Commission on August 7, 2012).</u> |
| 2(c) | <u>Agreement and Plan of Merger, dated July 11, 2018, Farmers Deposit Bancorp, Inc., Farmers Deposit Bank and City Holding Company (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated July 11, 2018, and filed with the Securities and Exchange Commission on July 12, 2018).</u> |
| 2(d) | <u>Agreement and Plan of Merger, dated July 11, 2018, by and between Poage Bankshares, Inc. and City Holding Company (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated July 11, 2018, and filed with the Securities and Exchange Commission on July 12, 2018).</u> |
| 3(a) | Articles of Incorporation of City Holding Company (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission). |
| 3(b) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7, 1984, and filed with the Securities and Exchange Commission on March 22, 1984). |
| 3(c) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated March 4, 1986 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1986, filed March 31, 1987 with the Securities and Exchange Commission). |
| 3(d) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated September 29, 1987 (attached to and incorporated by reference from, City Holding Company's Registration Statement on Form S-4, Registration No. 33-23295, filed with the Securities and Exchange Commission on August 3, 1988). |
| 3(e) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 6, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission). |
| 3(f) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 7, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission). |
| 3(g) | Articles of Amendment to the Articles of Incorporation of City Holding Company, dated August 1, 1994 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended September 30, 1994, filed November 14, 1994 with the Securities and Exchange Commission). |
| 3(h) | <u>Articles of Amendment to the Articles of Incorporation of City Holding Company, dated December 9, 1998 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1998, filed March 31, 1999 with the Securities and Exchange Commission).</u> |
| 3(i) | <u>Articles of Amendment to the Articles of Incorporation of City Holding Company, dated June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).</u> |
| 3(j) | <u>Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 10, 2006 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q, Quarterly Report for the quarter ended June 30, 2006, filed August 9, 2006 with the Securities and Exchange Commission).</u> |
| 3(k) | <u>Amended and Restated Bylaws of City Holding Company, revised February 24, 2010 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2010 with the Securities and Exchange Commission).</u> |
| 4(a) | <u>Rights Agreement dated as of June 22, 2001 (attached to, and incorporated by reference from City Holding Company's Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).</u> |
| 4(b) | <u>Amendment No. 1 to the Rights Agreement dated as of November 30, 2005 (attached to, and incorporated by reference from City Holding Company's Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).</u> |
| 10(a) | <u>Directors' Deferred Compensation Plan for the Directors of the Bank of Raleigh, dated January 1987 (attached to and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).</u> |
| 10(b) | <u>City Holding Company's 2003 Incentive Plan (attached to, and incorporated by reference from, City Holding Company's Definitive Proxy Statement, filed March 21, 2003 with the Securities and Exchange Commission).</u> |
| 10(c) | <u>City Holding Company's 2013 Incentive Plan (attached to, and incorporated by reference from, City Holding Company's Definitive Proxy Statement, filed March 22, 2013 with the Securities and Exchange Commission).</u> |
| 10(d) | <u>Form of Employment Agreement, dated as of July 25, 2007, by and between City Holding Company and Charles R. Hageboeck, Ph.D. (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).</u> |
| 10(e) | <u>Form of Employment Agreement, dated as of July 25, 2007, by and between City Holding Company and Craig G. Stilwell (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).</u> |
| 10(f) | <u>Form of Change of Control Agreement, dated February 1, 2005, by and between City Holding Company and David L. Bumgarner (attached to and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).</u> |
| 10(g) | <u>Form of Change in Control and Termination Agreement, dated June 28, 2004, by and between City Holding Company and John A. DeRito (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2005, filed March 7, 2006 with the Securities and Exchange Commission).</u> |
| 10(h) | <u>Amendment to Employment Agreement, dated December 19, 2011, by and among City Holding Company, City National Bank of West Virginia and Charles R. Hageboeck (attached to and incorporated by reference from City Holding Company's Form 8-K filed on December 21, 2011, with the Securities and Exchange Commission).</u> |
| 10(i) | <u>Amendment to Employment Agreement, dated December 19, 2011, by and among City Holding Company, City National Bank of West Virginia and Craig G. Stilwell (attached to and incorporated by reference from City Holding Company's Form 8-K filed on December 21, 2011, with the Securities and Exchange Commission).</u> |
| 10(j) | <u>Form of Change of Control Agreement, dated February 6, 2006, by and between City Holding Company and Jeffrey D. Legge (attached to and incorporated by reference from City Holding Company's Form 10K, Annual Report for the period ended December 31, 2013 filed March 7, 2014 with the Securities and Exchange Commission).</u> |
| 10(k) | <u>Indenture, dated as of December 22, 2006, between Town Square Financial Corporation and Wilmington Trust Company, as Trustee (attached to and incorporated by reference from City Holding Company's Form 10K, Annual Report for the period ended December 31, 2018 and filed March 11, 2019 with the Securities and Exchange Commission).</u> |
| 10(l) | <u>Second Supplemental Indenture, dated as of December 7, 2018, by and between City Holding Company, Poage Bankshares, Inc. and Wilmington Trust Company, as Trustee (attached to and incorporated by reference from City Holding Company's Form 10K, Annual Report for the period ended December 31, 2018 and filed March 11, 2019 with the Securities and Exchange Commission).</u> |
| 21 | Subsidiaries of City Holding Company |
| 23 | Consent of Crowe LLP, Independent Registered Public Accounting Firm |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm |
| 24 | Power of Attorney (included on the signature page hereof) |
| 31(a) | <u>Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.</u> |
| 31(b) | <u>Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner</u> |

| | |
|---------|--|
| 32(a) | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.</u> |
| 32(b) | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner</u> |
| 101 | Interactive Data File - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2020

City Holding Company
(Registrant)

By: /s/ Charles R. Hageboeck, Ph.D.
Charles R. Hageboeck, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ David L. Bumgarner
David L. Bumgarner
Executive Vice President, Chief Financial Officer
and Principal Accounting Officer
(Principal Financial Officer)

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 26, 2020. Each of the directors and/or officers of City Holding Company whose signature appears below hereby appoints C. Dallas Kayser, and/or Charles R. Hageboeck Ph.D., as his attorney-in-fact to sign in his name and behalf, in any and all capacities stated below and to file with the Securities and Exchange Commission, any and all amendments to this report on Form 10-K, making such changes in this report on Form 10-K as appropriate, and generally to do all such things in their behalf in their capacities as officers and directors to enable City Holding Company to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ C. Dallas Kayser
C. Dallas Kayser
Chairman

/s/ Charles R. Hageboeck, Ph.D.
Charles R. Hageboeck, Ph.D.
Director, President, and Chief Executive Officer

/s/ Thomas L. Burnette
Thomas L. Burnette
Director

/s/ Tracy W. Hylton, II
Tracy W. Hylton, II
Director

/s/ John R. Elliot
John R Elliot
Director

/s/ J. Thomas Jones
J. Thomas Jones
Director

/s/ Charles W. Fairchilds
Charles W. Fairchilds
Director

/s/ James L. Rossi
James L. Rossi
Director

/s/ William H. File, III
William H. File, III
Director

/s/ Sharon H. Rowe
Sharon H. Rowe
Director

/s/ Robert D. Fisher
Robert D. Fisher
Director

/s/ Diane Strong-Treister
Diane Strong-Treister
Director

/s/ Jay C. Goldman
Jay C. Goldman
Director

As of December 31, 2019, the subsidiaries, each wholly-owned, of City Holding Company included:

| | | |
|--|------------------------------|---|
| City National Bank of West Virginia 3601 MacCorkle Avenue S.E. Charleston, West Virginia | National Banking Association | Insured Depository Institution |
| City Financial Corporation 3601 MacCorkle Avenue, S.E. Charleston, West Virginia | West Virginia Corporation | Inactive Securities Brokerage and Investment Advisory Company |
| City Mortgage Corporation Pittsburgh, Pennsylvania | Pennsylvania Corporation | Inactive Mortgage Banking Company |
| City Capital Management Company 300 Delaware Avenue Wilmington, Delaware | Delaware Corporation | Capital Management Company |
| Town Square Statutory Trust I 25 Gatewater Road Cross Lanes, West Virginia | Delaware Business Trust | Special-purpose Statutory Trust |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statement (Form S-8 No. 333-87667) of City Holding Company pertaining to the 1993 Incentive Plan,
- 2) Registration Statement (Form S-8 No. 333-115282) of City Holding Company pertaining to the 2003 Incentive Plan, and
- 3) Registration Statement (Form S-8 No. 333-189055) of City Holding Company pertaining to the 2013 Incentive Plan;

of our report dated February 27, 2020, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting included in this Annual Report (Form 10-K) of City Holding Company for the year ended December 31, 2019.

/s/ Crowe LLP

Louisville, Kentucky

February 27, 2020

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statement (Form S-8 No. 333-87667) of City Holding Company pertaining to the 1993 Incentive Plan,
- 2) Registration Statement (Form S-8 No. 333-115282) of City Holding Company pertaining to the 2003 Incentive Plan,
- 3) Registration Statement (Form S-8 No. 333-189055) of City Holding Company pertaining to the 2013 Incentive Plan, and

of our report dated March 11, 2019, with respect to the consolidated financial statements of City Holding Company included in this Annual Report (Form 10-K) of City Holding Company for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Charleston, West Virginia
February 27, 2020

CERTIFICATION

I, Charles R. Hageboeck, certify that:

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

Date: February 27, 2020

/s/ Charles R. Hageboeck

Charles R. Hageboeck

President and Chief Executive Officer

CERTIFICATION

I, David L. Bumgarner, certify that:

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

Date: February 27, 2020

/s/ David L. Bumgarner

David L. Bumgarner

Executive Vice President and Chief Financial Officer and
Principal Accounting Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of City Holding Company (the "Company") for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Hageboeck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ Charles R. Hageboeck

Charles R. Hageboeck

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of City Holding Company (the "Company") for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Bumgarner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ David L. Bumgarner

David L. Bumgarner

Executive Vice President, Chief Financial Officer and
Principal Accounting Officer

