UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to _____________

Commission file number 0-11733

CITY HOLDING COMPANY
(Exact name of registrant as specified in its charter)

West Virginia
(State or other jurisdiction of incorporation or organization)

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

25 Gatewater Road, Charleston, West Virginia
(Address of Principal Executive Offices)

25313
(Zip Code)

(304) 769-1100
Registrant's telephone number, including area code

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $2.50 par value	CHCO	NASDAQ Global Select Market

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

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

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

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 ☒

The registrant had outstanding 14,831,817 shares of common stock as of November 1, 2023.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 (as hereinafter defined) 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 for the fiscal year ended December 31, 2022 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 credit losses may not be sufficient to absorb actual losses in our loan portfolio, and risk from concentrations in 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, including changes in deposit insurance premium levels; (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, geopolitical, 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.

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City Holding Company and Subsidiaries

Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets
City Holding Company and Subsidiaries
(in thousands)

	(Unaudited) September 30, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 62,085	$ 68,333
Interest-bearing deposits in depository institutions	48,631	131,667
Cash and Cash Equivalents	110,716	200,000
Investment securities available for sale, at fair value (amortized cost $1,572,696 and $1,673,864, net of allowance for credit losses of $0 at September 30, 2023 and December 31, 2022, respectively)	1,358,219	1,505,520
Other securities	29,022	23,807
Total Investment Securities	1,387,241	1,529,327
Gross loans	4,007,482	3,646,258
Allowance for credit losses	(23,128)	(17,108)
Net Loans	3,984,354	3,629,150
Bank owned life insurance	117,979	120,674
Premises and equipment, net	72,682	70,786
Accrued interest receivable	19,223	18,287
Deferred tax assets, net	58,811	44,884
Goodwill and other intangible assets, net	163,461	115,735
Other assets	161,659	149,263
Total Assets	$ 6,076,126	$ 5,878,106
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,333,474	$ 1,351,415
Interest-bearing:		
Demand deposits	1,319,783	1,233,482
Savings deposits	1,282,642	1,396,869
Time deposits	1,009,235	888,100
Total Deposits	4,945,134	4,869,866
Customer repurchase agreements	278,671	290,964
FHLB long-term advances	100,000	—
Other liabilities	142,187	139,424
Total Liabilities	5,465,992	5,300,254
Commitments and contingencies - see Note I		
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 September 30, 2023 and December 31, 2022, less 4,146,125 and 4,259,399 shares in treasury, respectively	47,619	47,619
Capital surplus	177,113	170,980
Retained earnings	763,425	706,696
Cost of common stock in treasury	(211,430)	(215,955)
Accumulated other comprehensive (loss) income:		
Unrealized (loss) on securities available-for-sale	(163,171)	(128,066)
Underfunded pension liability	(3,422)	(3,422)
Total Accumulated Other Comprehensive (Loss)	(166,593)	(131,488)
Total Shareholders' Equity	610,134	577,852
Total Liabilities and Shareholders' Equity	$ 6,076,126	$ 5,878,106

To be read with the attached notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Interest Income				
Interest and fees on loans	**$ 55,582**	$ 38,493	**$ 154,939**	$ 103,575
Interest and dividends on investment securities:				
Taxable	**12,432**	9,556	**35,999**	23,327
Tax-exempt	**910**	1,228	**3,022**	3,650
Interest on deposits in depository institutions	**1,265**	1,530	**5,440**	2,549
Total Interest Income	**70,189**	50,807	**199,400**	133,101
Interest Expense				
Interest on deposits	**10,551**	1,585	**24,808**	4,433
Interest on customer repurchase agreements	**2,990**	440	**8,334**	677
Interest on FHLB long-term advances	**1,034**	—	**1,683**	—
Total Interest Expense	**14,575**	2,025	**34,825**	5,110
Net Interest Income	**55,614**	48,782	**164,575**	127,991
Provision for (recovery of) credit losses	**200**	730	**3,543**	(26)
Net Interest Income After Provision for (Recovery of) Credit Losses	**55,414**	48,052	**161,032**	128,017
Non-Interest Income				
(Losses) gains on sale of investment securities, net	**(730)**	—	**43**	—
Unrealized gains (losses) recognized on equity securities still held, net	**—**	1	**67**	(1,322)
Service charges	**7,124**	7,487	**20,593**	21,281
Bankcard revenue	**7,058**	7,052	**20,851**	20,558
Trust and investment management fee income	**2,409**	2,158	**7,000**	6,455
Bank owned life insurance	**807**	754	**4,819**	3,746
Other income	**742**	792	**3,020**	2,825
Total Non-Interest Income	**17,410**	18,244	**56,393**	53,543
Non-Interest Expense				
Salaries and employee benefits	**18,289**	17,398	**54,391**	49,386
Occupancy related expense	**2,950**	2,664	**8,401**	7,993
Equipment and software related expense	**2,830**	2,949	**8,805**	8,452
FDIC insurance expense	**919**	416	**2,054**	1,259
Advertising	**790**	854	**2,524**	2,603
Bankcard expenses	**2,188**	1,405	**5,433**	4,676
Postage, delivery, and statement mailings	**668**	578	**1,911**	1,765
Office supplies	**457**	466	**1,468**	1,303
Legal and professional fees	**529**	532	**1,557**	1,584
Telecommunications	**568**	651	**1,797**	1,988
Repossessed asset losses (gains), net of expenses	**40**	(3)	**78**	4
Merger related expenses	**2**	—	**5,647**	—
Other expenses	**4,798**	3,591	**14,346**	10,701
Total Non-Interest Expense	**35,028**	31,501	**108,412**	91,714
Income Before Income Taxes	**37,796**	34,795	**109,013**	89,846

Income tax expense	**7,957**	7,421	**22,100**	18,438
Net Income Available to Common Shareholders	**$ 29,839**	$ 27,374	**$ 86,913**	$ 71,408
Average shares outstanding, basic	**14,922**	14,776	**14,906**	14,878
Effect of dilutive securities	**23**	24	**22**	23
Average shares outstanding, diluted	**14,945**	14,800	**14,928**	14,901
Basic earnings per common share	**$ 1.98**	$ 1.84	**$ 5.78**	$ 4.75
Diluted earnings per common share	**$ 1.98**	$ 1.83	**$ 5.77**	$ 4.75

To be read with the attached notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss) *(Unaudited)*
City Holding Company and Subsidiaries
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Net income available to common shareholders	**$ 29,839**	$ 27,374	**$ 86,913**	$ 71,408
Available-for-Sale Securities				
Unrealized (losses) on available-for-sale securities arising during the period	**(48,273)**	(81,133)	**(46,132)**	(210,741)
Reclassification adjustment for losses (gains)	**730**	—	**(43)**	—
Other comprehensive (loss) income before income taxes	**(47,543)**	(81,133)	**(46,175)**	(210,741)
Tax effect	**11,398**	19,634	**11,070**	50,999
Other comprehensive (loss) income, net of tax	**(36,145)**	(61,499)	**(35,105)**	(159,742)
Comprehensive Income (Loss), Net of Tax	**$ (6,306)**	$ (34,125)	**$ 51,808**	$ (88,334)

To be read with the attached notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Three Months Ended September 30, 2023 and 2022
(in thousands, except share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at June 30, 2022	$ 47,619	$ 169,557	$ 667,933	$ (209,133)	$ (83,983)	$ 591,993
Net income	—	—	27,374	—	—	27,374
Other comprehensive loss, net of tax	—	—	—	—	(61,499)	(61,499)
Cash dividends declared ($0.65 per share)	—	—	(9,650)	—	—	(9,650)
Stock-based compensation expense	—	754	—	—	—	754
Restricted awards granted	—	(163)	—	163	—	—
Exercise of 556 stock options	—	(10)	—	46	—	36
Purchase of 8,971 treasury shares	—	—	—	(720)	—	(720)
Balance at September 30, 2022	$ 47,619	$ 170,138	$ 685,657	$ (209,644)	$ (145,482)	$ 548,288

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at June 30, 2023	**$ 47,619**	**$ 176,746**	**$ 744,248**	**$ (201,973)**	**$ (130,448)**	**$ 636,192**
Net income	**—**	**—**	**29,839**	**—**	**—**	**29,839**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**(36,145)**	**(36,145)**
Cash dividends declared ($0.72 per share)	**—**	**—**	**(10,662)**	**—**	**—**	**(10,662)**
Stock-based compensation expense	**—**	**681**	**—**	**—**	**—**	**681**
Restricted awards granted	**—**	**(314)**	**—**	**314**	**—**	**—**
Purchase of 109,382 treasury shares	**—**	**—**	**—**	**(9,771)**	**—**	**(9,771)**
Balance at September 30, 2023	**$ 47,619**	**$ 177,113**	**$ 763,425**	**$ (211,430)**	**$ (166,593)**	**$ 610,134**

To be read with the attached notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Nine Months Ended September 30, 2023 and 2022
(in thousands, except share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	$ 47,619	$ 170,942	$ 641,826	$ (193,542)	$ 14,260	$ 681,105
Net income	—	—	71,408	—	—	71,408
Other comprehensive loss, net of tax	—	—	—	—	(159,742)	(159,742)
Cash dividends declared ($1.85 per share)	—	—	(27,577)	—	—	(27,577)
Stock-based compensation expense	—	2,412	—	—	—	2,412
Restricted awards granted	—	(2,821)	—	2,821	—	—
Exercise of 13,634 stock options	—	(395)	—	1,092	—	697
Purchase of 255,421 treasury shares	—	—	—	(20,015)	—	(20,015)
Balance at September 30, 2022	$ 47,619	$ 170,138	$ 685,657	$ (209,644)	$ (145,482)	$ 548,288

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2022	**$ 47,619**	**$ 170,980**	**$ 706,696**	**$ (215,955)**	**$ (131,488)**	**$ 577,852**
Adoption of ASU No. 2022-02	**—**	**—**	**175**	**—**	**—**	**175**
Balances at January 1, 2023	**47,619**	**170,980**	**706,871**	**(215,955)**	**(131,488)**	**578,027**
Net income	**—**	**—**	**86,913**	**—**	**—**	**86,913**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**(35,105)**	**(35,105)**
Cash dividends declared ($2.02 per share)	**—**	**—**	**(30,359)**	**—**	**—**	**(30,359)**
Stock-based compensation expense	**—**	**2,407**	**—**	**—**	**—**	**2,407**
Restricted awards granted	**—**	**(3,848)**	**—**	**3,848**	**—**	**—**
Purchase of 596,969 treasury shares	**—**	**—**	**—**	**(53,827)**	**—**	**(53,827)**
Acquisition of Citizens Commerce Bancshares, Inc.	—	**7,574**	**—**	**54,504**	**—**	**62,078**
Balance at September 30, 2023	**$ 47,619**	**$ 177,113**	**$ 763,425**	**$ (211,430)**	**$ (166,593)**	**$ 610,134**

To be read with the attached notes to consolidated financial statements.

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

	Nine months ended September 30, 2023	2022
Net income	**$ 86,913**	$ 71,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and (accretion), net	**6,496**	8,607
Provision for (recovery of) credit losses	**3,543**	(26)
Depreciation of premises and equipment	**3,452**	4,033
Deferred income tax (benefit) expense	**(1,491)**	1,181
Net periodic employee benefit cost	**39**	192
Unrealized and realized investment securities (gains) losses, net	**(110)**	1,322
Stock-compensation expense	**2,407**	2,412
Excess tax expense (benefit) from stock-compensation	**203**	189
Increase in value of bank-owned life insurance	**(4,819)**	(3,746)
Loans held for sale		
Loans originated for sale	**(9,591)**	(29,139)
Proceeds from the sale of loans originated for sale	**9,713**	29,422
Gain on sale of loans	**(122)**	(283)
Change in accrued interest receivable	**(69)**	(1,629)
Change in other assets	**12,068**	(11,312)
Change in other liabilities	**(4,588)**	9,136
Net Cash Provided by Operating Activities	**104,044**	81,767
Net decrease (increase) in loans	**(107,988)**	(85,289)
Securities available-for-sale		
Purchases	**(56,734)**	(488,401)
Proceeds from sales of securities available-for-sale	**103,249**	—
Proceeds from maturities and calls	**93,927**	177,875
Other investments		
Purchases	**(5,970)**	(280)
Proceeds from sales	**77**	116
Proceeds from maturities and calls	**747**	—
Purchases of premises and equipment	**(2,392)**	(1,677)
Proceeds from the disposals of premises and equipment	**283**	189
Proceeds from bank-owned life insurance policies	**207**	3,623
Payments for low income housing tax credits	**(6,577)**	(2,144)
Acquisition of Citizens Commerce Bancshares, Inc.	**14,013**	—
Net Cash Provided by (Used in) Investing Activities	**32,842**	(395,988)
Net (decrease) increase in non-interest-bearing deposits	**(78,236)**	56,156
Net (decrease) increase in interest-bearing deposits	**(145,344)**	(23,625)
Net (decrease) increase in short-term borrowings	**(18,793)**	(7,651)
Proceeds from long-term debt	**100,000**	—
Purchases of treasury stock	**(53,827)**	(20,015)
Proceeds from exercise of stock options	**—**	697
Lease payments	**(609)**	(572)
Dividends paid	**(29,361)**	(27,047)
Net Cash (Used in) Provided by Financing Activities	**(226,170)**	(22,057)
Decrease in Cash and Cash Equivalents	**(89,284)**	(336,278)
Cash and cash equivalents at beginning of period	**200,000**	634,631
Cash and Cash Equivalents at End of Period	**$ 110,716**	$ 298,353

Supplemental Cash Flow Information:		
Cash paid for interest	**$ 32,525**	$ 5,299
Cash paid for income taxes	**26,162**	17,834
Acquisition		
Identifiable assets acquired (net of purchase consideration)	**$ 319,738**	$ —
Liabilities assumed	**307,113**	—
Goodwill	**41,175**	—
Core deposit intangible	**8,278**	—

To be read with the attached notes to consolidated financial statements.

Notes to Consolidated Financial Statements *(Unaudited)*
September 30, 2023

Note A - Background and Basis of Presentation

City Holding Company ("City Holding"), 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 99 banking offices in West Virginia (58), Kentucky (24), Virginia (13) and southeastern 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 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.

On March 10, 2023, the Company acquired 100% of the outstanding common shares of Citizens Commerce Bancshares, Inc. ("Citizens") and its principal banking subsidiary, Citizens Commerce Bank of Versailles, Kentucky. See Note C for additional information on the acquisition.

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of City Holding and its wholly-owned subsidiaries (collectively, the "Company"). All material intercompany transactions have been eliminated. The consolidated financial statements include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition for each of the periods presented. Such adjustments are of a normal recurring nature. The results of operations for the nine months ended September 30, 2023 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2023. The Company's accounting and reporting policies conform with generally accepted accounting principles for interim financial information, with the instructions to Form 10-Q and Article 10 of Regulation S-X, and with Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management's estimates.

The consolidated balance sheet as of December 31, 2022 has been derived from audited financial statements included in the Company's 2022 Annual Report to Shareholders. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the 2022 Annual Report of the Company.

Note B - Recent Accounting Pronouncements

Recently Adopted

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 would be phased out by the end of 2021. In March 2020, the FASB issued ASU No. 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* This amendment provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and is effective as of March 12, 2020 through December 31, 2022. In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform (Topic 848): Scope," which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. In December 2022, the FASB issued ASU No. 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848," which defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The adoption of ASU No. 2020-04 did not have a material impact on the Company's financial statements.

In March 2022, the FASB issued ASU No. 2022-01, *"Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method."* The amendments in this update allow nonprepayable financial assets to be included in a closed portfolio hedged using the portfolio layer method. This expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets, thereby allowing consistent accounting for similar hedges. This ASU became effective for the Company on January 1, 2023. The adoption of ASU No. 2022-01 did not have a material impact on the Company's financial statements.

In March 2022, the FASB issued ASU No. 2022-02, *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures."* The amendments in this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The amendments in this update also require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. This ASU became effective for the Company on January 1, 2023. The Company adopted ASU No. 2022-02 using the modified retrospective method, which resulted in a $0.2 million adjustment to shareholders' equity and the allowance for credit losses. See Note F for additional information.

In July 2023, the FASB issued ASU No. 2023- 03, *Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock.* ASU 2023- 03 amends various SEC paragraphs within the Codification to conform to past SEC staff announcements and guidance issued by the SEC, including Staff Accounting Bulletin No. 120. These updates were immediately effective and did not have a material impact on our financial statements.

Pending Adoption

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement Topic 820: Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The FASB issued this ASU to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) amend a related illustrative example, and (3) introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in this ASU also require the following disclosures for equity securities subject to contractual sale restrictions: (1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet; (2) the nature and remaining duration of the restriction(s); and (3) the circumstances that could cause a lapse in the restriction(s). This ASU will become effective for the Company on January 1, 2024. The adoption of ASU No. 2022-03 is not expected to have a material impact to our consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-02, *"Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures using the Proportional Amortization Method."* The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. This ASU will become effective for the Company on January 1, 2024. The adoption of ASU No. 2023-02 is not expected to have a material impact on the Company's financial statements.

Note C - Acquisition and Preliminary Purchase Price Allocation

On March 10, 2023, the Company acquired 100% of the outstanding common shares of Citizens Commerce Bancshares, Inc. ("Citizens") and its principal banking subsidiary, Citizens Commerce Bank of Versailles, Kentucky, in order to strengthen the Company's market presence in the Lexington, Kentucky area. The acquisition of Citizens was structured as a stock transaction in which the Company issued approximately 0.7 million shares, valued at approximately $62.1 million.

The following table summarizes the consideration paid for Citizens and the amounts of the assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Consideration:		
Common stock	$	61,570
Stock option buyout		495
Cash		13
		62,078
Identifiable assets:		
Cash and cash equivalents		14,013
Investment securities		41,008
FHLB stock		620
Loans		251,406
Fixed assets		3,237
Bank owned life insurance		2,966
Deferred tax assets, net		1,481
Other assets		5,007
Total identifiable assets		319,738
Identifiable liabilities:		
Deposits		299,251
Short-term borrowings		6,500
Other liabilities		1,362
Total identifiable liabilities		307,113
Net identifiable assets (liabilities)		12,625
Goodwill		41,175
Core deposit intangible		8,278
	$	62,078

319,738

Investment Securities

The gain on the sale of investment securities recognized in the first nine months of 2023 was primarily due to the sale of Citizens investment portfolio of approximately $41 million shortly after the acquisition date.

Acquired Loans

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that there was not deterioration of credit at the date of acquisition. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit deteriorated loans, which have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans with a fair value of $246.4 million on the date of acquisition.

In connection with the completion of the acquisition of Citizens during the nine months ended September 30, 2023, the Company recorded $2.0 million of credit loss expense associated with loans acquired from Citizens in its total provision for credit losses.

The fair value of purchased financial assets with credit deterioration ("PCD") was $4.9 million on the date of acquisition. The gross contractual amounts receivable relating to the purchased financial asset with credit deterioration was $8.5 million. The Company estimates, on the date of acquisition, that $3.6 million of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected.

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 were being offered at the time of acquisition compared to the contractual interest rates. Based on this analysis, management recorded a premium on time deposits acquired of $0.6 million 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 acquisition, the Company recorded a core deposit intangible asset of $8.3 million. The core deposit intangible asset represents 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, deposit retention and the cost of the deposit base. The core deposit intangible is 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 that 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. Among the items that are still preliminary at September 30, 2023 is the finalization of the final tax return, which management anticipates completing during 2023. Given the form of the transaction, the $41.2 million goodwill preliminarily recorded in conjunction with the Citizens acquisition is not expected to be deductible for tax purposes. The following table summarizes adjustments to goodwill subsequent to December 31, 2022 (in thousands):

	Goodwill
Balance at December 31, 2022	$ 108,941
Adjustment to goodwill acquired in conjunction with the acquisition of Citizens	41,175
Balance at September 30, 2023	$ 150,116

Merger Related Costs

During the nine months ended September 30, 2023, the Company incurred $5.6 million of merger-related costs in connection with the acquisition of Citizens, primarily for professional fees ($1.6 million), severance ($1.4 million), and data processing costs ($1.3 million).

Note D - Investments

The aggregate carrying and approximate fair 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.

	September 30, 2023				December 31, 2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
Obligations of states and political subdivisions	**$ 230,270**	**$ 3**	**$ 29,825**	**$ 200,448**	$ 292,293	$ 346	$ 24,324	$ 268,315
Mortgage-backed securities:								
U.S. government agencies	**1,302,747**	**3**	**181,147**	**1,121,603**	1,342,666	299	140,686	1,202,279
Private label	**7,035**	**—**	**490**	**6,545**	7,695	—	464	7,231
Trust preferred securities	**4,597**	**—**	**290**	**4,307**	4,590	—	762	3,828
Corporate securities	**28,047**	**—**	**2,731**	**25,316**	26,620	—	2,753	23,867
Total Securities Available-for-Sale	**$ 1,572,696**	**$ 6**	**$ 214,483**	**$ 1,358,219**	$ 1,673,864	$ 645	$ 168,989	$ 1,505,520

The Company's other investment securities include marketable equity securities and non-marketable equity securities held for investment. At September 30, 2023 and December 31, 2022, the Company held $7.6 million in marketable equity securities. Changes in the fair value of the marketable equity securities are recorded in "unrealized gains (losses) recognized on equity securities still held" in the consolidated statements of income. 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 September 30, 2023 and December 31, 2022, the Company held $21.4 million and $15.5 million, respectively, in non-marketable equity securities. These securities are carried at cost due to the restrictions placed on their transferability. The Company held no certificates of deposits for investment at September 30, 2023 and $0.7 million at December 31, 2022.

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 September 30, 2023 and December 31, 2022 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 September 30, 2023 and December 31, 2022. 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):

	September 30, 2023					
	Less Than Twelve Months		**Twelve Months or Greater**		**Total**	
	Estimated Fair Value	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**
Securities available-for-sale:						
Obligations of states and political subdivisions	**$ 25,076**	**$ 1,132**	**$ 171,897**	**$ 28,693**	**$ 196,973**	**$ 29,825**
Mortgage-backed securities:						
U.S. Government agencies	**46,028**	**15,895**	**795,988**	**165,252**	**842,016**	**181,147**
Private label	**—**	**—**	**6,446**	**490**	**6,446**	**490**
Trust preferred securities	**—**	**—**	**4,307**	**290**	**4,307**	**290**
Corporate securities	**1,520**	**48**	**23,796**	**2,683**	**25,316**	**2,731**
Total available-for-sale	**$ 72,624**	**$ 17,075**	**$ 1,002,434**	**$ 197,408**	**$ 1,075,058**	**$ 214,483**

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	$ 203,173	$ 21,929	$ 13,359	$ 2,395	$ 216,532	$ 24,324
Mortgage-backed securities:						
U.S. Government agencies	533,611	50,268	376,778	90,418	910,389	140,686
Private label	7,126	464	—	—	7,126	464
Trust preferred securities	—	—	3,828	762	3,828	762
Corporate securities	22,972	2,648	895	105	23,867	2,753
Total available-for-sale	$ 766,882	$ 75,309	$ 394,860	$ 93,680	$ 1,161,742	$ 168,989

As of September 30, 2023, management does not intend to sell any impaired security and it is not more than likely that it will be required to sell any impaired 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 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 September 30, 2023, management believes the unrealized losses detailed in the table above are temporary and therefore no allowance for credit losses has been recognized on the Company's securities. 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. During the three months ended September 30, 2023 and 2022, the Company had no credit-related net investment impairment losses.

The amortized cost and estimated fair value of debt securities at September 30, 2023, by contractual maturity, is 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.

	Amortized Cost	Estimated Fair Value
Available-for-Sale Debt Securities		
Due in one year or less	$ 2,783	$ 2,686
Due after one year through five years	71,423	66,477
Due after five years through ten years	480,331	429,944
Due after ten years	1,018,159	859,112
Total	$ 1,572,696	$ 1,358,219

Proceeds from sales, gross gains and gross losses recognized by the Company from investment security transactions are summarized in the table below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Proceeds on sales of available for sale securities	$ 17,690	$ —	$ 103,249	$ —
Gross realized gains on securities sold	**$ —**	$ —	**$ 975**	$ —
Gross realized losses on securities sold	**(730)**	—	**(932)**	—
Net investment security gains	**$ (730)**	$ —	**$ 43**	$ —
Gross unrealized gains recognized on equity securities still held	**$ 929**	$ 105	**$ 679**	$ 119
Gross unrealized losses recognized on equity securities still held	**(929)**	(104)	**(612)**	(1,441)
Net unrealized gains recognized on equity securities still held	**$ —**	$ 1	**$ 67**	$ (1,322)

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated $717 million and $886 million at September 30, 2023 and December 31, 2022, respectively.

Note E - Loans

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

	September 30, 2023	December 31, 2022
Commercial and industrial	**$ 424,647**	$ 373,890
1-4 Family	**135,226**	116,192
Hotels	**321,236**	340,404
Multi-family	**192,329**	174,786
Non Residential Non-Owner Occupied	**713,353**	585,964
Non Residential Owner Occupied	**222,544**	174,961
Commercial real estate	**1,584,688**	1,392,307
Residential real estate	**1,768,358**	1,693,523
Home equity	**159,630**	134,317
Consumer	**65,586**	48,806
Demand deposit account (DDA) overdrafts	**4,573**	3,415
Gross loans	**4,007,482**	3,646,258
Allowance for credit losses	**(23,128)**	(17,108)
Net loans	**$ 3,984,354**	$ 3,629,150
Construction loans included in:		
Commercial real estate	**$ 2,533**	$ 4,130
Residential real estate	**20,056**	21,122

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 policies, which are 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 credit losses.

Note F - Allowance for Credit Losses

The following table summarizes the activity in the allowance for credit losses, by portfolio loan classification, for the nine months ended September 30, 2023 and 2022 (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.

	Beginning Balance	Impact of Adopting ASU 2022-02	PCD Loan Reserves	Charge-offs	Recoveries	Provision for (recovery of) credit losses	Ending Balance
Nine months ended September 30, 2023							
Commercial and industrial	**$ 3,568**	**12**	**—**	**(69) $**	**766 $**	**371 $**	**4,648**
1-4 Family	**566**	**(1)**	**—**	**(335)**	**42**	**390**	**662**
Hotels	**2,332**	**—**	**—**	**(40)**	**—**	**(72)**	**2,220**
Multi-family	**380**	**—**	**500**	**—**	**—**	**135**	**1,015**
Non Residential Non-Owner Occupied	**2,019**	**—**	**1,536**	**—**	**162**	**1,081**	**4,798**
Non Residential Owner Occupied	**1,315**	**—**	**775**	**—**	**56**	**318**	**2,464**
Commercial real estate	**6,612**	**(1)**	**2,811**	**(375)**	**260**	**1,852**	**11,159**
Residential real estate	**5,427**	**(138)**	**—**	**(141)**	**43**	**200**	**5,391**
Home equity	**290**	**(46)**	**—**	**(379)**	**34**	**533**	**432**
Consumer	**110**	**(2)**	**—**	**(181)**	**78**	**320**	**325**
DDA overdrafts	**1,101**	**—**	**—**	**(1,229)**	**1,034**	**267**	**1,173**
	$ 17,108 $	**(175) $**	**2,811 $**	**(2,374) $**	**2,215 $**	**3,543 $**	**23,128**
Nine months ended September 30, 2022							
Commercial and industrial	$ 3,480	—	—	(445) $	240 $	137 $	3,412
1-4 Family	598	—	—	(24)	40	(66)	548
Hotels	2,426	—	—	—	—	111	2,537
Multi-family	483	—	—	—	—	(59)	424
Non Residential Non-Owner Occupied	2,319	—	—	—	47	(236)	2,130
Non Residential Owner Occupied	1,485	—	—	—	—	(113)	1,372
Commercial real estate	7,311	—	—	(24)	87	(363)	7,011
Residential real estate	5,716	—	—	(199)	50	(513)	5,054
Home equity	517	—	—	(90)	22	(101)	348
Consumer	106	—	—	(48)	76	(37)	97
DDA Overdrafts	1,036	—	—	(1,951)	1,153	851	1,089
	$ 18,166 $	— $	— $	(2,757) $	1,628 $	(26) $	17,011

	Beginning Balance	Impact of Adopting ASU 2022-02	PCD Loan Reserves	Charge-offs	Recoveries	Provision for (recovery of) credit losses	Ending Balance
Three months ended September 30, 2023							
Commercial and industrial	**$ 4,330**	**—**	**—**	**— $**	**597 $**	**(279) $**	**4,648**
1-4 Family	**598**	**—**	**—**	**(255)**	**12**	**307**	**662**
Hotels	**2,133**	**—**	**—**	**—**	**—**	**87**	**2,220**
Multi-family	**1,009**	**—**	**—**	**—**	**—**	**6**	**1,015**
Non Residential Non-Owner Occupied	**4,786**	**—**	**—**	**—**	**6**	**6**	**4,798**
Non Residential Owner Occupied	**2,378**	**—**	**—**	**—**	**56**	**30**	**2,464**
Commercial real estate	**10,904**	**—**	**—**	**(255)**	**74**	**436**	**11,159**
Residential real estate	**5,573**	**—**	**—**	**(89)**	**28**	**(121)**	**5,391**
Home equity	**408**	**—**	**—**	**(112)**	**18**	**118**	**432**
Consumer	**334**	**—**	**—**	**(10)**	**27**	**(26)**	**325**
DDA overdrafts	**1,202**	**—**	**—**	**(422)**	**321**	**72**	**1,173**
	$ 22,751 $	**— $**	**— $**	**(888) $**	**1,065 $**	**200 $**	**23,128**
Three months ended September 30, 2022							
Commercial and industrial	$ 3,519	—	—	(411) $	149 $	155 $	3,412
1-4 Family	574	—	—	—	6	(32)	548
Hotels	2,508	—	—	—	—	29	2,537
Multi-family	460	—	—	—	—	(36)	424
Non Residential Non-Owner Occupied	2,096	—	—	—	3	31	2,130
Non Residential Owner Occupied	1,395	—	—	—	—	(23)	1,372
Commercial real estate	7,033	—	—	—	9	(31)	7,011
Residential real estate	4,994	—	—	(93)	1	152	5,054
Home equity	338	—	—	(71)	2	79	348
Consumer	78	—	—	(16)	29	6	97
DDA Overdrafts	1,053	—	—	(716)	383	369	1,089
	$ 17,015 $	— $	— $	(1,307) $	573 $	730 $	17,011

During the nine months ended September 30, 2023, the Company recorded $2.8 million of allowance for credit losses due to acquired Citizens PCD loans. Further, in connection with the completion of the acquisition of Citizens during the nine months ended September 30, 2023, the Company recorded $2.0 million of provision for credit losses associated with loans acquired from Citizens. In addition, the provision for credit losses for the nine months ended September 30, 2023 included $1.3 million that was primarily related to the downgrade of two commercial loans.

Management systematically monitors the loan portfolio and the appropriateness of the allowance for credit losses on a quarterly basis to provide for expected 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. The Company's estimate of future economic conditions utilized in its provision estimate is primarily dependent on expected unemployment ranges over a two-year period. Beyond two years, a straight line reversion to historical average loss rates is applied over the life of the loan pool in the migration methodology. The vintage methodology applies future average loss rates based on net losses in historical periods where the unemployment rate was within the forecasted range.

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.

Non-Performing Loans

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 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 a borrower is unable to meet the contractual terms of its 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 credit losses. Management may elect to continue the accrual of interest when the net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in the process of collection.

Generally for all loan classes, interest income during the period the loan is non-performing is recorded on a cash basis after recovery of principal is reasonably assured. Cash 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, the borrower 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.

The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 90 days still accruing as of September 30, 2023 (in thousands):

	Non-accrual With No Allowance for Credit Losses	Non-accrual With Allowance for Credit Losses	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ —	$ 716	$ —
1-4 Family	—	521	—
Hotels	—	—	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	642	—
Non Residential Owner Occupied	—	192	—
Commercial Real Estate	—	1,355	—
Residential Real Estate	—	2,839	264
Home Equity	—	75	—
Consumer	—	1	5
Total	$ —	$ 4,986	$ 269

The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 90 days still accruing as of December 31, 2022 (in thousands):

	Non-accrual With No Allowance for Credit Losses	Non-accrual With Allowance for Credit Losses	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ —	$ 1,015	$ —
1-4 Family	—	937	—
Hotels	—	115	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	816	—
Non Residential Owner Occupied	—	298	—
Commercial Real Estate	—	2,166	—
Residential Real Estate	228	1,741	164
Home Equity	—	55	—
Consumer	—	—	23
Total	$ 228	$ 4,977	$ 187

The Company recognized no interest income on non-accrual loans during each of the three and nine months ended September 30, 2023 and 2022.

There were no individually evaluated impaired collateral-dependent loans as of September 30, 2023 or December 31, 2022. Changes in the fair value of the collateral for collateral-dependent loans are reported as a provision for credit loss or a recovery of credit loss in the period of change.

There were no significant commitments to provide additional funds on non-accrual or individually evaluated loans at September 30, 2023.

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. Open-end consumer loans are generally charged off when the loan becomes 180 days past due.

The following tables present the aging of the amortized cost basis in past-due loans as of September 30, 2023 and December 31, 2022 by class of loan (in thousands):

	September 30, 2023						
	30-59 Past Due	**60-89 Past Due**	**90+ Past Due**	**Total Past Due**	**Current Loans**	**Non-accrual**	**Total Loans**
Commercial and industrial	**$ 568**	**$ —**	**$ —**	**$ 568**	**$ 423,363**	**$ 716**	**$ 424,647**
1-4 Family	**56**	**—**	**—**	**56**	**134,649**	**521**	**135,226**
Hotels	**—**	**—**	**—**	**—**	**321,236**	**—**	**321,236**
Multi-family	**—**	**—**	**—**	**—**	**192,329**	**—**	**192,329**
Non Residential Non-Owner Occupied	**75**	**—**	**—**	**75**	**712,636**	**642**	**713,353**
Non Residential Owner Occupied	**1,347**	**—**	**—**	**1,347**	**221,005**	**192**	**222,544**
Commercial real estate	**1,478**	**—**	**—**	**1,478**	**1,581,855**	**1,355**	**1,584,688**
Residential real estate	**5,189**	**794**	**264**	**6,247**	**1,759,272**	**2,839**	**1,768,358**
Home Equity	**1,091**	**187**	**—**	**1,278**	**158,277**	**75**	**159,630**
Consumer	**79**	**—**	**5**	**84**	**65,501**	**1**	**65,586**
Overdrafts	**394**	**4**	**—**	**398**	**4,175**	**—**	**4,573**
Total	**$ 8,799**	**$ 985**	**$ 269**	**$ 10,053**	**$ 3,992,443**	**$ 4,986**	**$ 4,007,482**

	December 31, 2022						
	30-59 Past Due	60-89 Past Due	90+ Past Due	Total Past Due	Current Loans	Non-accrual	Total Loans
Commercial and industrial	$ 201	$ 33	$ —	$ 234	$ 372,641	$ 1,015	$ 373,890
1-4 Family	17	—	—	17	115,238	937	116,192
Hotels	—	—	—	—	340,289	115	340,404
Multi-family	—	—	—	—	174,786	—	174,786
Non Residential Non-Owner Occupied	—	—	—	—	585,148	816	585,964
Non Residential Owner Occupied	505	188	—	693	173,970	298	174,961
Commercial real estate	522	188	—	710	1,389,431	2,166	1,392,307
Residential real estate	6,843	84	164	7,091	1,684,463	1,969	1,693,523
Home Equity	622	28	—	650	133,612	55	134,317
Consumer	52	25	23	100	48,706	—	48,806
Overdrafts	386	5	—	391	3,024	—	3,415
Total	$ 8,626	$ 363	$ 187	$ 9,176	$ 3,631,877	$ 5,205	$ 3,646,258

Loan Restructurings

The Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2023, which eliminates the recognition and measurement of troubled debt restructurings ("TDRs"). Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows. During the three and nine months ended September 30, 2023, the Company had no loan modifications that were considered restructured loans.

A loan that is considered a restructured loan may be subject to the individually evaluated loan analysis, otherwise, the restructured loan will remain in the appropriate segment in the Allowance for Credit Losses model and associated reserves will be adjusted based on changes in the discounted cash flows resulting from the modification of the restructured loan.

Credit Quality Indicators

All commercial loans within the portfolio are subject to internal risk rating. All non-commercial loans are evaluated based on payment history. 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 expected loss.

The Company categorizes loans into risk categories based on relevant information regarding the customer's debt service ability, capacity and overall collateral position, along with other economic trends and historical payment performance. The risk rating for each credit is updated when the Company receives current financial information, the loan is reviewed by the Company's internal loan review and 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.
(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 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 and 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.

Based on the most recent analysis performed, the risk category of loans by class of loans at September 30, 2023 and December 31, 2022 is as follows (in thousands), with the loans acquired from Citizens categorized by their origination date:

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
Commercial and industrial								
Pass	$ 50,307	$ 52,028	$ 86,967	$ 54,217	$ 23,017	$ 18,712	$ 103,994	$ 389,242
Special mention	—	34	—	2,650	—	—	25	2,709
Substandard	433	2,859	856	830	954	1,614	25,150	32,696
Total	$ 50,740	$ 54,921	$ 87,823	$ 57,697	$ 23,971	$ 20,326	$ 129,169	$ 424,647
YTD Gross Charge-offs	$ —	$ —	$ 33	$ —	$ —	$ —	$ 36	$ 69

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
Commercial and industrial								
Pass	$ 51,268	$ 91,097	$ 60,251	$ 26,356	$ 19,497	$ 6,917	$ 109,645	$ 365,031
Special mention	—	—	392	9	—	19	3,245	3,665
Substandard	955	203	1,025	1,175	224	1,533	79	5,194
Total	$ 52,223	$ 91,300	$ 61,668	$ 27,540	$ 19,721	$ 8,469	$ 112,969	$ 373,890

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
Commercial real estate - 1-4 Family								
Pass	$ 25,435	$ 34,818	$ 18,378	$ 11,638	$ 7,915	$ 23,900	$ 10,432	$ 132,516
Special mention	—	220	56	110	—	763	—	1,149
Substandard	—	79	—	254	43	1,185	—	1,561
Total	$ 25,435	$ 35,117	$ 18,434	$ 12,002	$ 7,958	$ 25,848	$ 10,432	$ 135,226
YTD Gross Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 335	$ —	$ 335

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - 1-4 Family								
Pass	$ 31,331	$ 21,640	$ 12,565	$ 8,609	$ 4,826	$ 22,949	$ 11,107	$ 113,027
Special mention	228	—	115	—	—	836	—	1,179
Substandard	83	—	264	56	—	1,583	—	1,986
Total	$ 31,642	$ 21,640	$ 12,944	$ 8,665	$ 4,826	$ 25,368	$ 11,107	$ 116,192

September 30, 2023	**Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Total**
Commercial real estate - Hotels								
Pass	**$ 8,475**	**$ 83,106**	**$ 34,130**	**$ 3,447**	**$ 58,900**	**$ 102,778**	**$ 307**	**$ 291,143**
Special mention	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Substandard	**—**	**—**	**—**	**4,047**	**23,764**	**2,282**	**—**	**30,093**
Total	**$ 8,475**	**$ 83,106**	**$ 34,130**	**$ 7,494**	**$ 82,664**	**$ 105,060**	**$ 307**	**$ 321,236**
YTD Gross Charge-offs	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 40**	**$ —**	**$ 40**

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Hotels								
Pass	$ 85,590	$ 35,849	$ 12,275	$ 60,429	$ 14,921	$ 90,686	$ 323	$ 300,073
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	3,593	24,229	—	12,509	—	40,331
Total	$ 85,590	$ 35,849	$ 15,868	$ 84,658	$ 14,921	$ 103,195	$ 323	$ 340,404

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Multi-family								
Pass	$ 5,475	$ 21,133	$ 28,357	$ 64,657	$ 39,475	$ 32,128	$ 1,104	$ 192,329
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	$ 5,475	$ 21,133	$ 28,357	$ 64,657	$ 39,475	$ 32,128	$ 1,104	$ 192,329
YTD Gross Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Multi-family								
Pass	$ 13,761	$ 21,312	$ 65,542	$ 37,698	$ 2,189	$ 33,560	$ 724	$ 174,786
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	$ 13,761	$ 21,312	$ 65,542	$ 37,698	$ 2,189	$ 33,560	$ 724	$ 174,786

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	$ 91,355	$ 144,136	$ 115,332	$ 70,346	$ 69,655	$ 180,325	$ 8,308	$ 679,457
Special mention	—	—	102	1,804	168	24,919	240	27,233
Substandard	—	—	574	2,423	1,393	2,273	—	6,663
Total	$ 91,355	$ 144,136	$ 116,008	$ 74,573	$ 71,216	$ 207,517	$ 8,548	$ 713,353
YTD Gross Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	$ 110,501	$ 108,290	$ 89,943	$ 68,027	$ 87,413	$ 113,287	$ 2,781	$ 580,242
Special mention	—	110	170	176	—	—	—	456
Substandard	—	601	—	1,330	2,089	1,244	2	5,266
Total	$ 110,501	$ 109,001	$ 90,113	$ 69,533	$ 89,502	$ 114,531	$ 2,783	$ 585,964

September 30, 2023	**Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Total**
Commercial real estate - Non Residential Owner Occupied								
Pass	**$ 24,711**	**$ 31,142**	**$ 43,634**	**$ 17,109**	**$ 23,094**	**$ 56,245**	**$ 3,568**	**$ 199,503**
Special mention	**—**	**—**	**—**	**—**	**2,056**	**446**	**—**	**2,502**
Substandard	**4,053**	**917**	**3,067**	**1,222**	**129**	**10,787**	**364**	**20,539**
Total	**$ 28,764**	**$ 32,059**	**$ 46,701**	**$ 18,331**	**$ 25,279**	**$ 67,478**	**$ 3,932**	**$ 222,544**
YTD Gross Charge-offs	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Non Residential Owner Occupied								
Pass	$ 21,782	$ 36,186	$ 17,216	$ 22,274	$ 17,622	$ 39,861	$ 3,238	$ 158,179
Special mention	—	—	—	329	—	493	113	935
Substandard	943	193	110	2,479	772	10,350	1,000	15,847
Total	$ 22,725	$ 36,379	$ 17,326	$ 25,082	$ 18,394	$ 50,704	$ 4,351	$ 174,961

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Total								
Pass	$ 155,451	$ 314,335	$ 239,831	$ 167,197	$ 199,039	$ 395,376	$ 23,719	$ 1,494,948
Special mention	—	220	158	1,914	2,224	26,128	240	30,884
Substandard	4,053	996	3,641	7,946	25,329	16,527	364	58,856
Total	$ 159,504	$ 315,551	$ 243,630	$ 177,057	$ 226,592	$ 438,031	$ 24,323	$ 1,584,688
YTD Gross Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 375	$ —	$ 375

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate - Total								
Pass	$ 262,965	$ 223,277	$ 197,541	$ 197,037	$ 126,971	$ 300,343	$ 18,173	$ 1,326,307
Special mention	228	110	285	505	—	1,329	113	2,570
Substandard	1,026	794	3,967	28,094	2,861	25,686	1,002	63,430
Total	$ 264,219	$ 224,181	$ 201,793	$ 225,636	$ 129,832	$ 327,358	$ 19,288	$ 1,392,307

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Residential real estate								
Performing	$ 178,449	$ 401,566	$ 319,469	$ 255,721	$ 112,880	$ 422,554	$ 74,977	$ 1,765,616
Non-performing	—	68	476	92	617	1,000	489	2,742
Total	$ 178,449	$ 401,634	$ 319,945	$ 255,813	$ 113,497	$ 423,554	$ 75,466	$ 1,768,358
YTD Gross Charge-offs	$ —	$ —	$ —	$ —	$ 31	$ 104	$ 6	$ 141

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Residential real estate								
Performing	$ 405,059	$ 336,462	$ 270,197	$ 122,559	$ 86,317	$ 382,652	$ 88,308	$ 1,691,554
Non-performing	—	207	—	755	79	738	190	1,969
Total	$ 405,059	$ 336,669	$ 270,197	$ 123,314	$ 86,396	$ 383,390	$ 88,498	$ 1,693,523

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Home equity								
Performing	$ 21,183	$ 14,687	$ 6,397	$ 4,074	$ 2,592	$ 4,900	$ 105,624	$ 159,457
Non-performing	—	—	—	—	—	—	173	173
Total	$ 21,183	$ 14,687	$ 6,397	$ 4,074	$ 2,592	$ 4,900	$ 105,797	$ 159,630
YTD Gross Charge-offs	$ —	$ 95	$ —	$ —	$ —	$ 122	$ 162	$ 379

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Home equity								
Performing	$ 16,670	$ 7,394	$ 5,000	$ 3,035	$ 1,823	$ 5,116	$ 95,224	$ 134,262
Non-performing	—	—	—	—	—	—	55	55
Total	$ 16,670	$ 7,394	$ 5,000	$ 3,035	$ 1,823	$ 5,116	$ 95,279	$ 134,317

September 30, 2023	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Consumer								
Performing	$ 29,234	$ 20,593	$ 5,287	$ 3,666	$ 2,711	$ 2,035	$ 2,060	$ 65,586
Non-performing	—	—	—	—	—	—	—	—
Total	$ 29,234	$ 20,593	$ 5,287	$ 3,666	$ 2,711	$ 2,035	$ 2,060	$ 65,586
YTD Gross Charge-offs	$ —	$ —	$ 73	$ —	$ 6	$ 96	$ 6	$ 181

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Consumer								
Performing	$ 25,296	$ 7,954	$ 5,482	$ 4,299	$ 2,246	$ 2,064	$ 1,465	$ 48,806
Non-performing	—	—	—	—	—	—	—	—
Total	$ 25,296	$ 7,954	$ 5,482	$ 4,299	$ 2,246	$ 2,064	$ 1,465	$ 48,806

Note G - Derivative Instruments

As of September 30, 2023 and December 31, 2022, 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):

	September 30, 2023		December 31, 2022	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Non-hedging interest rate derivatives:				
Customer counterparties:				
Loan interest rate swap - assets	**$ 18,200**	**$ 1,703**	$ 28,238	$ 1,298
Loan interest rate swap - liabilities	**589,542**	**69,975**	619,150	63,758
Non-hedging interest rate derivatives:				
Financial institution counterparties:				
Loan interest rate swap - assets	**607,542**	**71,499**	637,150	65,217
Loan interest rate swap - liabilities	**18,200**	**1,703**	28,238	1,298

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Change in Fair Value Non-Hedging Interest Rate Derivatives:				
Other income (expense) - derivative assets	**$ 13,565**	$ 26,296	**$ 8,088**	$ 44,821
Other (expense) income - derivative liabilities	**(13,565)**	(26,296)	**(8,088)**	(44,821)
Other income (expense) - derivative liabilities	**132**	422	**65**	1,310

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-mark positions. The Company has received collateral with a value of $92.5 million and $83.0 million as of September 30, 2023 and December 31, 2022, respectively.

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.

Fair Value Hedges

During the year ended December 31, 2020, the Company entered into a series of fair value hedge agreements to reduce the interest rate risk associated with the change in fair value of certain securities. The total notional amount of these agreements was $150 million and the amortized cost of the hedged assets was $308.5 million and $330.0 million as of September 30, 2023 and December 31, 2022, respectively. During the nine months ended September 30, 2023 and 2022, the fair value hedge agreements were effective. The gains or losses on these hedges are recognized in current earnings as fair value changes.

The following table summarizes the financial statement impact of these derivative instruments (in thousands):

	September 30, 2023	December 31, 2022
Investment securities available for sale, at fair value	$ (13,681)	$ (15,394)
Other assets	13,683	15,262
Cumulative adjustment to Interest and dividends on investment securities	(2)	132

During the nine months ended September 30, 2023, the Company entered into a fair value hedge agreement to reduce the interest rate risk associated with the change in fair value of certain loans. The total notional amount of these agreements was $100 million. During the nine months ended September 30, 2023, the fair value hedge agreements were effective. The gains or losses on these hedges are recognized in current earnings as fair value changes.

The following table summarizes the financial statement impact of these derivative instruments (in thousands):

	September 30, 2023
Gross loans	$ (2,593)
Other assets	2,573
Cumulative adjustment to Interest and fees on loans	20

Note H - Employee Benefit Plans

Restricted Shares, Restricted Stock Units, Performance Share Units

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

Restricted shares are forfeited if the awarded officer or employee terminates his 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, except for restricted stock units and performance share units, 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 restricted shares and performance share units that have performance-based criteria, management has evaluated those criteria and has determined that, as of September 30, 2023, the criteria were probable of being met.

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

	Nine months ended September 30,			
	2023		2022	
	Restricted Awards	Average Market Price at Grant	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	140,606	$ 73.87	146,755	$ 72.16
Granted	43,819	90.56	38,512	77.21
Vested	(44,317)	72.84	(43,135)	71.89
Outstanding at September 30	140,108	$ 78.62	142,132	$ 73.86

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Stock-based compensation expense associated with restricted shares	**$ 681**	$ 738	**$ 2,022**	$ 2,083

At period-end:	**September 30, 2023**
Unrecognized stock-based compensation expense associated with restricted shares	**$ 5,679**
Weighted average period (in years) in which the above amount is expected to be recognized	**3.04**

Shares issued in conjunction with restricted stock awards are issued from available treasury shares. If no treasury shares are available, new shares would be issued from available authorized shares. During the nine months ended September 30, 2023 and 2022, all shares issued in connection with restricted stock awards were issued from available treasury stock.

Benefit Plans

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). The Company also maintains a frozen defined benefit pension plan (the "Defined Benefit Plan"), which was inherited from the Company's acquisition of the plan sponsor (Horizon Bancorp, Inc.).

The following table presents the components of the Company's net periodic benefit cost, which is included in the line item "other expenses" in the consolidated statements of income (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Components of net periodic cost:				
Interest cost	**$ 137**	$ 90	**$ 412**	$ 271
Expected return on plan assets	**(210)**	(221)	**(630)**	(664)
Net amortization and deferral	**86**	195	**257**	585
Net Periodic Pension Cost	**$ 13**	$ 64	**$ 39**	$ 192

Note I - Commitments and Contingencies

Credit-Related Financial Instruments

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 certain customers to extend credit or provide a conditional commitment to provide payment on drafts presented in accordance with the terms of the underlying credit documents. The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. Overdraft protection commitments, which are included with other commitments below, are uncollateralized and are paid at the Company's discretion. Conditional commitments generally include standby and commercial letters of credit. Standby letters of credit represent an obligation of the Company to a designated third party contingent upon the failure of a customer of the Company to perform under the terms of the underlying contract between the customer and the third party. Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, drafts will be drawn when the underlying transaction is consummated, as intended, between the customer and a third party. The 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):

	September 30, 2023	December 31, 2022
Commitments to extend credit:		
Home equity lines	**$ 243,385**	$ 232,295
Commercial real estate	**62,961**	53,226
Other commitments	**315,440**	257,222
Standby letters of credit	**5,301**	5,205
Commercial letters of credit	**2,526**	2,006

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.

Litigation

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 resolved. There can be no assurance that current legal actions will have an immaterial impact on financial results, either positive or negative, or that no material legal actions may be presented in the future.

Note J - Accumulated Other Comprehensive Income (Loss)

The activity in accumulated other comprehensive (loss) income is presented in the tables below (in thousands). All amounts are shown net of tax, which is calculated using a combined federal and state income tax rate approximating 24%.

	Three months ended September 30,			Nine months ended September 30,		
	Defined Benefit Pension Plan	Securities Available--for-Sale	Total	Defined Benefit Pension Plan	Securities Available--for-Sale	Total
2023						
Beginning Balance	**$ (3,422)**	**$ (127,026)**	**$ (130,448)**	**$ (3,422)**	**$ (128,066)**	**$ (131,488)**
Other comprehensive (loss) before reclassifications	**—**	**(36,700)**	**(36,700)**	**—**	**(35,072)**	**(35,072)**
Amounts reclassified from other comprehensive income	**—**	**555**	**555**	**—**	**(33)**	**(33)**
	—	**(36,145)**	**(36,145)**	**—**	**(35,105)**	**(35,105)**
Ending Balance	**$ (3,422)**	**$ (163,171)**	**$ (166,593)**	**$ (3,422)**	**$ (163,171)**	**$ (166,593)**
2022						
Beginning Balance	$ (3,485)	$ (80,498)	$ (83,983)	$ (3,485)	$ 17,745	$ 14,260
Other comprehensive loss	—	(61,499)	(61,499)	—	(159,742)	(159,742)
	—	(61,499)	(61,499)	—	(159,742)	(159,742)
Ending Balance	$ (3,485)	$ (141,997)	$ (145,482)	$ (3,485)	$ (141,997)	$ (145,482)

	Amounts reclassified from Other Comprehensive (Loss) Income				
	Three months ended September 30,		Nine months ended September 30,		Affected line item in the Consolidated Statements of Income
	2023	2022	**2023**	2022	
Securities available-for-sale:					
Net securities gains (losses) reclassified into earnings	**$ (730)**	$ —	**$ 43**	$ —	(Losses) gains on sale of investment securities, net
Related income tax expense	**175**	—	**(10)**	—	Income tax expense (benefit)
Net effect on accumulated other comprehensive (loss) income	**$ (555)**	$ —	**$ 33**	$ —	

Note K - Earnings per Share

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income available to common shareholders	**$ 29,839**	$ 27,374	**$ 86,913**	$ 71,408
Less: earnings allocated to participating securities	**(281)**	(255)	**(813)**	(679)
Net earnings allocated to common shareholders	**$ 29,558**	$ 27,119	**$ 86,100**	$ 70,729
Distributed earnings allocated to common stock	**$ 10,554**	$ 9,564	**$ 29,744**	$ 27,220
Undistributed earnings allocated to common stock	**19,004**	17,555	**56,356**	43,509
Net earnings allocated to common shareholders	**$ 29,558**	$ 27,119	**$ 86,100**	$ 70,729
Average shares outstanding	**14,922**	14,776	**14,906**	14,878
Effect of dilutive securities:				
Employee stock awards	**23**	24	**22**	23
Shares for diluted earnings per share	**14,945**	14,800	**14,928**	14,901
Basic earnings per share	**$ 1.98**	$ 1.84	**$ 5.78**	$ 4.75
Diluted earnings per share	**$ 1.98**	$ 1.83	**$ 5.77**	$ 4.75

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 L - 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 Company has the ability to access as of the measurement date.

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

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

The Company 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 creditworthiness, 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 amounts 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. 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. The Company's derivatives are included within "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 by the Company pledging securities to financial counterparties or, in the case of a borrowing customer, by the right of setoff. The Company considers 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 that would have resulted in a derivative credit risk valuation adjustment at September 30, 2023.

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 individually evaluated loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data for both real estate collateral and non-real estate collateral. The following table presents assets and liabilities measured at fair value (in thousands):

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
September 30, 2023					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	**$ 200,448**	**$ —**	**$ 200,448**	**$ —**	
Mortgage-backed securities:					
U.S. Government agencies	**1,121,603**	**—**	**1,121,603**	**—**	
Private label	**6,545**	**—**	**4,667**	**1,878**	
Trust preferred securities	**4,307**	**—**	**4,307**	**—**	
Corporate securities	**25,316**	**—**	**25,316**	**—**	
Marketable equity securities	**7,638**	**3,554**	**4,084**	**—**	
Derivative assets	**89,503**	**—**	**89,503**	**—**	
Financial Liabilities					
Derivative liabilities	**71,678**	**—**	**71,678**	**—**	
Nonrecurring fair value measurements					
Non-Financial Assets					
Other real estate owned	**720**	**—**	**—**	**720**	**90**
December 31, 2022					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	$ 268,315	$ —	$ 268,315	$ —	
Mortgage-backed securities:					
U.S. Government agencies	1,202,279	—	1,202,279	—	
Private label	7,231	—	4,772	2,459	
Trust preferred securities	3,828	—	3,828	—	
Corporate securities	23,867	—	23,867	—	
Marketable equity securities	7,569	3,851	3,718	—	
Certificates of deposit held for investment	747	—	747	—	
Derivative assets	81,838	—	81,838	—	
Financial Liabilities					
Derivative liabilities	65,056	—	65,056	—	
Nonrecurring fair value measurements					
Non-Financial Assets					
Other real estate owned	909	—	—	909	(90)

The Company's financial assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) include individually evaluated loans that were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for credit losses based upon the fair value of the underlying collateral (in thousands). The fair value of individually evaluated 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 individually evaluated 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 the nine months ended September 30, 2023 and 2022, collateral discounts ranged from 10% to 30%. During the nine months ended September 30, 2023 and 2022, 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.

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 rates 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.

The following table represents the estimates of fair value of financial instruments (in thousands). 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
September 30, 2023					
Assets:					
Cash and cash equivalents	**$ 110,716**	**$ 110,716**	**$ 110,716**	**$ —**	**$ —**
Securities available-for-sale	**1,358,219**	**1,358,219**	**—**	**1,356,341**	**1,878**
Marketable equity securities	**7,638**	**7,638**	**3,554**	**4,084**	**—**
Net loans	**3,984,354**	**3,805,058**	**—**	**—**	**3,805,058**
Accrued interest receivable	**19,223**	**19,223**	**19,223**	**—**	**—**
Derivative assets	**89,503**	**89,503**	**—**	**89,503**	**—**
Liabilities:					
Deposits	**4,945,134**	**4,597,310**	**3,611,660**	**985,650**	**—**
Customer repurchase agreements	**278,671**	**278,671**	**—**	**278,671**	**—**
Long-term debt	**100,000**	**96,888**	**—**	**96,888**	**—**
Accrued interest payable	**3,581**	**3,581**	**3,581**	**—**	**—**
Derivative liabilities	**71,678**	**71,678**	**—**	**71,678**	**—**
December 31, 2022					
Assets:					
Cash and cash equivalents	$ 200,000	$ 200,000	$ 200,000	$ —	$ —
Securities available-for-sale	1,505,520	1,505,520	—	1,503,061	2,459
Marketable equity securities	7,569	7,569	3,851	3,718	—
Net loans	3,629,150	3,491,318	—	—	3,491,318
Accrued interest receivable	18,287	18,287	18,287	—	—
Derivative assets	81,838	81,838	—	81,838	—
Liabilities:					
Deposits	4,869,866	4,867,883	3,981,766	886,117	—
Customer repurchase agreements	290,964	290,964	—	290,964	—
Accrued interest payable	953	953	953	—	—
Derivative liabilities	65,057	65,057	—	65,057	—

Note M - Long-Term Debt

During the second quarter of 2023, the Company borrowed $100.0 million from the FHLB at a weighted average rate of 4.01%, maturing in 2027. These FHLB advances is collateralized by a blanket lien of $2.5 billion of residential mortgage loans, home equity lines of credit, and certain commercial loans

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

Critical Accounting Policies and Estimates

The accounting policies of the Company conform with U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management’s estimates. As this information changes, management’s estimates and assumptions used to prepare the Company’s financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One to the audited financial statements included in the Company’s 2022 Annual Report to Shareholders. The information included in this Quarterly Report on Form 10-Q, including the Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with the financial statements and notes thereto included in the 2022 Annual Report of the Company. Based on the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses and 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.

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off in the future. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. These evaluations are conducted at least quarterly and more frequently if deemed necessary. 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.

In evaluating the appropriateness of its allowance for credit losses, the Company stratifies the loan portfolio into six major groupings. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Portfolio Segment	Measurement Method
Commercial and industrial	Migration
Commercial real estate:	
1-4 family	Migration
Hotels	Migration
Multi-family	Migration
Non Residential Non-Owner Occupied	Migration
Non Residential Owner Occupied	Migration
Residential real estate	Vintage
Home equity	Vintage
Consumer	Vintage

Migration is an analysis that tracks a closed pool of loans for a configurable period of time and calculates a loss ratio on only those loans in the pool at the start date based on outstanding balance. Vintage is a predictive loss model that includes a reasonable approximation of probable and estimable future losses by tracking each loan's net losses over the life of the loan as compared to its original balance. For demand deposit overdrafts, the allowance for credit losses is measured using the historical loss rate. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, the expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loan, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a restructured loan will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company uses a number of economic variables in its scenarios to estimate the Allowance for Credit Losses (ACL), with the most significant drivers being an unemployment rate forecast and qualitative adjustments. In the September 30, 2023 estimate, the Company assumed a 2-year unemployment forecast range of 3.8% to 4.8%, which changed from 3.7% to 4.9% at June 30, 2023. Historical loss rates from periods where the average unemployment rate matches the forecast range are considered when calculating the forecast period loss rate. Based on sensitivity of the portfolio, the change had no material impact on the reserve.

Based on sensitivity analysis of all portfolios, a 0.0050% change (slight improvement or decline on bank's scale) in all 11 qualitative risk factors (where assigned) would have a $2.1 million impact on the reserve allocation. Changing each factor by 0.01% (moderate improvement or decline) would have a $4.2 million, impact. Management recognizes that these are extreme scenarios and it is very unlikely that all risk factors would change by 0.005% or 0.01% simultaneously. For the September 30, 2023 estimate, the substandard criticized/classified qualitative factor for Commercial loans was increased by 0.015%, or "Decline" on the adjustment scale. The change increased the substandard pool's reserve by less than $0.1 million due to a large relationship downgrade. Additionally, management increased each Non-owner Occupied Loan Growth qualitative factor by 0.015%, or "Decline" on the adjustment scale due to strong growth in the portfolio for the quarter and year-over year. The change had a $0.1 million impact on the Non-owner Occupied reserve.

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 amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state taxing authorities for the years ended December 31, 2019 and forward.

The effective tax rate is calculated by taking the statutory rate and adjusting for permanent and discrete items. The discrete items can vary between periods but historically have remained consistent.

Acquisition and Preliminary Purchase Price Allocation

The calculation of the Company's acquisition and preliminary purchase price allocation is considered a critical accounting estimate as it involves a significant level of estimation and uncertainty, particularly in relation to the fair value and goodwill calculations. 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 that 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.

Financial Summary

Nine months ended September 30, 2023 vs. 2022

The Company's financial performance is summarized in the following table:

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income available to common shareholders (*in thousands*)	**$ 86,913**	$ 71,408
Earnings per common share, basic	**$ 5.78**	$ 4.75
Earnings per common share, diluted	**$ 5.77**	$ 4.75
Dividend payout ratio	**34.9 %**	38.9 %
ROA*	**1.91 %**	1.59 %
ROE*	**18.2 %**	15.0 %
ROATCE*	**23.9 %**	18.3 %
Average equity to average assets ratio	**10.5 %**	10.6 %

*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.

The Company's net interest income for the nine months ended September 30, 2023 increased $36.6 million compared to the nine months ended September 30, 2022 (see *Net Interest Income*). The Company recorded a provision for credit losses of $3.5 million for the nine months ended September 30, 2023 compared to no provision for the nine months ended September 30, 2022 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $2.9 million and non-interest expense increased $16.7 million for the nine months ended September 30, 2023 from the nine months ended September 30, 2022.

Financial Summary

Three months ended September 30, 2023 vs. 2022

The Company's financial performance is summarized in the following table:

	Three months ended September 30, 2023	Three months ended September 30, 2022
Net income available to common shareholders (*in thousands*)	**$ 29,839**	$ 27,374
Earnings per common share, basic	**$ 1.98**	$ 1.84
Earnings per common share, diluted	**$ 1.98**	$ 1.83
Dividend payout ratio	**36.1 %**	35.4 %
ROA*	**1.94 %**	1.83 %
ROE*	**18.1 %**	17.7 %
ROATCE*	**24.1 %**	21.8 %
Average equity to average assets ratio	**10.7 %**	10.3 %

*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.

The Company's net interest income for the three months ended September 30, 2023 increased $6.8 million compared to the three months ended September 30, 2022 (see *Net Interest Income*). The Company recorded a $0.2 million provision for credit losses for the three months ended September 30, 2023 compared to a $0.7 million provision for credit losses for the three months ended September 30, 2022 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest*

Income and Non-Interest Expense, non-interest income decreased $0.8 million and non-interest expense increased $3.5 million for the three months ended September 30, 2023 from the three months ended September 30, 2022.

Balance Sheet Analysis

Selected balance sheet fluctuations from the year ended December 31, 2022 are summarized in the following table (in millions):

	September 30, 2023	December 31, 2022	$ Change	% Change
Cash and cash equivalents	**110.7**	200.0	$ (89.3)	(44.7)%
Total investment securities	**1,387.2**	1,529.3	$ (142.1)	(9.3)%
Gross loans	**4,007.5**	3,646.3	361.2	9.9 %
Goodwill and other intangible assets, net	**163.5**	115.7	47.8	41.3 %
Total deposits	**4,945.1**	4,869.9	75.2	1.5 %
FHLB long-term advances	**100.0**	—	100.0	N/A

Cash and cash equivalents decreased $(89.3) million (44.7%) from December 31, 2022 to $110.7 million at September 30, 2023, due to an increase in gross loans and partially offset by a decrease in investment balances, an increase in FHLB long-term advances, and an increase deposit balances.

Total investment securities decreased $(142.1) million (9.3%) from December 31, 2022 to $1.39 billion at September 30, 2023, due to maturities and calls. Excluding $42.3 million sale of securities acquired from Citizens acquisition, the Company sold $60.9 million of available for sale securities during the nine months ended September 30, 2023

Gross loans increased $361.2 million (9.9%) from December 31, 2022 to $4.01 billion at September 30, 2023 primarily due to the Company's acquisition of Citizens ($254.7 million). Excluding the acquisition, total loans increased $106.5 million, (2.9%), from December 31, 2022 to $3.75 billion at September 30, 2023. Commercial and industrial loans increased $36.1 million (9.6%), residential real estate loans increased $31.5 million (1.9%), consumer loans increased $13.7 million (28.1%), and commercial real estate loans increased $12.6 million (0.9%).

Goodwill and other intangible assets, net, increased $47.8 million (41.3%) from December 31, 2022 to $163.5 million at September 30, 2023, due to the acquisition of Citizens.

Total deposits increased $75.2 million (1.5%) from December 31, 2022 to $4.9 billion at September 30, 2023 due to the Company's acquisition of Citizens ($298.7 million). Excluding the acquisition, depository balances declined $223.5 million, or 4.6% from the quarter ended December 31, 2022. Savings deposit balances decreased $184.8 million, noninterest-bearing demand deposit balances decreased $75.9 million, and interest-bearing demand deposit balances decreased $ 16.8 million. These decreases were partially offset by an increase in time deposit balances of $54.0 million.

FHLB long-term advances increased $100.0 million from December 31, 2022 to September 30, 2023. During the second quarter of 2023, the Company borrowed $100.0 million from the Federal Home Loan Bank at a weighted average rate of 4.01%.

Net Interest Income

Nine months ended September 30, 2023 vs. 2022

The Company's net interest income increased from $128.0 million for the nine months ended September 30, 2022 to $164.6 million for the nine months ended September 30, 2023. The Company's tax equivalent net interest income increased $36.4 million for the nine months ended September 30, 2023. Due to increases in the Federal Funds rate, net interest income increased by $36.2 million due to an increase in loan yields (net of loan fees and accretion) of 129 basis points and by $12.3 million due to an increase in investment yields of 110 basis points. The acquisition of Citizens added $6.8 million of net interest income during the nine months ended September 30, 2023 In addition, an increase of 357 basis points in the yield on deposits in depository institutions increased net interest income by $4.4 million and an increase in average loans ($184.2 million) added $5.4 million to interest income. These increases were partially offset by an increase in the cost of interest bearing liabilities (101 basis points) which decreased net interest income by $29.2 million. The Company’s reported net interest margin increased from 3.14% for the nine months ended September 30, 2022 to 4.02% for the nine months ended September 30, 2023.

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

	Nine months ended September 30,					
	2023			2022		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio[1]:						
Residential real estate[2]	**$ 1,882,397**	**$ 64,410**	**4.57 %**	$ 1,728,557	$ 49,610	3.84 %
Commercial, financial, and agriculture[2]	**1,904,001**	**87,745**	**6.16**	1,788,784	52,044	3.89
Installment loans to individuals[2],[3]	**65,659**	**2,784**	**5.67**	44,122	1,921	5.82
Total loans	**3,852,057**	**154,939**	**5.38**	3,561,463	103,575	3.89
Securities:						
Taxable	**1,300,373**	**35,999**	**3.70**	1,279,086	23,327	2.44
Tax-exempt[4]	**182,858**	**3,826**	**2.80**	221,035	4,620	2.79
Total securities	**1,483,231**	**39,825**	**3.59**	1,500,121	27,947	2.49
Deposits in depository institutions	**166,379**	**5,440**	**4.37**	422,714	2,549	0.81
Total interest-earning assets	**5,501,667**	**200,204**	**4.87**	5,484,298	134,071	3.27
Cash and due from banks	**69,735**			95,105		
Bank premises and equipment	**72,631**			72,964		
Goodwill and intangible assets	**150,808**			116,643		
Other assets	**324,658**			251,071		
Less: allowance for credit losses	**(21,602)**			(17,807)		
Total assets	**$ 6,097,897**			$ 6,002,274		
Liabilities						
Interest-bearing demand deposits	**$ 1,288,387**	**$ 7,582**	**0.79 %**	$ 1,149,899	$ 550	0.06 %
Savings deposits	**1,352,005**	**5,610**	**0.55**	1,415,563	715	0.07
Time deposits[2]	**950,276**	**11,616**	**1.63**	1,005,356	3,168	0.42
Customer repurchase agreements	**282,857**	**8,334**	**3.94**	278,211	677	0.33
FHLB long-term advances	**55,678**	**1,683**	**4.04**	—	—	—
Total interest-bearing liabilities	**3,929,203**	**34,825**	**1.18**	3,849,029	5,110	0.18
Noninterest-bearing demand deposits	**1,407,922**			1,429,887		
Other liabilities	**122,854**			86,585		
Stockholders’ equity	**637,918**			636,773		
Total liabilities and stockholders’ equity	**$ 6,097,897**			$ 6,002,274		
Net interest income		**$ 165,379**			$ 128,961	
Net yield on earning assets			**4.02 %**			3.14 %

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

Loan fees, net	$ 1,165	$ 609

(2) 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:

	2023	2022
Residential real estate	$ 165	231
Commercial, financial and agriculture	1,575	507
Installment loans to individuals	15	41
Time deposits	403	62
	$ 2,158	$ 841

(3) Includes the Company's consumer and DDA overdrafts loan categories.
(4) Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 21%.

Table Two
Rate/Volume Analysis of Changes in Interest Income and Interest Expense
(in thousands)

	Nine months ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ 4,415	$ 10,385	$ 14,800
Commercial, financial, and agriculture	3,352	32,349	35,701
Installment loans to individuals	938	(75)	863
Total loans	8,705	42,659	51,364
Securities:			
Taxable	388	12,284	12,672
Tax-exempt[1]	(798)	4	(794)
Total securities	(410)	12,288	11,878
Deposits in depository institutions	(1,546)	4,437	2,891
Total interest-earning assets	$ 6,749	$ 59,384	$ 66,133
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 66	$ 6,966	$ 7,032
Savings deposits	(32)	4,927	4,895
Time deposits	(174)	8,622	8,448
Customer repurchase agreements	11	7,646	7,657
FHLB long-term advances	1,683	—	1,683
Total interest-bearing liabilities	1,554	28,161	29,715
Net Interest Income	$ 5,195	$ 31,223	$ 36,418

(1) Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 21%.

Net Interest Income

Three months ended September 30, 2023 vs. 2022

The Company's net interest income increased from $48.8 million for the three months ended September 30, 2022 to $55.6 million for the three months ended September 30, 2023. The Company's tax equivalent net interest income increased $6.7 million, or 13.7% , from $49.1 million for the third quarter of 2022 to $55.9 million for the third quarter of 2023. The acquisition of Citizens added $3.2 million of net interest income during the quarter ended September 30, 2023. Due to increases in the Federal Funds rate, net interest income increased by $11.8 million due to an increase in loan yields (net of loan fees and accretion) of 126 basis points and by $3.4 million due to an increase in investment yields of 92 basis points. In addition, an increase in average loans ($105.7 million) added $1.1 million to interest income and an increase of 341 basis points in the yield on deposits in depository institutions increased net interest income by $0.8 million. These increases were partially offset by an increase in the cost of interest bearing liabilities (135 basis points) which decreased net interest income by $12.4 million. The Company's reported net interest margin increased from 3.57% for the third quarter of 2022 to 4.03% for the third quarter of 2023.

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

	Three months ended September 30,					
	2023			2022		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio[1]:						
Residential real estate[2]	**$ 1,910,876**	**$ 22,702**	**4.71 %**	$ 1,792,365	$ 17,718	3.92 %
Commercial, financial, and agriculture[2]	**1,975,463**	**31,743**	**6.38**	1,759,567	20,092	4.53
Installment loans to individuals[2],[3]	**70,532**	**1,138**	**6.40**	44,591	683	6.08
Total loans	**3,956,871**	**55,583**	**5.57**	3,596,523	38,493	4.25
Securities:						
Taxable	**1,277,265**	**12,432**	**3.86**	1,359,207	9,557	2.79
Tax-exempt[4]	**170,806**	**1,152**	**2.68**	215,219	1,555	2.87
Total securities	**1,448,071**	**13,584**	**3.72**	1,574,426	11,112	2.80
Deposits in depository institutions	**90,994**	**1,265**	**5.52**	289,460	1,529	2.10
Total interest-earning assets	**5,495,936**	**70,432**	**5.08**	5,460,409	51,134	3.72
Cash and due from banks	**69,348**			81,202		
Bank premises and equipment	**73,004**			72,196		
Goodwill and intangible assets	**163,602**			116,297		
Other assets	**332,551**			278,527		
Less: allowance for credit losses	**(23,558)**			(17,224)		
Total assets	**$ 6,110,883**			$ 5,991,407		
Liabilities						
Interest-bearing demand deposits	**$ 1,300,936**	**$ 3,068**	**0.94 %**	$ 1,151,122	$ 272	0.09 %
Savings deposits	**1,314,484**	**2,319**	**0.70**	1,431,591	358	0.10
Time deposits[2]	**985,038**	**5,163**	**2.08**	964,447	956	0.39
Customer repurchase agreements	**272,558**	**2,990**	**4.35**	270,310	440	0.65
FHLB long-term advances	**100,000**	**1,035**	**4.11**	—	—	—
Total interest-bearing liabilities	**3,973,016**	**14,575**	**1.46**	3,817,470	2,026	0.21
Noninterest-bearing demand deposits	**1,359,268**			1,455,123		
Other liabilities	**123,137**			100,303		
Shareholders’ equity	**655,462**			618,511		
Total liabilities and shareholders’ equity	**$ 6,110,883**			$ 5,991,407		
Net interest income		**$ 55,857**			$ 49,108	
Net yield on earning assets			**4.03 %**			3.57 %

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

	2023	2022
Loan fees, net	$ 254	$ 308

(2) 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:

	2023	2022
Residential real estate	$ 47	$ 64
Commercial, financial and agriculture	720	103
Installment loans to individuals	4	7
Time deposits	240	21
	$ 1,011	$ 195

(3) Includes the Company's consumer and DDA overdrafts loan categories.
(4) Computed on a fully federal tax-equivalent basis assuming a tax rate of 21%.

Table Two
Rate/Volume Analysis of Changes in Interest Income and Interest Expense
(in thousands)

	Three months ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ 1,172	$ 3,812	$ 4,984
Commercial, financial, and agriculture	2,465	9,186	11,651
Installment loans to individuals	397	58	455
Total loans	4,034	13,056	17,090
Securities:			
Taxable	(576)	3,451	2,875
Tax-exempt(1)	(321)	(82)	(403)
Total securities	(897)	3,369	2,472
Deposits in depository institutions	(1,048)	784	(264)
Total interest-earning assets	$ 2,089	$ 17,209	$ 19,298
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 35	$ 2,761	$ 2,796
Savings deposits	(29)	1,990	1,961
Time deposits	20	4,187	4,207
Customer repurchase agreements	4	2,546	2,550
FHLB long-term advances	1,035	—	1,035
Total interest-bearing liabilities	$ 1,065	$ 11,484	$ 12,549
Net Interest Income	$ 1,024	$ 5,725	$ 6,749

(1) Computed on a fully federal taxable equivalent using a tax rate of 21%.

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 principles 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. The following table reconciles fully taxable equivalent net interest income with net interest income as derived from the Company's financial statements, as well as other non-GAAP measures (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Net interest income ("GAAP")	**$ 55,614**	$ 48,782	**$ 164,575**	$ 127,991
Taxable equivalent adjustment	**243**	326	**804**	970
Net interest income, fully taxable equivalent	**$ 55,857**	$ 49,108	**$ 165,379**	$ 128,961
Equity to assets ("GAAP")	**10.04 %**	9.22 %		
Effect of goodwill and other intangibles, net	**(2.49)**	(1.81)		
Tangible common equity to tangible assets	**7.55 %**	7.41 %		
Return on average tangible equity ("GAAP")	**24.1 %**	21.8 %	**23.9 %**	18.3 %
Impact of merger related expenses	**—**	—	**1.2**	—
Impact of merger related provision	**—**	—	**0.4**	—
Return on tangible equity, excluding merger related expenses and provision	**24.1 %**	21.8 %	**25.5 %**	18.3 %
Return on assets ("GAAP")	**1.94 %**	1.83 %	**1.91 %**	1.59 %
Impact of merger related expenses	**—**	—	**0.10**	—
Impact of merger related provision	**—**	—	**0.03**	—
Return on assets, excluding merger related expenses and provision	**1.94 %**	1.83 %	**2.04 %**	1.59 %
Efficiency ratio	**46.4 %**	46.3 %	**48.1 %**	49.2 %
Impact of merger expenses	**—**	—	**(2.5)**	—
Efficiency ratio, net of merger expenses	**46.4 %**	46.3 %	**45.6 %**	49.2 %

Loans

Table Three
Loan Portfolio

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

	September 30, 2023	December 31, 2022	September 30, 2022
Commercial and industrial	$ 424,647	$ 373,890	$ 375,735
1-4 Family	135,226	116,192	109,710
Hotels	321,236	340,404	355,001
Multi-family	192,329	174,786	186,440
Non Residential Non-Owner Occupied	713,353	585,964	569,369
Non Residential Owner Occupied	222,544	174,961	177,673
Commercial real estate	1,584,688	1,392,307	1,398,193
Residential real estate	1,768,358	1,693,523	1,678,770
Home equity	159,630	134,317	130,837
Consumer	65,586	48,806	41,902
DDA overdrafts	4,573	3,415	3,315
Total loans	$ 4,007,482	$ 3,646,258	$ 3,628,752

Loan balances increased $106.5 million from December 31, 2022 to September 30, 2023, excluding $254.7 million of loans acquired from Citizens.

The commercial and industrial ("C&I") loan portfolio consists of loans to corporate borrowers that are primarily in small to mid-size industrial and commercial companies. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. C&I loans are considered to contain a higher level of risk than other loan types, although care is taken to minimize these risks. Numerous risk factors impact this portfolio, including industry specific risks such as the economy, new technology, labor rates and cyclicality, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. C&I loans increased $36.1 million from December 31, 2022 to September 30, 2023, excluding $14.7 million of C&I loans acquired from Citizens.

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. Commercial real estate loans increased $12.6 million from December 31, 2022 to September 30, 2023, excluding $179.8 million of commercial real estate loans acquired from Citizens. At September 30, 2023, $2.5 million of the commercial real estate loans were for commercial properties under construction.

In order to group loans with similar risk characteristics, the portfolio is further segmented by product types:

- Commercial 1-4 Family loans increased $12.8 million from December 31, 2022 to September 30, 2023, excluding $6.3 million of commercial 1-4 family loans acquired from Citizens. Commercial 1-4 Family loans consist of residential single-family, duplex, triplex, and fourplex rental properties and totaled $135.2 million at of September 30, 2023. Risk characteristics are driven by rental housing demand as well as economic and employment conditions. These properties exhibit greater risk than multi-family properties due to fewer income sources.
- Hotel loans decreased $19.2 million from December 31, 2022 to September 30, 2023. The Hotel portfolio is comprised of all lodging establishments and totaled $321.2 million as of September 30, 2023. Risk characteristics relate to the demand for travel.
- Multi-family loans increased $1.3 million from December 31, 2022 to September 30, 2023, excluding $16.3 million of multi-family loans acquired from Citizens. Multi-family consists of 5 or more family residential apartment lending. The portfolio totaled $192.3 million as of September 30, 2023. Risk characteristics are driven by rental housing demand as well as economic and employment conditions.
- Non-residential commercial real estate includes properties such as retail, office, warehouse, storage, healthcare, entertainment, religious, and other nonresidential commercial properties. The non-residential product type is further

segmented into owner- and non-owner occupied properties. Nonresidential non-owner occupied commercial real estate totaled $713.4 million at September 30, 2023 and increased $17.3 million from December 31, 2022 to September 30, 2023, excluding $110.1 million nonresidential owner-occupied loans acquired from Citizens. Nonresidential owner-occupied commercial real estate totaled $222.5 million at September 30, 2023 and increased $0.4 million from December 31, 2022, excluding $47.2 million of nonresidential owner-occupied loans acquired from Citizens. Risk characteristics relate to levels of consumer spending and overall economic conditions.

Residential real estate loans increased $31.5 million from December 31, 2022 to September 30, 2023, excluding $43.4 million of residential real estate loans acquired from Citizens. Residential real estate loans represent loans to consumers that are secured by a first lien on residential property. Residential real estate loans provide for the purchase or refinance of a residence and first-lien home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family 3, 5 and 7 year adjustable rate mortgages with terms that amortize up to 30 years. The Company also offers fixed-rate residential real estate loans that are sold in the secondary market that are not included on the Company's balance sheet; the Company does not retain the servicing rights to these loans. Residential mortgage loans are generally underwritten to comply with Fannie Mae guidelines, while the home equity loans are underwritten with typically less documentation, but with lower loan-to-value ratios and shorter maturities. At September 30, 2023, $20.1 million of the residential real estate loans were for properties under construction.

Home equity loans increased $11.6 million during the first nine months of 2023, excluding $13.7 million of home equity loans acquired from Citizens. The Company's home equity loans represent loans to consumers that are secured by a second (or junior) lien on a residential property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first lien. These loans consist of home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Home equity loans are underwritten with less documentation, lower loan-to-value ratios and for shorter terms than residential mortgage loans. The amount of credit extended is directly related to the value of the real estate at the time the loan is made.

Consumer loans may be secured by automobiles, boats, recreational vehicles and other personal property or they may be unsecured. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. Consumer loans increased $13.7 million during the first nine months of 2023, excluding $3.0 million of consumer loans acquired from Citizens.

Allowance for Credit Losses

Management systematically monitors the loan portfolio and the appropriateness of the allowance for credit losses on a quarterly basis to provide for expected 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. The Company's estimate of future economic conditions utilized in its provision estimate is primarily dependent on expected unemployment ranges over a two-year period. Beyond two years, a straight line reversion to historical average loss rates is applied over the life of the loan pool in the migration methodology. The vintage methodology applies future average loss rates based on net losses in historical periods where the unemployment rate was within the forecasted range. As a result of the Company’s quarterly analysis of the adequacy of the Allowance for Credit Losses, the Company recorded a $0.2 million provision for credit losses in the third quarter of 2023. The company recorded a provision for credit losses of $0.7 million in the third quarter of 2022.

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.

Determination of the Allowance for Credit 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 evaluation model to ensure that adequate provision has been made for risk in the total loan portfolio.

Based on the Company’s analysis of the adequacy of the allowance for credit losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for credit losses as of September 30, 2023 is adequate to provide for expected losses inherent in the Company’s loan portfolio. Future provisions for credit 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 Four
Allocation of the Allowance for Credit Losses

The allocation of the allowance for credit losses is shown in the table below (in thousands). The allocation of a portion of the allowance in one portfolio loan classification does not preclude its availability to absorb losses in other portfolio segments.

	As of September 30,		As of December 31,
	2023	2022	2022
Commercial and industrial	**$ 4,648**	$ 3,412	$ 3,568
1-4 Family	**662**	548	566
Hotels	**2,220**	2,537	2,332
Multi-family	**1,015**	424	380
Non Residential Non-Owner Occupied	**4,798**	2,130	2,019
Non Residential Owner Occupied	**2,464**	1,372	1,315
Commercial real estate	**11,159**	7,011	6,612
Residential real estate	**5,391**	5,054	5,427
Home equity	**432**	348	290
Consumer	**325**	97	110
DDA overdrafts	**1,173**	1,089	1,101
Allowance for Credit Losses	**$ 23,128**	$ 17,011	$ 17,108

The Allowance for Credit Losses increased from $17.1 million at December 31, 2022 to $23.1 million at September 30, 2023, due to the following factors. The Company recorded $2.8 million associated with acquired Citizens PCD loans. Further, in connection with the completion of the acquisition of Citizens during the nine months ended September 30, 2023, the Company recorded $2.0 million of provision for credit losses associated with loans acquired from Citizens. In addition, the provision for credit losses for the nine months ended September 30, 2023, included $1.3 million that was primarily related to the downgrade of two commercial loans.

Non-Interest Income and Non-Interest Expense

Nine months ended September 30, 2023 vs. 2022
(in millions)

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Net investment securities gains (losses)	**$ 0.1**	$ (1.3)	$ 1.4	107.7 %
Non-interest income, excluding net investment securities (losses) gains	56.3	54.9	1.4	2.6
Non-interest expense, less merger-related expenses	**102.8**	91.7	11.1	12.1

Non-Interest Income: Non-interest income was $56.4 million for the nine months ended September 30, 2023, as compared to $53.6 million for the nine months ended September 30, 2022. During the nine months ended September 30, 2023, the Company reported $0.1 million of unrealized fair value gains compared to $1.3 million of unrealized fair value losses on the Company's equity securities during the nine months ended September 30, 2022. Excluding these items, non-interest income increased from $54.9 million for the nine months ended September 30, 2022 to $56.3 million for the nine months ended September 30, 2023. This increase was largely attributable to an increase in bank owned life insurance ($1.1 million, or 28.6%), trust and investment management fee income ($0.5 million, or 8.4%), and bankcard revenue ($0.3 million, or 1.4%), that were partially offset by a decrease in service charges ($0.7 million, or 3.2%).

Non-Interest Expense: Non-interest expenses, less merger related expenses increased $11.1 million (12.1%), from $91.7 million in the first nine months of 2022 to $102.8 million in the first nine months of 2023 mainly due to an increase in salaries and employee benefits ($5.0 million) due to the acquisition of Citizens ($1.2 million) and as a result of higher salary adjustments, increased health insurance, increased incentive compensation during 2023 and other expenses ($3.6 million) as a result of increased amortization of core deposit intangibles ($1.0 million) due to to acquisition of Citizens in March 2023

Income Tax Expense: The Company's effective income tax rate for the nine months ended September 30, 2023 was 20.3% compared to 20.5% for the nine months ended September 30, 2022.

Non-Interest Income and Non-Interest Expense

Three months ended September 30, 2023 vs. 2022
(in millions)

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Net investment securities gains (losses)	$ **(0.7)**	$ —	(0.7)	N/A
Non-interest income, excluding net investment securities gains (losses)	**18.1**	18.2	$ (0.1)	(0.5)%
Non-interest expense, less merger-related expenses	**35.0**	31.5	3.5	11.1 %

Non-Interest Income: Non-interest income was $17.4 million during the quarter ended September 30, 2023, as compared to $18.2 million during the quarter ended September 30, 2022. During the third quarter of 2023, the Company reported $0.7 million of realized security losses.

Exclusive of the realized security loss, non-interest income decreased $0.1 million, or 0.5%, from $18.2 million for the third quarter of 2022 to $18.1 million for the third quarter of 2023. This decrease was largely attributable to a decrease of $0.4 million, or 4.8%, in service fees that was partially offset by an increase of $0.3 million, or 11.6%, in trust and investment management fee income.

Non-Interest Expense: Non-interest expenses increased $3.5 million, or 11.2%, from $31.5 million in the third quarter of 2022 to $35.0 million in the third quarter of 2023. This increase was largely due to an increase in other expenses of $1.2 million and an increase in salaries and employee benefits of $0.9 million due to the acquisition of Citizens ($0.5 million) and salary adjustments. In addition, bankcard expenses increased $0.8 million and FDIC insurance expenses increased $0.5 million.

Income Tax Expense: The Company's effective income tax rate for the three months ended September 30, 2023 and September 30, 2022 was 21.1%, and 21.3%, respectively.

Risk Management

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 market 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 SOFR interest rates, prime rates, and other benchmark interest rates that could 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 in the form of interest rate swaps, to help manage its interest rate risk on commercial loans.

The Company's 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 at least 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 and 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 or decrease of 100 to 300 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 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 or Decrease in Net Income Over 12 Months
September 30, 2023		
+300	**8.50 %**	**-3.2 %**
+200	**7.50**	**-1.4**
+100	**6.50**	**0.2**
-100	**4.50**	**-1.2**
-200	**3.50**	**-8.6**
-300	**2.50**	**-17.3**
December 31, 2022		
+300	7.50 %	-4.5 %
+200	6.50	-2.6
+100	5.50	-1.2
-100	3.50	-5.5
-200	2.50	-14.4
-300	1.50	-19.3

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 the remainder of 2023 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 behaves relative to an increase in rates compared to what would otherwise occur if rates remain stable.

Liquidity and Capital Resources

Liquidity

The Company evaluates the adequacy of liquidity at both the City Holding level and at the City National level. At the City Holding level, the principal source of cash is dividends from City National. Dividends paid by City National to City Holding 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 September 30, 2023, City National could pay dividends up to $93.8 million plus net profits for the remainder of 2023, as defined by statute, up to the dividend declaration date without prior regulatory permission.

Additionally, City Holding anticipates continuing the payment of dividends on its common stock, which are expected to approximate $40.1 million on an annualized basis over the next 12 months based on common shares outstanding at September 30, 2023. However, dividends to shareholders can, if necessary, be suspended. In addition to these anticipated cash needs, City Holding has operating expenses and other contractual obligations, which are estimated to require $1.6 million of additional cash over the next 12 months. As of September 30, 2023, City Holding reported a cash balance of $13.9 million and management believes that City Holding's available cash balance, together with cash dividends from City National, will be adequate to satisfy its funding and cash needs over the next 12 months.

As illustrated in the consolidated statements of cash flows, the Company generated $104.0 million of cash from operating activities during the first nine months of 2023, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings. The Company generated $32.8 million of cash in investing activities during the first nine months of 2023, primarily due to proceeds from sales of available-for-sale securities of $103.2 million, proceeds from maturities and calls of $93.9 million and the acquisition of Citizens of $14.0 million. These increases were partially offset by a increase in loans of $108.0 million and purchases of available-for-sale securities of $56.7 million. The Company used $226.2 million of cash in financing activities during the first nine months of 2023, principally as a result of a decrease in interest-bearing deposits of $145.3 million, a decrease in non-interest-bearing deposits of $78.2 million. and purchases of treasury stock of $53.8 million. These decreases were partially offset by an increase in proceeds from FHLB long-term advances of $100.0 million.

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 Reserve Bank and the FHLB. As of September 30, 2023, City National's assets are significantly funded by deposits and capital. Additionally, City National maintains borrowing facilities with the Federal Reserve Bank and the FHLB that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of September 30, 2023, City National had outstanding borrowings totaling $100 million from these facilities and had the capacity to borrow an additional $1.8 billion from these existing borrowing facilities. 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. Approximately $0.8 billion of City National's investment securities were unpledged at September 30, 2023. 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. The Company's net loan to asset ratio is 65.6% as of September 30, 2023 and deposit balances fund 81.4% of total assets. 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 $1.4 billion at September 30, 2023, and that exceeded the Company's non-deposit sources of borrowing, which totaled $378.7 million. Further, the Company's deposit mix has a high proportion of transaction and savings accounts that fund 64.8% of the Company's total assets. As interest rates increase, deposit balances may decline or the composition of the deposit portfolio may shift to higher yielding deposit products, such as money market accounts or time deposits.

As the following table reflects, less than 15% (estimated) of the Company's deposits were uninsured (either with balances above $250,000 or not collateralized by investment securities) as of September 30, 2023.

Estimated Uninsured Deposits by Deposit Type

	September 30, 2023	December 31, 2022
Noninterest-Bearing Demand Deposits	17 %	20 %
Interest-Bearing Deposits		
Demand Deposits	11 %	10 %
Savings Deposits	11 %	14 %
Time Deposits	14 %	13 %
Total Deposits	**13 %**	**14 %**

The amounts listed above represent management's best estimate as of the respective period shown of uninsured deposits (either with balances above $250,000 or not collateralized by investment securities).

Capital Resources

Shareholders' equity increased $32.3 million for the nine months ended September 30, 2023, primarily due to the common stock issued in connection with , net income of $86.9 million, acquisition of Citizens of $62.1 million, and stock based compensation expense of $2.4 million. These increases were partially offset by the repurchase of 596,969 common shares at a weighted average price of $90.16 per share ($53.8 million) as part of a one million share repurchase plan authorized by the Board of Directors in May 2022, other comprehensive loss ($35.1 million), and cash dividends declared of $30.4 million.

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):

September 30, 2023	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	**$ 615,798**	**15.4 %**	**$ 280,686**	**7.0 %**	**$ 260,637**	**6.5 %**
City National Bank	**588,343**	**14.7 %**	**279,602**	**7.0 %**	**259,631**	**6.5 %**
Tier I Capital						
City Holding Company	**615,798**	**15.4 %**	**340,833**	**8.5 %**	**320,784**	**8.0 %**
City National Bank	**588,343**	**14.7 %**	**339,517**	**8.5 %**	**319,546**	**8.0 %**
Total Capital						
City Holding Company	**637,245**	**15.9 %**	**421,029**	**10.5 %**	**400,980**	**10.0 %**
City National Bank	**609,790**	**15.3 %**	**419,403**	**10.5 %**	**399,432**	**10.0 %**
Tier I Leverage Ratio						
City Holding Company	**615,798**	**10.1 %**	**245,190**	**4.0 %**	**306,488**	**5.0 %**
City National Bank	**588,343**	**9.6 %**	**244,984**	**4.0 %**	**306,230**	**5.0 %**

December 31, 2022	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	$ 598,068	16.2 %	$ 257,965	7.0 %	$ 239,538	6.5 %
City National Bank	508,586	13.9 %	256,520	7.0 %	238,197	6.5 %
Tier I Capital						
City Holding Company	598,068	16.2 %	313,243	8.5 %	294,817	8.0 %
City National Bank	508,586	13.9 %	311,488	8.5 %	293,166	8.0 %
Total Capital						
City Holding Company	612,654	16.6 %	386,947	10.5 %	368,521	10.0 %
City National Bank	523,172	14.3 %	384,780	10.5 %	366,457	10.0 %
Tier I Leverage Ratio						
City Holding Company	598,068	10.0 %	238,954	4.0 %	298,692	5.0 %
City National Bank	508,586	8.6 %	237,973	4.0 %	297,466	5.0 %

As of September 30, 2023, 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 September 30, 2023, management believes that City Holding and City National have met all capital adequacy requirements.

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. The Company and its 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.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The information called for by this item is provided under the caption "Risk Management" under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4 - 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 and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-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 SEC filings. There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. 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 resolved. 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 1A. Risk Factors

Readers should carefully consider the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022 as well as the following additional risk factor.

Risks Related to Recent Events Impacting the Financial Services Industry

Recent events impacting the financial services industry, including the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, have decreased confidence in banks among consumer and commercial depositors, other counterparties and investors, as well as caused significant disruption, volatility and reduced valuations of equity and other securities of banks and bank holding companies in the capital markets. These events are occurring during a period of continued interest rate increases by the Federal Reserve which, among other things, have resulted in unrealized losses in longer-duration securities held by banks, increased competition for bank deposits and the possibility of an increase in the risk of a potential recession. These recent events have, and could continue to, adversely impact the market price and volatility of the Company's common stock.

These recent events may also result in potentially adverse changes to laws and/or regulations governing banks and bank holding companies or result in the imposition of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on the Company's business. Inability to access short-term funding or loss of client deposits could increase the cost of funding, limit access to capital markets or negatively impact the Company's overall liquidity, capitalization, and overall economic outcomes. The Company may be impacted by concerns by depositors, investors and other counterparties regarding the soundness or creditworthiness of other financial institutions, which could cause substantial and cascading disruption within the financial markets and increase Company expenses. The cost of resolving the recent bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 25, 2022, the Board of Directors of the Company authorized the Company to buy back up to 1,000,000 shares of its common stock (approximately 7% of outstanding shares) in open market transactions at prices that are accretive to the earnings per share of continuing shareholders. No time limit was placed on the duration of the share repurchase program. As part of this authorization, the Company terminated its previous repurchase program that was approved in March 2021. The following table sets forth information regarding the Company's common stock repurchases transacted during the quarter ended September 30, 2023:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 1 - September 30, 2023*	109,382	89.33	1,606,405	489,263

*There were no common stock repurchases in July and August 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

During the three months ended September 30, 2023, none of our directors or officers informed us of the adoption, modification or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

Item 6. Exhibits

The exhibits required to be filed or furnished with this Form 10-Q are attached hereto or incorporated herein by reference as shown in the following "Exhibit Index."

Exhibit Index

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

2(a)	**Agreement and Plan of Merger,** dated October 18, 2022, by and among City Holding Company and Citizens Commerce Bancshares, Inc. (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated October 18, 2022, and filed with the Securities and Exchange Commission on October 18, 2022).
2(b)	**Agreement and Plan of Merger,** dated July 11, 2018, by and among Poage Bankshares, Inc., Town Square 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 July 11, 2018, and filed with the Securities and Exchange Commission on July 12, 2018).
2(c)	**Agreement and Plan of Merger,** dated July 11, 2018, by and among Farmers Deposit Bancorp, Inc., Farmers Deposit 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 July 11, 2018, and filed with the Securities and Exchange Commission on July 12, 2018).
3(a)	**Amended and Restated Articles of Incorporation of City Holding Company** (attached to, and incorporated by reference from City Holding Company's Form 10-Q Quarterly Report for the quarter ending September 30, 2021, filed November 4, 2021 with the Securities Exchange Commission).
3(b)	**Amended and Restated Bylaws of City Holding Company**, revised December 18, 2019 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed December 20, 2019 with the Securities and Exchange Commission).
4(a)	**Rights Agreement dated as of June 13, 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).
4(b)	**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).
10(a)	Change in Control Agreement for David L. Bumgarner, effective as of May 4, 2022.
10(b)	Change in Control Agreement for Jeffrey D. Legge, effective as of May 4, 2022.
10(c)	Change in Control Agreement for Michael T. Quinlan, Jr., effective as of May 4, 2022.
31(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
31(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
32(a)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
32(b)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
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*
104	Cover Page Interactive Data file (formatted as inline XBRL and contained in Exhibit 101).

* 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 Sections 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 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.

City Holding Company

(Registrant)

Charles R. Hageboeck
President and Chief Executive Officer
(Principal Executive Officer)

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

Date: November 3, 2023

Exhibit 31(a)

CERTIFICATION

I, Charles R. Hageboeck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 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

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2023

/s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(b)

CERTIFICATION

I, David L. Bumgarner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 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

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2023

/s/ David L. Bumgarner

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

Exhibit 32(a)

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 Quarterly Report on Form 10-Q of City Holding Company (the "Company") for the period ending September 30, 2023 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, 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.

/s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2023

This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the"Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Exhibit 32(b)

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 Quarterly Report on Form 10-Q of City Holding Company (the “Company”) for the period ending September 30, 2023 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.

/s/ David L. Bumgarner

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

Date: November 3, 2023

This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.