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, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to _____________

Commission file number 0-11733

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

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

25 Gatewater Road,	**Charleston,**	**West Virginia**	**25313**
(Address of Principal Executive Offices)			(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 16,302,139 shares of common stock as of November 1, 2019.

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, 2018 under “ITEM 1A Risk Factors” and the following: (1) general economic conditions, especially in the communities and markets in which we conduct our business; (2) credit risk, including risk that negative credit quality trends may lead to a deterioration of asset quality, risk that our allowance for loan losses may not be sufficient to absorb actual losses in our loan portfolio, and risk from concentrations 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; (11) deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in the securities of other financial institutions; (12) regulatory enforcement actions and adverse legal actions; (13) difficulty attracting and retaining key employees; and (14) other economic, competitive, technological, operational, governmental, regulatory, and market factors affecting our operations. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

Index
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, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 71,332	$ 55,016
Interest-bearing deposits in depository institutions	44,862	67,975
Cash and Cash Equivalents	116,194	122,991
Investment securities available for sale, at fair value	798,930	721,796
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2019 and December 31, 2018 - $52,845 and $60,706, respectively)	51,211	60,827
Other securities	28,070	30,268
Total Investment Securities	878,211	812,891
Gross loans	3,582,571	3,587,608
Allowance for loan losses	(13,186)	(15,966)
Net Loans	3,569,385	3,571,642
Bank owned life insurance	114,616	113,544
Premises and equipment, net	76,929	78,383
Accrued interest receivable	12,929	12,424
Net deferred tax asset	6,432	17,338
Goodwill and other intangible assets, net	120,773	122,848
Other assets	62,248	46,951
Total Assets	$ 4,957,717	$ 4,899,012
Liabilities		
Deposits:		
Noninterest-bearing	$ 795,548	$ 789,119
Interest-bearing:		
Demand deposits	898,704	899,568
Savings deposits	980,539	934,218
Time deposits	1,354,787	1,352,654
Total Deposits	4,029,578	3,975,559
Short-term borrowings:		
Federal funds purchased	—	40,000
Customer repurchase agreements	202,622	221,911
Long-term debt	4,055	4,053
Other liabilities	71,859	56,725
Total Liabilities	4,308,114	4,298,248
Shareholders' Equity		
Preferred stock, par value $25 per share: 500,000 shares authorized; none issued	—	—
Common stock, par value $2.50 per share: 50,000,000 shares authorized; 19,047,548 shares issued at September 30, 2019 and December 31, 2018, less 2,745,409 and 2,492,403 shares in treasury, respectively	47,619	47,619
Capital surplus	169,794	169,555
Retained earnings	525,933	485,967
Cost of common stock in treasury	(105,138)	(87,895)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on securities available-for-sale	17,266	(8,611)
Underfunded pension liability	(5,871)	(5,871)
Total Accumulated Other Comprehensive Income (Loss)	11,395	(14,482)
Total Shareholders' Equity	649,603	600,764

Total Liabilities and Shareholders' Equity	**$ 4,957,717**	$ 4,899,012

See notes to consolidated financial statements.

Table of Contents

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,	
	2019	2018	**2019**	2018
Interest Income				
Interest and fees on loans	**$ 42,944**	$ 36,872	**$ 128,397**	$ 104,082
Interest and dividends on investment securities:				
Taxable	**6,044**	4,216	**17,465**	12,314
Tax-exempt	**722**	701	**2,257**	2,114
Interest on deposits in depository institutions	**271**	940	**1,034**	1,043
Total Interest Income	**49,981**	42,729	**149,153**	119,553
Interest Expense				
Interest on deposits	**8,585**	5,497	**24,768**	14,741
Interest on short-term borrowings	**814**	1,435	**2,729**	2,354
Interest on long-term debt	**45**	239	**140**	680
Total Interest Expense	**9,444**	7,171	**27,637**	17,775
Net Interest Income	**40,537**	35,558	**121,516**	101,778
Provision for (recovery of) loan losses	**274**	(27)	**(1,175)**	(1,910)
Net Interest Income After Provision for (Recovery of) Loan Losses	**40,263**	35,585	**122,691**	103,688
Non-Interest Income				
(Losses) gains on sale of investment securities, net	**(40)**	—	**69**	—
Unrealized (losses) gains recognized on equity securities still held	**(214)**	384	**(27)**	1,155
Service charges	**8,183**	7,598	**23,281**	21,783
Bankcard revenue	**5,440**	4,677	**15,931**	13,543
Trust and investment management fee income	**1,802**	1,579	**5,144**	4,792
Bank owned life insurance	**762**	813	**2,910**	2,356
Other income	**765**	702	**3,139**	2,227
Total Non-Interest Income	**16,698**	15,753	**50,447**	45,856
Non-Interest Expense				
Salaries and employee benefits	**15,210**	13,576	**46,220**	40,459
Occupancy related expense	**2,725**	2,323	**8,055**	7,073
Equipment and software related expense	**2,248**	1,965	**6,662**	5,691
FDIC insurance expense	**—**	315	**639**	943
Advertising	**861**	808	**2,650**	2,444
Bankcard expenses	**1,554**	1,134	**4,270**	3,274
Postage, delivery, and statement mailings	**659**	537	**1,828**	1,630
Office supplies	**382**	364	**1,167**	1,006
Legal and professional fees	**539**	453	**1,665**	1,378
Telecommunications	**569**	408	**1,892**	1,349
Repossessed asset (gains) losses, net of expenses	**(59)**	156	**410**	638
Merger related costs	**—**	242	**797**	242
Other expenses	**3,709**	2,759	**12,326**	8,765
Total Non-Interest Expense	**28,397**	25,040	**88,581**	74,892
Income Before Income Taxes	**28,564**	26,298	**84,557**	74,652
Income tax expense	**6,193**	5,606	**17,816**	15,369
Net Income Available to Common Shareholders	**$ 22,371**	$ 20,692	**$ 66,741**	$ 59,283

Total Comprehensive Income	**$ 28,678**	$ 16,367	**$ 92,618**	$ 44,307
Average shares outstanding, basic	**16,271**	15,340	**16,350**	15,360
Effect of dilutive securities	**18**	18	**18**	20
Average shares outstanding, diluted	**16,289**	15,358	**16,368**	15,380
Basic earnings per common share	**$ 1.36**	$ 1.34	**$ 4.05**	$ 3.82
Diluted earnings per common share	**$ 1.36**	$ 1.33	**$ 4.04**	$ 3.82

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Net income available to common shareholders	**$ 22,371**	$ 20,692	**$ 66,741**	$ 59,283
Available-for-Sale Securities				
Unrealized gains (losses) on available-for-sale securities arising during the period	**8,199**	(5,638)	**33,870**	(19,520)
Reclassification adjustment for gains (losses)	**40**	—	**(69)**	—
Other comprehensive income (loss) before income taxes	**8,239**	(5,638)	**33,801**	(19,520)
Tax effect	**(1,932)**	1,313	**(7,924)**	4,544
Other comprehensive income (loss), net of tax	**6,307**	(4,325)	**25,877**	(14,976)
Comprehensive Income, Net of Tax	**$ 28,678**	$ 16,367	**$ 92,618**	$ 44,307

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Three Months Ended September 30, 2019 and 2018
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at June 30, 2018	$ 47,619	$ 140,091	$ 471,515	$ (136,520)	$ (18,952)	$ 503,753
Net income	—	—	20,692	—	—	20,692
Other comprehensive income (loss)	—	—	—	—	(4,325)	(4,325)
Cash dividends declared ($0.53 per share)	—	—	(8,190)	—	—	(8,190)
Stock-based compensation expense	—	455	—	—	—	455
Exercise of 3,986 stock options	—	(96)	—	277	—	181
Purchase of 7,000 treasury shares	—	—	—	(540)	—	(540)
Balance at September 30, 2018	$ 47,619	$ 140,450	$ 484,017	$ (136,783)	$ (23,277)	$ 512,026

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at June 30, 2019	**$ 47,619**	**$ 169,374**	**$ 512,911**	**$ (98,084)**	**$ 5,088**	**$ 636,908**
Net income	**—**	**—**	**22,371**	**—**	**—**	**22,371**
Other comprehensive income (loss)	**—**	**—**	**—**	**—**	**6,307**	**6,307**
Cash dividends declared ($0.57 per share)	**—**	**—**	**(9,349)**	**—**	**—**	**(9,349)**
Stock-based compensation expense	**—**	**527**	**—**	**—**	**—**	**527**
Exercise of 3,581 stock options	**—**	**(107)**	**—**	**268**	**—**	**161**
Purchase of 98,724 treasury shares	**—**	**—**	**—**	**(7,322)**	**—**	**(7,322)**
Balance at September 30, 2019	**$ 47,619**	**$ 169,794**	**$ 525,933**	**$ (105,138)**	**$ 11,395**	**$ 649,603**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Nine Months Ended September 30, 2019 and 2018
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 47,619	$ 140,960	$ 444,481	$ (124,909)	$ (5,644)	$ 502,507
Net income	—	—	59,283	—	—	59,283
Other comprehensive income (loss)	—	—	—	—	(14,976)	(14,976)
Adoption of ASU No. 2016-01	—	—	2,657	—	(2,657)	—
Cash dividends declared ($1.45 per share)	—	—	(22,404)	—	—	(22,404)
Stock-based compensation expense	—	1,697	—	—	—	1,697
Restricted awards granted	—	(1,494)	—	1,494	—	—
Exercise of 29,133 stock options	—	(713)	—	1,862	—	1,149
Purchase of 221,327 treasury shares	—	—	—	(15,230)	—	(15,230)
Balance at September 30, 2018	$ 47,619	$ 140,450	$ 484,017	$ (136,783)	$ (23,277)	$ 512,026

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2018	**$ 47,619**	**$ 169,555**	**$ 485,967**	**$ (87,895)**	**$ (14,482)**	**$ 600,764**
Net income	**—**	**—**	**66,741**	**—**	**—**	**66,741**
Other comprehensive income (loss)	**—**	**—**	**—**	**—**	**25,877**	**25,877**
Cash dividends declared ($1.63 per share)	**—**	**—**	**(26,775)**	**—**	**—**	**(26,775)**
Stock-based compensation expense	**—**	**1,901**	**—**	**—**	**—**	**1,901**
Restricted awards granted	**—**	**(1,557)**	**—**	**1,557**	**—**	**—**
Exercise of 11,721 stock options	**—**	**(105)**	**—**	**631**	**—**	**526**
Purchase of 260,674 treasury shares	**—**	**—**	**—**	**(19,431)**	**—**	**(19,431)**
Balance at September 30, 2019	**$ 47,619**	**$ 169,794**	**$ 525,933**	**$ (105,138)**	**$ 11,395**	**$ 649,603**

See notes to consolidated financial statements.

Table of Contents

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

	Nine months ended September 30,	
	2019	2018
Net income	**$ 66,741**	$ 59,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion and amortization, net	**521**	1,154
Recovery of loan losses	**(1,175)**	(1,910)
Depreciation of premises and equipment	**3,736**	3,819
Deferred income tax expense	**2,906**	921
Net periodic employee benefit cost	**579**	438
Unrealized and realized investment securities gains, net	**(42)**	(1,155)
Stock-compensation expense	**1,901**	1,697
Excess tax benefit from stock-compensation expense	**(461)**	(155)
Increase in value of bank-owned life insurance	**(2,909)**	(1,932)
Loans held for sale		
Loans originated for sale	**(14,229)**	(9,286)
Proceeds from the sale of loans originated for sale	**15,192**	9,601
Gain on sale of loans	**(421)**	(249)
Change in accrued interest receivable	**(505)**	(2,226)
Change in other assets	**(16,188)**	(15,709)
Change in other liabilities	**14,521**	11,543
Net Cash Provided by Operating Activities	**70,167**	55,834
Net decrease (increase) in loans	**5,332**	(19,057)
Securities available-for-sale		
Purchases	**(170,396)**	(82,661)
Proceeds from sales	**70,241**	—
Proceeds from maturities and calls	**55,237**	38,520
Securities held-to-maturity		
Proceeds from maturities and calls	**9,554**	6,552
Other investments		
Purchases	**(10,366)**	(18,566)
Proceeds from sales	**12,555**	15,397
Purchases of premises and equipment	**(3,515)**	(4,236)
Disposals of premises and equipment	**1,008**	772
Proceeds from bank-owned life insurance policies	**2,211**	425
Sale of Virginia Beach branch, net	**(24,661)**	—
Net Cash Used in Investing Activities	**(52,800)**	(62,854)
Net increase in non-interest-bearing deposits	**17,188**	5,403
Net increase in interest-bearing deposits	**63,099**	122,594
Net (decrease) increase in short-term borrowings	**(59,289)**	137,905
Purchases of treasury stock	**(19,431)**	(15,230)
Proceeds from exercise of stock options	**526**	1,149
Dividends paid	**(26,257)**	(21,399)
Net Cash (Used in) Provided by Financing Activities	**(24,164)**	230,422
(Decrease) Increase in Cash and Cash Equivalents	**(6,797)**	223,402
Cash and cash equivalents at beginning of period	**122,991**	82,508
Cash and Cash Equivalents at End of Period	**$ 116,194**	$ 305,910

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements *(Unaudited)*
September 30, 2019

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 95 banking offices in West Virginia (58), Kentucky (20), 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 January 30, 2019, the Company announced that City National had signed a definitive agreement to sell its Virginia Beach, Virginia branch. The terms of the agreement provided for the acquirer to assume the majority of deposits and to acquire the equipment and other select assets associated with the branch, while City National retained the loans. The transaction closed during the second quarter of 2019. As a result of this transaction, the Company recognized a gain of $0.7 million, which is included in the line item "Other Income" in the consolidated statements of income, and outstanding deposit balances decreased by $25.7 million.

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, 2019 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2019. The Company's accounting and reporting policies conform with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management's estimates.

The consolidated balance sheet as of December 31, 2018 has been derived from audited financial statements included in the Company's 2018 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 2018 Annual Report of the Company.

Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on shareholders' equity or net income for any period.

Note B – Recent Accounting Pronouncements

Recently Adopted:

Leases

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

Others

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

In August 2017, the FASB issued ASU No. 2017-12, *"Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities."* This amendment expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This ASU became effective for the Company on January 1, 2019. The adoption of this ASU did not have a material impact on the Company's financial statements. In April 2019, the FASB issued ASU No. 2019-04, *"Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments."* This amendment clarifies the guidance in ASU No. 2017-12. This amendment will become effective for the Company on January 1, 2020. The adoption of ASU No. 2019-04 is not expected to have a material impact on the Company's financial statements.

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

Pending Adoption:

CECL

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."* This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures. In November 2018, the FASB issued ASU No. 2018-19, "*Codification Improvements to Topic 326, Financial Instruments—Credit Losses."* This amendment clarifies the scope of the guidance in ASU No. 2016-13. In December 2018, the federal bank regulators issued a final rule that would provide an optional three-year phase-in period for the day-one regulatory capital effects of the adoption of ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, on January 1, 2020. In April 2019, the FASB issued ASU No. 2019-04, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments."* This amendment clarifies the guidance in ASU No. 2016-13. In May 2019, the FASB issued ASU No. 2019-05, *"Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief."* The amendments in this update provide targeted transition relief that is optional for, and will be available to, all reporting entities within the scope of Topic 326. These ASUs will become effective for the Company for interim and annual periods on January 1, 2020. Management has completed its implementation plan and testing is in process. Segmentation has been finalized. Parallel runs were processed during the third quarter of 2019 and the results were consistent with management's expectations. Management will continue to refine the methodology as final testing is performed during the fourth quarter of 2019. The standard will require the Company to gross up its previously purchased credit impaired loans through the allowance at the implementation date. The adoption of these ASUs could result in a material increase to the allowance for loan losses. While we are currently unable to reasonably estimate the impact of adopting these ASUs, management expects that the impact of adoption will be significantly influenced by the loan portfolio's composition and quality, as well as the prevailing economic conditions and forecasts as of the adoption date.

Others

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

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement."* This amendment removes, modifies, and clarifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This ASU will become effective for the Company on January 1, 2020. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's financial statements.

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

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

Note C – Acquisitions and Preliminary Purchase Price Allocation

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

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

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

	Farmers Deposit	Poage	Total
Consideration	$ 24,900	$ 83,936	$ 108,836
Identifiable assets:			
Cash and cash equivalents	4,173	34,325	38,498
Investment securities	46,235	72,321	118,556
Loans	58,485	304,359	362,844
Bank owned life insurance	—	7,439	7,439
Premises and equipment	568	4,547	5,115
Deferred tax assets, net	137	2,222	2,359
Other assets	2,302	8,770	11,072
Total identifiable assets	111,900	433,983	545,883
Identifiable liabilities:			
Deposits	92,241	379,285	471,526
Short-term borrowings	2,025	—	2,025
Long-term debt	—	4,053	4,053
Other liabilities	651	3,032	3,683
Total identifiable liabilities	94,917	386,370	481,287
Net identifiable assets	16,983	47,613	64,596
Goodwill	4,583	28,269	32,852
Core deposit intangible	3,334	8,054	11,388
	$ 24,900	$ 83,936	$ 108,836

Acquired Loans

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

Acquired Credit-Impaired	
Contractually required principal and interest	$ 25,315
Contractual cash flows not expected to be collected (non-accretable difference)	(13,593)
Expected cash flows	11,722
Interest component of expected cash flows (accretable difference)	(2,375)
Carrying value of purchased credit-impaired loans acquired	$ 9,347
Acquired Noncredit-Impaired	
Outstanding balance	$ 354,343
Less: fair value adjustment	(846)
Carrying value of acquired noncredit-impaired loans	$ 353,497

Acquired Deposits

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

Core Deposit Intangible

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

Goodwill

Under GAAP, management has up to twelve months following the date of the acquisition to finalize the fair value of acquired assets and liabilities. The measurement period ends as soon as the Company receives information it was seeking about facts and circumstances that existed as of the acquisition date or learns 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, 2019, is the finalization of the final tax return for Poage, which management anticipates completing during the fourth quarter of 2019. Given the form of the respective transactions, the goodwill preliminarily recorded in conjunction with the Farmers Deposit acquisition is expected to be deductible for tax purposes, while the goodwill preliminarily recorded in conjunction with the Poage acquisition is not expected to be deductible for tax purposes. The following table summarizes adjustments to goodwill subsequent to December 31, 2018 (in thousands):

	Goodwill
Balance at December 31, 2018	$ 109,567
Adjustment to goodwill acquired in conjunction with the acquisition of Poage	(365)
Adjustment to goodwill acquired in conjunction with the acquisition of Farmers Deposit	(154)
Balance at September 30, 2019	$ 109,048

Note D – Investments

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

	September 30, 2019				December 31, 2018			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
U.S. Treasuries and U.S. government agencies	$ 1,279	$ 25	$ —	$ 1,304	$ 5,713	$ 20	$ —	$ 5,733
Obligations of states and political subdivisions	110,714	5,232	7	115,939	128,089	1,033	1,052	128,070
Mortgage-backed securities:								
U.S. government agencies	613,884	17,863	985	630,762	561,799	1,950	12,991	550,758
Private label	11,132	718	—	11,850	11,948	95	—	12,043
Trust preferred securities	4,779	35	595	4,219	4,774	25	—	4,799
Corporate securities	31,948	562	144	32,366	16,795	30	167	16,658
Total Debt Securities	773,736	24,435	1,731	796,440	729,118	3,153	14,210	718,061
Certificates of deposit held for investment	2,490	—	—	2,490	3,735	—	—	3,735
Total Securities Available-for-Sale	$ 776,226	$ 24,435	$ 1,731	$ 798,930	$ 732,853	$ 3,153	$ 14,210	$ 721,796
Securities held-to-maturity:								
Mortgage-backed securities:								
U.S. government agencies	$ 51,211	$ 1,634	$ —	$ 52,845	$ 56,827	$ 173	$ 294	$ 56,706
Trust preferred securities	—	—	—	—	4,000	—	—	4,000
Total Securities Held-to-Maturity	$ 51,211	$ 1,634	$ —	$ 52,845	$ 60,827	$ 173	$ 294	$ 60,706

The Company's other investment securities include marketable and non-marketable equity securities. At September 30, 2019 and December 31, 2018, the Company held $11.7 million and $11.8 million, respectively, in marketable equity securities. Marketable equity securities mainly consist of investments made by the Company in equity positions of various community banks. Included within this portfolio are ownership positions in the following community bank holding companies: First National Corporation (FXNC) (4%) and Eagle Financial Services, Inc. (EFSI) (1.5%). The Company's non-marketable securities consist of securities with limited marketability, such as stock in the Federal Reserve Bank ("FRB") or the Federal Home Loan Bank ("FHLB"). At September 30, 2019 and December 31, 2018, the Company held $16.4 million and $18.5 million, respectively, in non-marketable equity securities. These securities are carried at cost due to the restrictions placed on their transferability.

The Company's mortgage-backed U.S. government agency securities consist of both residential and commercial securities, all of which are guaranteed by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), or Ginnie Mae ("GNMA"). At September 30, 2019 and December 31, 2018 there were no securities of any non-governmental issuer whose aggregate carrying value or estimated fair value exceeded 10% of shareholders' equity. The Company's certificates of deposit consist of domestically issued certificates of deposits in denominations of less than the FDIC insurance limit of $250,000.

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, 2019 and December 31, 2018. The following table shows the gross unrealized losses and fair value of the Company’s investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 30, 2019					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	$ 230	$ —	$ 1,439	$ 7	$ 1,669	$ 7
Mortgage-backed securities:						
U.S. Government agencies	50,385	356	52,311	629	102,696	985
Trust preferred securities	3,950	595	—	—	3,950	595
Corporate securities	15,035	144	—	—	15,035	144
Total available-for-sale	$ 69,600	$ 1,095	$ 53,750	$ 636	$ 123,350	$ 1,731

There were no held-to-maturity securities in an unrealized loss position as of September 30, 2019.

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

The Company incurred no credit-related investment impairment losses in either the nine months ended September 30, 2019 or September 30, 2018.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary would be reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost;

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

Management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2019, 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 unprecedented market volatility. These conditions should not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of September 30, 2019, management believes the unrealized losses detailed in the table above are temporary and no additional impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

The amortized cost and estimated fair value of debt securities at September 30, 2019, by contractual maturity, are shown in the following table (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

	Amortized Cost	Estimated Fair Value
Available-for-Sale Debt Securities		
Due in one year or less	$ 1,344	$ 1,355
Due after one year through five years	14,996	15,361
Due after five years through ten years	185,615	192,622
Due after ten years	571,781	587,102
Total	$ 773,736	$ 796,440
Held-to-Maturity Debt Securities		
Due in one year or less	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	4,934	5,374
Due after ten years	46,277	47,471
Total	$ 51,211	$ 52,845

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,	
	2019	2018	**2019**	2018
Gross realized gains on securities sold	**$ 116**	$ —	**$ 226**	$ —
Gross realized losses on securities sold	**(156)**	—	**(157)**	—
Net investment security (losses) gains	**$ (40)**	$ —	**$ 69**	$ —
Gross unrealized gains recognized on equity securities still held	**$ 14**	$ 384	**$ 255**	$ 1,155
Gross unrealized losses recognized on equity securities still held	**(228)**	—	**(282)**	—
Net unrealized (losses) gains recognized on equity securities still held	**$ (214)**	$ 384	**$ (27)**	$ 1,155

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated $481 million and $510 million at September 30, 2019 and December 31, 2018, respectively.

Note E – Loans

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

	September 30, 2019	December 31, 2018
Residential real estate	**$ 1,643,416**	$ 1,635,338
Home equity	**150,808**	153,496
Commercial and industrial	**296,927**	286,314
Commercial real estate	**1,431,983**	1,454,942
Consumer	**54,799**	51,190
DDA overdrafts	**4,638**	6,328
Gross loans	**3,582,571**	3,587,608
Allowance for loan losses	**(13,186)**	(15,966)
Net loans	**$ 3,569,385**	$ 3,571,642
Construction loans included in:		
Residential real estate	**$ 24,955**	$ 21,834
Commercial real estate	**55,267**	37,869

The Company's commercial and residential real estate construction loans are primarily secured by real estate within the Company's principal markets. These loans were originated under the Company's loan 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 loan losses.

Note F – Allowance For Loan Losses

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

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

The following table summarizes the activity in the allowance for loan losses, by portfolio loan classification, for the nine months ended September 30, 2019 and 2018 (in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments. The following table also presents the balance in the allowance for loan loss disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment, as of September 30, 2019 and December 31, 2018 (in thousands).

	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	DDA Overdrafts	Total
Nine months ended September 30, 2019							
Allowance for loan losses							
Beginning balance	**$ 4,060**	**$ 4,495**	**$ 4,116**	**$ 1,268**	**$ 319**	**$ 1,708**	**$ 15,966**
Charge-offs	**(68)**	**(394)**	**(922)**	**(160)**	**(478)**	**(1,985)**	**(4,007)**
Recoveries	**183**	**614**	**282**	**—**	**211**	**1,112**	**2,402**
(Recovery of) provision	**(1,471)**	**(1,619)**	**162**	**85**	**591**	**1,077**	**(1,175)**
Ending balance	**$ 2,704**	**$ 3,096**	**$ 3,638**	**$ 1,193**	**$ 643**	**$ 1,912**	**$ 13,186**
Nine months ended September 30, 2018							
Allowance for loan losses							
Beginning balance	$ 4,571	$ 6,183	$ 5,212	$ 1,138	$ 62	$ 1,670	$ 18,836
Charge-offs	(724)	(349)	(464)	(219)	(560)	(1,976)	(4,292)
Recoveries	1,625	538	275	—	130	1,109	3,677
(Recovery of) provision	(1,583)	(1,775)	(557)	385	709	911	(1,910)
Ending balance	$ 3,889	$ 4,597	$ 4,466	$ 1,304	$ 341	$ 1,714	$ 16,311
Three months ended September 30, 2019							
Allowance for loan losses							
Beginning balance	**$ 2,796**	**$ 3,469**	**$ 3,959**	**$ 1,211**	**$ 509**	**$ 1,851**	**$ 13,795**
Charge-offs	**(17)**	**(216)**	**(291)**	**(43)**	**(182)**	**(772)**	**(1,521)**
Recoveries	**43**	**7**	**157**	**—**	**68**	**363**	**638**
(Recovery of) provision	**(118)**	**(164)**	**(187)**	**25**	**248**	**470**	**274**
Ending balance	**$ 2,704**	**$ 3,096**	**$ 3,638**	**$ 1,193**	**$ 643**	**$ 1,912**	**$ 13,186**
Three months ended September 30, 2018							
Allowance for loan losses							
Beginning balance	$ 3,727	$ 5,930	$ 4,579	$ 1,160	$ 268	$ 1,212	$ 16,876
Charge-offs	—	(74)	(237)	(115)	(206)	(704)	(1,336)
Recoveries	147	166	116	—	25	344	798
(Recovery of) provision	15	(1,425)	8	259	254	862	(27)
Ending balance	$ 3,889	$ 4,597	$ 4,466	$ 1,304	$ 341	$ 1,714	$ 16,311
As of September 30, 2019							
Allowance for loan losses							
Evaluated for impairment:							
Individually	**$ —**	**$ 884**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 884**
Collectively	**2,429**	**2,156**	**3,638**	**1,193**	**636**	**1,912**	**11,964**
Acquired with deteriorated credit quality	**275**	**56**	**—**	**—**	**7**	**—**	**338**
Total	**$ 2,704**	**$ 3,096**	**$ 3,638**	**$ 1,193**	**$ 643**	**$ 1,912**	**$ 13,186**

Loans							
Evaluated for impairment:							
Individually	**$ 501**	**$ 9,282**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 9,783**
Collectively	**295,183**	**1,413,933**	**1,641,254**	**150,808**	**54,695**	**4,638**	**3,560,511**
Acquired with deteriorated credit quality	**1,243**	**8,768**	**2,162**	**—**	**104**	**—**	**12,277**
Total	**$ 296,927**	**$ 1,431,983**	**$ 1,643,416**	**$ 150,808**	**$ 54,799**	**$ 4,638**	**$ 3,582,571**
As of December 31, 2018							
Allowance for loan losses							
Evaluated for impairment:							
Individually	$ —	$ 428	$ —	$ —	$ —	$ —	$ 428
Collectively	4,059	4,015	4,116	1,268	312	1,708	15,478
Acquired with deteriorated credit quality	1	52	—	—	7	—	60
Total	$ 4,060	$ 4,495	$ 4,116	$ 1,268	$ 319	$ 1,708	$ 15,966
Loans							
Evaluated for impairment:							
Individually	$ 651	$ 9,855	$ —	$ —	$ —	$ —	$ 10,506
Collectively	284,018	1,433,674	1,633,241	153,496	51,077	6,328	3,561,834
Acquired with deteriorated credit quality	1,645	11,413	2,097	—	113	—	15,268
Total	$ 286,314	$ 1,454,942	$ 1,635,338	$ 153,496	$ 51,190	$ 6,328	$ 3,587,608

Credit Quality Indicators

All 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 probable 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.

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

	Commercial and Industrial	Commercial Real Estate	Total
September 30, 2019			
Pass	**$ 262,591**	**$ 1,374,974**	**$ 1,637,565**
Special mention	**2,373**	**13,765**	**16,138**
Substandard	**31,963**	**43,244**	**75,207**
Doubtful	**—**	**—**	**—**
Total	**$ 296,927**	**$ 1,431,983**	**$ 1,728,910**
December 31, 2018			
Pass	$ 250,856	$ 1,402,821	$ 1,653,677
Special mention	27,886	5,696	33,582
Substandard	7,572	46,425	53,997
Doubtful	—	—	—
Total	$ 286,314	$ 1,454,942	$ 1,741,256

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

	Performing	Non-Performing	Total
September 30, 2019			
Residential real estate	**$ 1,640,496**	**$ 2,920**	**$ 1,643,416**
Home equity	**150,298**	**510**	**150,808**
Consumer	**54,799**	**—**	**54,799**
DDA overdrafts	**4,638**	**—**	**4,638**
Total	**$ 1,850,231**	**$ 3,430**	**$ 1,853,661**
December 31, 2018			
Residential real estate	$ 1,630,892	$ 4,446	$ 1,635,338
Home equity	153,334	162	153,496
Consumer	51,188	2	51,190
DDA overdrafts	6,322	6	6,328
Total	$ 1,841,736	$ 4,616	$ 1,846,352

Aging Analysis of Accruing and Non-Accruing Loans

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 loan 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.

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 table presents an aging analysis of the Company's accruing and non-accrual loans, by portfolio loan classification (in thousands):

	September 30, 2019					
	Accruing					
	Current	30-59 days	60-89 days	Over 90 days	Non-accrual	Total
Residential real estate	$ 1,633,987	$ 5,817	$ 692	$ 350	$ 2,570	$ 1,643,416
Home equity	149,544	749	6	40	469	150,808
Commercial and industrial	294,341	415	50	62	2,059	296,927
Commercial real estate	1,420,608	1,276	—	—	10,099	1,431,983
Consumer	54,675	124	—	—	—	54,799
DDA overdrafts	4,012	613	13	—	—	4,638
Total	$ 3,557,167	$ 8,994	$ 761	$ 452	$ 15,197	$ 3,582,571

	December 31, 2018					
	Accruing					
	Current	30-59 days	60-89 days	Over 90 days	Non-accrual	Total
Residential real estate	$ 1,621,073	$ 8,607	$ 1,213	$ 170	$ 4,275	$ 1,635,338
Home equity	152,083	1,240	11	24	138	153,496
Commercial and industrial	284,140	397	49	52	1,676	286,314
Commercial real estate	1,445,896	487	94	4	8,461	1,454,942
Consumer	50,894	253	41	1	1	51,190
DDA overdrafts	5,840	467	15	6	—	6,328
Total	$ 3,559,926	$ 11,451	$ 1,423	$ 257	$ 14,551	$ 3,587,608

The following table presents the Company's impaired loans, by class (in thousands). The difference between the unpaid principal balance and the recorded investment generally reflects amounts that have been previously charged-off. There are no impaired residential, home equity, or consumer loans.

	September 30, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ 501	$ 501	$ —	$ 651	$ 651	$ —
Commercial real estate	3,534	3,559	—	6,870	6,895	—
Total	$ 4,035	$ 4,060	$ —	$ 7,521	$ 7,546	$ —
With an allowance recorded:						
Commercial and industrial	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	5,748	5,748	884	2,985	2,985	428
Total	$ 5,748	$ 5,748	$ 884	$ 2,985	$ 2,985	$ 428

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

	Nine months ended September 30,			
	2019		2018	
	Average Recorded Investment	**Interest Income Recognized**	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	**$ 570**	**—**	$ 910	$ —
Commercial real estate	**4,558**	**41**	3,873	7
Total	**$ 5,128**	**$ 41**	$ 4,783	$ 7
With an allowance recorded:				
Commercial and industrial	**$ —**	**$ —**	$ —	$ —
Commercial real estate	**4,800**	**136**	5,730	179
Total	**$ 4,800**	**$ 136**	$ 5,730	$ 179

Approximately $0.1 million and $0.2 million of interest income would have been recognized during the nine months ended September 30, 2019 and 2018, respectively, if such loans had been current in accordance with their original terms. There were no commitments to provide additional funds on non-accrual, impaired or other potential problem loans at September 30, 2019.

Loan Modifications

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

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

The following tables set forth the Company's TDRs (in thousands). Substantially all of the Company's TDRs are accruing interest.

	September 30, 2019	December 31, 2018
	Total	Total
Commercial and industrial	**$ 83**	$ 98
Commercial real estate	**8,100**	8,205
Residential real estate	**21,320**	23,521
Home equity	**3,034**	3,030
Consumer	**—**	—
Total	**$ 32,537**	$ 34,854

	New TDRs					
	Nine months ended September 30,					
	2019			2018		
	Number of Contracts	**Pre Modification Outstanding Recorded Investment**	**Post Modification Outstanding Recorded Investment**	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Commercial and industrial	**—**	**$ —**	**$ —**	—	$ —	$ —
Commercial real estate	**—**	**—**	**—**	—	—	—
Residential real estate	**29**	**2,076**	**2,076**	22	1,465	1,465
Home equity	**8**	**213**	**213**	9	200	200
Consumer	**—**	**—**	**—**	—	—	—
Total	**37**	**$ 2,289**	**$ 2,289**	31	$ 1,665	$ 1,665

Note G – Derivative Instruments

As of September 30, 2019 and December 31, 2018, the Company primarily utilizes non-hedging derivative financial instruments with commercial banking customers to facilitate their interest rate management strategies. For these instruments, the Company acts as an intermediary for its customers and has offsetting contracts with financial institution counterparties. Changes in the fair value of these underlying derivative contracts generally offset each other and do not significantly impact the Company's results of operations.

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

	September 30, 2019		December 31, 2018	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Non-hedging interest rate derivatives:				
Customer counterparties:				
Loan interest rate swap - assets	**$ 443,756**	**$ 24,239**	$ 132,146	$ 3,131
Loan interest rate swap - liabilities	**52,069**	**596**	372,223	13,774
Non-hedging interest rate derivatives:				
Financial institution counterparties:				
Loan interest rate swap - assets	**52,069**	**596**	403,500	13,902
Loan interest rate swap - liabilities	**448,979**	**24,304**	132,146	3,131

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,	
	2019	2018	**2019**	2018
Change in Fair Value Non-Hedging Interest Rate Derivatives:				
Other income - derivative assets	**$ 6,824**	$ 1,885	**$ 9,073**	$ 11,811
Other income - derivative liabilities	**(6,824)**	(1,885)	**(9,073)**	(11,811)
Other expense - derivative liabilities	**38**	25	**192**	147

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 posted collateral with a market value of $30.5 million as of September 30, 2019.

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

Note H – Employee Benefit Plans

Stock Options

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

	Nine months ended September 30,			
	2019		2018	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at January 1	**57,972**	**$ 51.15**	87,605	$ 47.15
Exercised	**(11,721)**	**44.87**	(29,133)	39.47
Outstanding at September 30	**46,251**	**$ 52.74**	58,472	$ 50.97
Exerciseable at September 30	**8,063**	**$ 44.48**	3,197	$ 42.82

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

	Nine months ended September 30,	
	2019	2018
Proceeds from stock option exercises	**$ 526**	$ 1,149
Intrinsic value of stock options exercised	**368**	944
Stock-based compensation expense associated with stock options	**$ 92**	$ 137
At period-end:	**September 30, 2019**	
Unrecognized stock-based compensation expense associated with stock options	**$ 112**	
Weighted average period (in years) in which the above amount is expected to be recognized	**1.6**	

Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares would be issued from available authorized shares. During the nine months ended September 30, 2019 and 2018, all shares issued in connection with stock option exercises were issued from available treasury stock. For the stock options that have performance-based criteria, management has evaluated those criteria and has determined that, as of September 30, 2019, the criteria were probable of being met.

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 awardee 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 that have performance-based criteria, management has evaluated those criteria and has determined that, as of September 30, 2019, 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,			
	2019		2018	
	Restricted Awards	**Average Market Price at Grant**	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	**152,692**	**$ 51.85**	170,033	$ 44.34
Granted	**31,006**	**79.86**	28,363	69.94
Vested	**(45,007)**	**39.81**	(48,104)	37.31
Outstanding at September 30	**138,691**	**$ 61.98**	150,292	$ 51.42

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

	Nine months ended September 30,	
	2019	2018
Stock-based compensation expense associated with restricted shares	**$ 1,434**	$ 1,201

At period-end:	**September 30, 2019**
Unrecognized stock-based compensation expense associated with restricted shares	**$ 4,845**
Weighted average period (in years) in which the above amount is expected to be recognized	**3.3**

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, 2019 and 2018, 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,	
	2019	2018	**2019**	2018
Components of net periodic cost:				
Interest cost	**$ 242**	$ 147	**$ 522**	$ 442
Expected return on plan assets	**(370)**	(270)	**(798)**	(810)
Net amortization and deferral	**396**	218	**855**	655
Settlement	**$ —**	$ —	**$ —**	$ 151
Net Periodic Pension Cost	**$ 268**	$ 95	**$ 579**	$ 438

Note I – Commitments and Contingencies

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The Company has entered into agreements with 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 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, 2019	December 31, 2018
Commitments to extend credit:		
Home equity lines	**$ 212,031**	$ 207,509
Commercial real estate	**110,950**	68,649
Other commitments	**211,080**	201,687
Standby letters of credit	**8,767**	7,183
Commercial letters of credit	**1,249**	811

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

In addition, the Company is engaged in various legal actions that it deems to be in the ordinary course of business. As these legal actions are resolved, the Company could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately 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.

The Company owns 86,605 shares of Class B common stock of Visa, Inc. ("Visa") which are convertible into Class A common stock at a conversion ratio of 1.6228 per Class B share. As of September 30, 2019, the value of the Class A shares was $172.01 per share. The shares of Visa Class B common stock are restricted. Visa Member Banks (as defined in Visa's organizational documents) are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus. Due to the uncertainty in the conversion ratio related to the litigation risk, a readily determined value is not available and thus no value has been reflected in the accompanying consolidated financial statements.

Note J – Accumulated Other Comprehensive Income (Loss)

The activity in accumulated other comprehensive income (loss) 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 23%.

	Three months ended September 30,			Nine months ended September 30,		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) Securities Available--for-Sale	Total	Defined Benefit Pension Plan	Unrealized Gains (Losses) Securities Available--for-Sale	Total
2019						
Beginning Balance	**$ (5,871)**	**$ 10,959**	**$ 5,088**	**$ (5,871)**	**$ (8,611)**	**$ (14,482)**
Other comprehensive income before reclassifications	**—**	**6,277**	**6,277**	**—**	**25,931**	**25,931**
Amounts reclassified from other comprehensive income (loss)	**—**	**30**	**30**	**—**	**(54)**	**(54)**
	—	**6,307**	**6,307**	**—**	**25,877**	**25,877**
Ending Balance	**$ (5,871)**	**$ 17,266**	**$ 11,395**	**$ (5,871)**	**$ 17,266**	**$ 11,395**
2018						
Beginning Balance	$ (5,033)	$ (13,919)	$ (18,952)	$ (5,033)	$ (611)	$ (5,644)
Other comprehensive loss before reclassifications	—	(4,325)	(4,325)	—	(14,976)	(14,976)
Amounts reclassified from other comprehensive loss	—	—	—	—	—	—
	—	(4,325)	(4,325)	—	(14,976)	(14,976)
Adoption of new accounting pronouncement	—	—	—	—	(2,657)	(2,657)
Ending Balance	$ (5,033)	$ (18,244)	$ (23,277)	$ (5,033)	$ (18,244)	$ (23,277)

As a result of the adoption of ASU 2016-01, *"Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,"* the Company reclassified $2.7 million of unrealized gains and losses net of tax, relating to its equity and perpetual preferred securities, from other comprehensive income to retained earnings on January 1, 2018.

	Amounts reclassified from Other Comprehensive (Income) Loss				
	Three months ended September 30,		Nine months ended September 30,		Affected line item in the Consolidated Statements of Income
	2019	2018	**2019**	2018	
Securities available-for-sale:					
Net securities (losses) gains reclassified into earnings	**$ (40)**	$ —	**$ 69**	$ —	(Losses) gains on sale of investment securities, net
Related income tax benefit (expense)	**10**	—	**(15)**	—	Income tax expense
Net effect on accumulated other comprehensive income (loss)	**$ (30)**	$ —	**$ 54**	$ —	

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,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net income available to common shareholders	**$ 22,371**	$ 20,692	**$ 66,741**	$ 59,283
Less: earnings allocated to participating securities	**(192)**	(201)	**(567)**	(575)
Net earnings allocated to common shareholders	**$ 22,179**	$ 20,491	**$ 66,174**	$ 58,708
Distributed earnings allocated to common stock	**$ 9,213**	$ 8,109	**$ 26,346**	$ 22,186
Undistributed earnings allocated to common stock	**12,966**	12,382	**39,828**	36,522
Net earnings allocated to common shareholders	**$ 22,179**	$ 20,491	**$ 66,174**	$ 58,708
Average shares outstanding	**16,271**	15,340	**16,350**	15,360
Effect of dilutive securities:				
Employee stock awards	**18**	18	**18**	20
Shares for diluted earnings per share	**16,289**	15,358	**16,368**	15,380
Basic earnings per share	**$ 1.36**	$ 1.34	**$ 4.05**	$ 3.82
Diluted earnings per share	**$ 1.36**	$ 1.33	**$ 4.04**	$ 3.82

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 credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amount presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Liabilities

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

Securities Available for Sale. Securities available for sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. The fair value of securities available for sale is determined by utilizing a market approach by obtaining quoted prices on nationally recognized securities exchanges (other than forced or distressed transactions) that occur in sufficient volume or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. If such measurements are unavailable, the security is classified as Level 3. Significant judgment is required to make this determination.

The Company utilizes a third party pricing service provider to value its Level 1 and Level 2 investment securities. Annually, the Company obtains an independent auditor's report from its third party pricing service provider regarding its controls over investment securities. 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 through 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, 2019.

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using 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, 2019					
Recurring fair value measurements					
Financial Assets					
U.S. Government agencies	**$ 1,304**	**$ —**	**$ 1,304**	**$ —**	
Obligations of states and political subdivisions	**115,939**	**—**	**115,939**	**—**	
Mortgage-backed securities:					
U.S. Government agencies	**630,762**	**—**	**630,762**	**—**	
Private label	**11,850**	**—**	**11,850**	**—**	
Trust preferred securities	**4,219**	**—**	**3,958**	**261**	
Corporate securities	**32,366**	**—**	**32,366**	**—**	
Marketable equity securities	**11,719**	**7,108**	**4,611**	**—**	
Certificates of deposit held for investment	**2,490**	**—**	**2,490**	**—**	
Derivative assets	**24,835**	**—**	**24,835**	**—**	
Financial Liabilities					
Derivative liabilities	**24,954**	**—**	**24,954**	**—**	
Nonrecurring fair value measurements					
Financial Assets					
Impaired loans	**$ 8,900**	**$ —**	**$ —**	**$ 8,900**	**$ (455)**
Non-Financial Assets					
Other real estate owned	**2,326**	**—**	**—**	**2,326**	**(470)**
Other assets	**100**	**—**	**—**	**100**	**(397)**
December 31, 2018					
Recurring fair value measurements					
Financial Assets					
U.S. Government agencies	$ 5,733	**$** —	$ 5,733	$ —	
Obligations of states and political subdivisions	128,070	—	128,070	—	
Mortgage-backed securities:					
U.S. Government agencies	550,758	—	550,758	—	
Private label	12,043	—	12,043	—	
Trust preferred securities	4,799	—	4,538	261	
Corporate securities	16,658	—	16,658	—	
Marketable equity securities	11,771	7,365	4,406	—	
Certificates of deposit held for investment	3,735	—	3,735	—	
Derivative assets	17,100	—	17,100	—	
Financial Liabilities					
Derivative liabilities	16,905	—	16,905	—	
Nonrecurring fair value measurements					
Financial Assets					
Impaired loans	$ 10,078	$ —	$ —	$ 10,078	$ (428)
Non-Financial Assets					
Other real estate owned	4,608	—	—	4,608	(838)
Other assets	600	—	—	600	(492)

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

Non-Financial Assets and Liabilities

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

Fair Value of Financial Instruments

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2019					
Assets:					
Cash and cash equivalents	**$ 116,194**	**$ 116,194**	**$ 116,194**	**$ —**	**$ —**
Securities available-for-sale	**798,930**	**798,930**	**—**	**798,669**	**261**
Securities held-to-maturity	**51,211**	**52,845**	**—**	**52,845**	**—**
Marketable equity securities	**11,719**	**11,719**	**7,108**	**4,611**	**—**
Net loans	**3,569,385**	**3,570,586**	**—**	**—**	**3,570,586**
Accrued interest receivable	**12,929**	**12,929**	**12,929**	**—**	**—**
Derivative assets	**24,835**	**24,835**	**—**	**24,835**	**—**
Liabilities:					
Deposits	**4,029,578**	**4,049,150**	**2,674,791**	**1,374,359**	**—**
Short-term debt	**202,622**	**202,622**	**—**	**202,622**	**—**
Long-term debt	**4,055**	**4,117**	**—**	**4,117**	**—**
Accrued interest payable	**2,908**	**2,908**	**2,908**	**—**	**—**
Derivative liabilities	**24,954**	**24,954**	**—**	**24,954**	**—**
December 31, 2018					
Assets:					
Cash and cash equivalents	122,991	122,991	122,991	—	—
Securities available-for-sale	721,796	721,796	—	721,535	261
Securities held-to-maturity	60,827	60,706	—	60,706	—
Marketable equity securities	11,771	11,771	7,365	4,406	—
Net loans	3,571,642	3,516,557	—	—	3,516,557
Accrued interest receivable	12,424	12,424	12,424	—	—
Derivative assets	17,100	17,100	—	17,100	—
Liabilities:					
Deposits	3,975,559	3,985,534	2,622,905	1,362,629	—
Short-term debt	261,911	261,911	—	261,911	—
Long-term debt	4,053	4,115	—	4,115	—
Accrued interest payable	2,117	2,117	2,117	—	—
Derivative liabilities	16,905	16,905	—	16,905	—

Note M – Contracts with Customers

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

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

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

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

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

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

	Point of Revenue Recognition	Three months ended September 30, **2019**	Three months ended September 30, 2018	Nine months ended September 30, **2019**	Nine months ended September 30, 2018
Major revenue streams					
Service charges	At a point in time & over time	**$ 8,183**	$ 7,598	**$ 23,281**	$ 21,783
Bankcard revenue	At a point in time	**5,440**	4,677	**15,931**	13,543
Trust and investment management fee income	Over time	**1,802**	1,579	**5,144**	4,792
Other income	At a point in time & over time	**765**	702	**3,139**	2,227
Non-interest income from contracts with customers		**16,190**	14,556	**47,495**	42,345
Non-interest income within the scope of other GAAP topics		**508**	1,197	**2,952**	3,511
Total non-interest income		**$ 16,698**	$ 15,753	**$ 50,447**	$ 45,856

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations
Critical Accounting Policies

The accounting policies of the Company conform with U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management's estimates. As this information changes, management's estimates and assumptions used to prepare the Company's financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One to the audited financial statements included in the Company's 2018 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 2018 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 loan 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.

The section *Allowance and (Recovery of) Provision for Loan Losses* provides management's analysis of the Company's allowance for loan losses and related provision. The allowance for loan losses is maintained at a level that represents management's best reasonable estimate of probable losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions, and other relevant factors. This determination is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance for loan losses related to loans considered to be impaired is generally evaluated based on the discounted cash flows using the impaired loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state taxing authorities for the years ended December 31, 2015 and forward.

Financial Summary

Nine months ended September 30, 2019 vs. 2018

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

	Nine months ended September 30,	
	2019	2018
Net income available to common shareholders (*in thousands*)	**$ 66,741**	$ 59,283
Earnings per common share, basic	**$ 4.05**	$ 3.82
Earnings per common share, diluted	**$ 4.04**	$ 3.82
Dividend payout ratio	**40.3%**	38.0%
ROA*	**1.81%**	1.86%
ROE*	**14.1%**	15.6%
ROATCE*	**17.5%**	18.5%
Average equity to average assets ratio	**12.8%**	11.9%

*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, 2019 increased $19.7 million compared to the nine months ended September 30, 2018 (see *Net Interest Income*). The Company recorded a recovery of loan losses of $1.2 million for the nine months ended September 30, 2019 compared to a recovery of loan losses of $1.9 million for the nine months ended September 30, 2018 (see *Allowance and (Recovery of) Provision for Loan Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $4.6 million and non-interest expense increased $13.7 million for the nine months ended September 30, 2019 from the nine months ended September 30, 2018.

Financial Summary

Three months ended September 30, 2019 vs. 2018

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

	Three months ended September 30,	
	2019	2018
Net income available to common shareholders (*in thousands*)	**$ 22,371**	$ 20,692
Earnings per common share, basic	**$ 1.36**	$ 1.34
Earnings per common share, diluted	**$ 1.36**	$ 1.33
Dividend payout ratio	**41.9%**	39.7%
ROA*	**1.81%**	1.90%
ROE*	**13.8%**	16.0%
ROATCE*	**17.0%**	18.9%
Average equity to average assets ratio	**13.1%**	11.8%

*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, 2019 increased $5.0 million compared to the three months ended September 30, 2018 (see *Net Interest Income*). The Company recorded a provision for loan losses of $0.3 million for the three months ended September 30, 2019 compared to a recovery of loan losses of $0.03 million for the three months ended September 30, 2018 (see *Allowance and (Recovery of) Provision for Loan Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $0.9 million and non-interest expense increased $3.4 million for the three months ended September 30, 2019 from the three months ended September 30, 2018.

Balance Sheet Analysis

Selected balance sheet fluctuations from the year ended December 31, 2018 are summarized in the following table (in millions):

	September 30, 2019	December 31, 2018	$ Change	% Change
Investment securities	**878.2**	812.9	65.3	8.0 %
Gross loans	**3,582.6**	3,587.6	(5.0)	(0.1)%
Total deposits	**4,029.6**	3,975.6	54.0	1.4 %
Federal Funds purchased	**—**	40.0	(40.0)	(100.0)%

Investment securities increased $65.3 million (8.0%) from December 31, 2018 to $878.2 million at September 30, 2019, as the Company elected to grow investment balances to enhance net interest income, in conjunction with its interest rate risk management strategy.

Gross loans decreased $5.0 million (0.1%) from December 31, 2018 to $3.58 billion at September 30, 2019, primarily due to a decrease in commercial real estate loans of $23.0 million (1.6%). This decrease was partially offset by increases in commercial and industrial loans of $10.6 million (3.7%) and residential real estate loans of $8.1 million (0.5%).

Total deposits increased $54.0 million from December 31, 2018 to $4.03 billion at September 30, 2019 due to growth in savings deposits of $46.3 million, non-interest bearing deposits of $6.4 million, and time deposits of $2.1 million during the nine months ended September 30, 2019. These increases were partially offset by a decrease in demand deposits of $0.9 million.

Federal Funds purchased decreased $40.0 million from December 31, 2018, due to an increase in the Company's deposits.

Net Interest Income

Nine months ended September 30, 2019 vs. 2018

The Company’s tax equivalent net interest income increased $19.8 million, or 19.3%, from $102.3 million for the nine months ended September 30, 2018 to $122.1 million for the nine months ended September 30, 2019. Excluding the impact of accretion from fair value adjustments, net interest income increased $18.0 million for the nine months ended September 30, 2019. As a result of the acquisitions of Poage and Farmers Deposit, net interest income increased $12.4 million. In addition, higher yields on residential real estate loans increased interest income $3.7 million, higher yields on commercial loans increased interest income $2.2 million, while higher average balances on commercials loans increased interest income by $2.5 million, and higher average balances on residential real estate loans increased interest income by $1.9 million as compared to the nine months ended September 30, 2018. Additionally, higher average investment balances increased investment income by $2.9 million. These increases were partially offset by increased interest expense on interest bearing accounts ($6.8 million), primarily due to an increase in the cost of funds. The Company’s reported net interest margin increased from 3.52% for the nine months ended September 30, 2018 to 3.64% for the nine months ended September 30, 2019.

Table of Contents

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

	Nine months ended September 30,					
	2019			2018		
Assets	**Average Balance**	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Loan portfolio[1]:						
Residential real estate[2]	$ 1,792,013	$ 61,468	4.59%	$ 1,607,396	$ 51,083	4.25%
Commercial, financial, and agriculture[2]	1,704,141	63,796	5.01	1,498,612	50,646	4.52
Installment loans to individuals[2],[3]	57,263	2,656	6.20	34,472	1,604	6.22
Previously securitized loans[4]	***	477	***	***	748	***
Total loans	3,553,417	128,397	4.83	3,140,480	104,081	4.43
Securities:						
Taxable	751,600	17,464	3.11	544,351	12,314	3.02
Tax-exempt[5]	99,555	2,856	3.84	91,147	2,677	3.93
Total securities	851,155	20,320	3.19	635,498	14,991	3.15
Deposits in depository institutions	82,214	1,038	1.69	116,532	1,043	1.20
Total interest-earning assets	4,486,786	149,755	4.46	3,892,510	120,115	4.13
Cash and due from banks	65,433			45,268		
Bank premises and equipment	78,475			72,780		
Goodwill and intangible assets	121,780			78,420		
Other assets	191,231			174,378		
Less: allowance for loan losses	(15,000)			(18,286)		
Total assets	$ 4,928,705			$ 4,245,070		
Liabilities						
Interest-bearing demand deposits	$ 880,763	$ 2,796	0.42%	$ 782,883	$ 1,327	0.23%
Savings deposits	968,655	3,461	0.48	811,818	1,331	0.22
Time deposits[2]	1,370,934	18,511	1.81	1,120,459	12,083	1.44
Short-term borrowings	208,004	2,729	1.75	265,877	2,355	1.18
Long-term debt	4,053	140	4.62	16,495	680	5.51
Total interest-bearing liabilities	3,432,409	27,637	1.08	2,997,532	17,776	0.79
Noninterest-bearing demand deposits	811,411			694,453		
Other liabilities	54,356			47,498		
Stockholders' equity	630,529			505,587		
Total liabilities and stockholders' equity	$ 4,928,705			$ 4,245,070		
Net interest income		$ 122,118			$ 102,339	
Net yield on earning assets			3.64%			3.52%

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

Loan fees	$	711	$	1,549

(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:

	2019		2018	
Residential real estate	$	165	$	350
Commercial, financial and agriculture		1,968		545
Installment loans to individuals		1		17
Time deposits		527		—
	$	2,661	$	912

(3) Includes the Company’s consumer and DDA overdrafts loan categories.

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

(5) 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, 2019 vs. 2018 Increase (Decrease) Due to Change In:		
Interest-earning assets:	**Volume**	**Rate**	**Net**
Loan portfolio			
Residential real estate	$ 5,867	$ 4,518	$ 10,385
Commercial, financial, and agriculture	6,946	6,204	13,150
Installment loans to individuals	1,061	(9)	1,052
Previously securitized loans	—	(271)	(271)
Total loans	13,874	10,442	24,316
Securities:			
Taxable	4,688	462	5,150
Tax-exempt[(1)]	247	(68)	179
Total securities	4,935	394	5,329
Deposits in depository institutions	(307)	302	(5)
Total interest-earning assets	$ 18,502	$ 11,138	$ 29,640
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 166	$ 1,303	$ 1,469
Savings deposits	257	1,873	2,130
Time deposits	2,701	3,727	6,428
Short-term borrowings	(513)	887	374
Long-term debt	(513)	(27)	(540)
Total interest-bearing liabilities	$ 2,098	$ 7,763	$ 9,861
Net Interest Income	$ 16,404	$ 3,375	$ 19,779

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

Net Interest Income

Three months ended September 30, 2019 vs. 2018

The Company's tax equivalent net interest income increased $5.0 million, or 13.9%, from $35.7 million for the three months ended September 30, 2018 to $40.7 million for the three months ended September 30, 2019. Excluding the impact of accretion from fair value adjustments, net interest income increased $4.0 million for the three months ended September 30, 2019. As a result of the acquisitions of Poage and Farmers Deposit, net interest income increased $4.1 million. In addition, higher yields on residential real estate loans increased interest income $1.4 million and higher yields on commercial loans increased interest income by $0.4 million, as compared to the three months ended September 30, 2018. Further, higher average investment balances increased investment income by $0.9 million. These increases were partially offset by a decrease in interest income due to lower average deposit balances in depository institutions ($0.7 million) and increased interest expense on interest bearing accounts ($1.3 million), primarily due to an increase in the cost of funds. The Company's reported net interest margin increased from 3.54% for the three months ended September 30, 2018 to 3.59% for the three months ended September 30, 2019.

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

	Three months ended September 30,					
	2019			2018		
Assets	**Average Balance**	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Loan portfolio[(1)]:						
Residential real estate[(2)]	**$ 1,794,068**	**$ 20,564**	**4.55%**	$ 1,618,829	$ 17,653	4.33%
Commercial, financial, and agriculture[(2)]	**1,692,000**	**21,293**	**4.99**	1,494,666	18,460	4.90
Installment loans to individuals[(2),(3)]	**58,480**	**928**	**6.30**	35,825	584	6.47
Previously securitized loans[(4)]	***	**159**	***	***	175	***
Total loans	**3,544,548**	**42,944**	**4.81**	3,149,320	36,872	4.64
Securities:						
Taxable	**790,207**	**6,044**	**3.03**	554,157	4,216	3.02
Tax-exempt[(5)]	**96,011**	**914**	**3.78**	90,596	888	3.89
Total securities	**886,218**	**6,958**	**3.11**	644,753	5,104	3.14
Deposits in depository institutions	**72,736**	**271**	**1.48**	210,994	940	1.77
Total interest-earning assets	**4,503,502**	**50,173**	**4.42**	4,005,067	42,916	4.25
Cash and due from banks	**67,106**			49,933		
Bank premises and equipment	**78,091**			72,733		
Goodwill and intangible assets	**121,124**			78,294		
Other assets	**188,206**			178,540		
Less: allowance for loan losses	**(13,786)**			(17,247)		
Total assets	**$ 4,944,243**			$ 4,367,320		
Liabilities						
Interest-bearing demand deposits	**$ 881,476**	**$ 954**	**0.43%**	$ 778,639	$ 526	0.27%
Savings deposits	**978,198**	**1,159**	**0.47**	816,597	537	0.26
Time deposits[(2)]	**1,360,409**	**6,472**	**1.89**	1,141,461	4,434	1.54
Short-term borrowings	**187,301**	**814**	**1.72**	350,832	1,435	1.62
Long-term debt	**4,054**	**45**	**4.40**	16,495	239	5.75
Total interest-bearing liabilities	**3,411,438**	**9,444**	**1.10**	3,104,024	7,171	0.92
Noninterest-bearing demand deposits	**825,029**			697,485		
Other liabilities	**58,857**			50,093		
Shareholders' equity	**648,919**			515,718		
Total liabilities and shareholders' equity	**$ 4,944,243**			$ 4,367,320		
Net interest income		**$ 40,729**			$ 35,745	
Net yield on earning assets			**3.59%**			3.54%

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

Loan fees	$ 96	$ 1,325

(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:

	2019	2018
Residential real estate	$ 50	$ 110
Commercial, financial and agriculture	1,110	157
Installment loans to individuals	13	3
Time deposits	75	—
	$ 1,248	$ 270

(3) Includes the Company's consumer and DDA overdrafts loan categories.

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

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

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

	Three months ended September 30, 2019 vs. 2018		
	Increase (Decrease) Due to Change In:		
Interest-earning assets:	**Volume**	**Rate**	**Net**
Loan portfolio			
Residential real estate	$ 1,911	$ 1,000	$ 2,911
Commercial, financial, and agriculture	2,437	396	2,833
Installment loans to individuals	369	(25)	344
Previously securitized loans	—	(16)	(16)
Total loans	4,717	1,355	6,072
Securities:			
Taxable	1,796	32	1,828
Tax-exempt[(1)]	53	(27)	26
Total securities	1,849	5	1,854
Deposits in depository institutions	(616)	(53)	(669)
Total interest-earning assets	$ 5,950	$ 1,307	$ 7,257
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 69	$ 359	$ 428
Savings deposits	106	516	622
Time deposits	851	1,187	2,038
Short-term borrowings	(669)	48	(621)
Long-term debt	(180)	(14)	(194)
Total interest-bearing liabilities	$ 177	$ 2,096	$ 2,273
Net Interest Income	$ 5,773	$ (789)	$ 4,984

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net interest income (GAAP)	**$ 40,537**	$ 35,558	**$ 121,516**	$ 101,778
Taxable equivalent adjustment	**192**	187	**602**	561
Net interest income, fully taxable equivalent	**$ 40,729**	$ 35,745	**$ 122,118**	$ 102,339
Equity to assets (GAAP)	**13.10 %**	11.58 %		
Effect of goodwill and other intangibles, net	**(2.17)**	(1.59)		
Tangible common equity to tangible assets	**10.93 %**	9.99 %		

Loans

Table Five
Loan Portfolio

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

	September 30, 2019	December 31, 2018	September 30, 2018
Residential real estate	**$ 1,643,416**	$ 1,635,338	$ 1,485,823
Home equity	**150,808**	153,496	143,540
Commercial and industrial	**296,927**	286,314	213,815
Commercial real estate	**1,431,983**	1,454,942	1,268,052
Consumer	**54,799**	51,190	31,869
DDA overdrafts	**4,638**	6,328	3,598
Total loans	**$ 3,582,571**	$ 3,587,608	$ 3,146,697

Loan balances decreased $5.0 million from December 31, 2018 to September 30, 2019.

Residential real estate loans increased $8.1 million from December 31, 2018 to September 30, 2019. 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 and 5 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, 2019, $25.0 million of the residential real estate loans were for properties under construction.

Home equity loans decreased $2.7 million during the first nine months of 2019. 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.

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 $10.6 million from December 31, 2018 to September 30, 2019.

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as C&I loans. Commercial real estate loans decreased $23.0 million from December 31, 2018 to September 30, 2019. At September 30, 2019, $55.3 million of the commercial real estate loans were for commercial properties under construction.

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 $3.6 million during the first nine months of 2019.

Allowance and (Recovery of) Provision for Loan Losses

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

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

Determination of the ALLL 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.

As a result of the Company’s quarterly analysis of the adequacy of the ALLL, the Company recorded a recovery of loan loss provision of $1.2 million during the nine months ended September 30, 2019, compared to a recovery of $1.9 million for the comparable period in 2018. The Company’s historical loss rate that is used to compute the allowance not specifically allocated to individual credits improved slightly during the quarter ended September 30, 2019, and reduced the Company’s ALLL, but was essentially offset by an increase in loan balances during the quarter. During the third quarter of 2019, the Company recorded a $0.3 million provision for loan loss expense related to a purchased credit impaired loan. Changes in the amount of the provision and related allowance are based on the Company’s detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company’s loan portfolio. The Company believes its methodology for determining the adequacy of its ALLL adequately provides for probable losses inherent in the loan portfolio and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

The Company had net charge-offs of $1.6 million for the first nine months of 2019 and $0.6 million for the first nine months of 2018. Net charge-offs in the first nine months of 2019 consisted primarily of net charge-offs of DDA overdrafts ($0.9 million), residential real estate loans ($0.6 million), and consumer loans ($0.3 million), which were partially offset by net recoveries on commercial real estate loans ($0.2 million) and commercial and industrial loans ($0.1 million).

Based on the Company's analysis of the adequacy of the allowance for loan losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for loan losses as of September 30, 2019 is adequate to provide for probable losses inherent in the Company's loan portfolio. Future provisions for loan losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

Table Six
Analysis of the Allowance for Loan Losses

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

	Nine months ended September 30,		Year ended December 31,
	2019	2018	2018
Balance at beginning of period	**$ 15,966**	$ 18,836	$ 18,836
Charge-offs:			
Commercial and industrial	**(68)**	(724)	(733)
Commercial real estate	**(394)**	(349)	(369)
Residential real estate	**(922)**	(464)	(682)
Home equity	**(160)**	(219)	(219)
Consumer	**(478)**	(560)	(769)
DDA overdrafts	**(1,985)**	(1,976)	(2,701)
Total charge-offs	**(4,007)**	(4,292)	(5,473)
Recoveries:			
Commercial and industrial	**183**	1,625	2,152
Commercial real estate	**614**	538	732
Residential real estate	**282**	275	367
Home equity	**—**	—	—
Consumer	**211**	130	166
DDA overdrafts	**1,112**	1,109	1,496
Total recoveries	**2,402**	3,677	4,913
Net charge-offs	**(1,605)**	(615)	(560)
(Recovery of) provision for loan losses	**(1,175)**	(1,910)	(2,310)
Balance at end of period	**$ 13,186**	$ 16,311	$ 15,966
As a Percent of Average Total Loans:			
Net charge-offs (annualized)	**0.06 %**	0.03 %	0.02 %
(Recovery of) provision for loan losses (annualized)	**(0.04)%**	(0.08)%	(0.07)%
As a Percent of Non-Performing Loans:			
Allowance for loan losses	**84.26 %**	142.06 %	107.82 %
As a Percent of Total Loans:			
Allowance for loan losses	**0.37 %**	0.52 %	0.45 %

Table Seven
Allocation of the Allowance for Loan Losses

The allocation of the allowance for loan 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,
	2019	2018	2018
Commercial and industrial	**$ 2,704**	$ 3,889	$ 4,060
Commercial real estate	**3,096**	4,597	4,495
Residential real estate	**3,638**	4,466	4,116
Home equity	**1,193**	1,304	1,268
Consumer	**643**	341	319
DDA overdrafts	**1,912**	1,714	1,708
Allowance for Loan Losses	**$ 13,186**	$ 16,311	$ 15,966

The ALLL decreased from $16.0 million at December 31, 2018 to $13.2 million at September 30, 2019. Below is a summary of the changes in the components of the ALLL from December 31, 2018 to September 30, 2019.

The allowance related to the commercial and industrial loan portfolio decreased from $4.1 million at December 31, 2018 to $2.7 million at September 30, 2019, primarily due to an improvement in the overall average historical loss rate.

The allowance allocated to the commercial real estate portfolio decreased from $4.5 million at December 31, 2018 to $3.1 million at September 30, 2019, primarily due to an improvement in historical loss rates and lower outstanding balances.

The allowance related to the residential real estate loan portfolio decreased from $4.1 million at December 31, 2018 to $3.6 million at September 30, 2019, primarily due to an improvement in historical loss rates.

The allowance related to the consumer loan portfolio increased from $0.3 million at December 31, 2018 to $0.6 million at September 30, 2019, due to an increase in historical loss rates, as well as an increase in loan balances.

Table Eight
Non-Accrual and Past-Due Loans

The Company's nonperforming assets and past-due loans are shown below (dollars in thousands):

	As of September 30,		December 31,
	2019	2018	2018
Non-accrual loans	**$ 15,197**	$ 11,447	$ 14,551
Accruing loans past due 90 days or more	**452**	35	257
Total non-performing loans	**15,649**	11,482	14,808
Other real estate owned ("OREO")	**2,326**	4,259	4,608
Total non-performing assets	**$ 17,975**	$ 15,741	$ 19,416
Non-performing loans (as a percent of loans and OREO)	**0.50%**	0.50%	0.54%
Past-due loans	**$ 10,207**	$ 6,867	$ 13,131
Past-due loans (as a percentage of total loans)	**0.28%**	0.22%	0.37%

The Company's ratio of non-performing assets to total loans and OREO decreased from 0.54% at December 31, 2018 to 0.50% at September 30, 2019. Excluded from this ratio are purchased credit-impaired loans in which the Company estimated cash flows and estimated a credit mark. These loans are considered performing loans provided that the loan is performing in accordance with the estimated expectations. Such loans would be considered non-performing loans if the loan's performance deteriorates below the initial expectations. Total past due loans decreased from $13.1 million, or 0.37% of total loans outstanding, at December 31, 2018 to $10.2 million, or 0.28% of total loans outstanding, at September 30, 2019.

Interest on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest, unless the loan is well collateralized and in the process of collection. When interest accruals are discontinued, interest credited to income in the current year that is unpaid and deemed uncollectible is charged to operations. Prior-year interest accruals that are unpaid and deemed uncollectible are charged to the allowance for loan losses, provided that such amounts were specifically reserved.

Table Nine
Impaired Loans

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

	As of September 30,		As of December 31,
	2019	2018	2018
Impaired loans with a valuation allowance	**$ 5,748**	$ 5,709	$ 2,985
Impaired loans with no valuation allowance	**4,035**	4,841	7,521
Total impaired loans	**$ 9,783**	$ 10,550	$ 10,506
Allowance for loan losses allocated to impaired loans	**$ 884**	$ 356	$ 428

The average recorded investment in impaired loans during the nine months ended September 30, 2019 and September 30, 2018 was $9.9 million and $10.5 million, respectively. There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at September 30, 2019.

The Company recognized $0.2 million of interest income received in cash on non-accrual and impaired loans for both the nine months ended September 30, 2019 and September 30, 2018. Approximately $0.1 million and $0.2 million of interest income would have been recognized during the nine months ended September 30, 2019 and September 30, 2018, respectively, if such loans had been current in accordance with their original terms.

Table Ten
Troubled Debt Restructurings ("TDRs")

The following table sets forth the Company's troubled debt restructurings ("TDRs") (in thousands):

	As of September 30,		December 31,
	2019	2018	2018
Residential real estate	**$ 21,320**	$ 20,589	$ 23,521
Home equity	**3,034**	2,941	3,030
Commercial and industrial	**83**	108	98
Commercial real estate	**8,100**	8,231	8,205
Total TDRs	**$ 32,537**	$ 31,869	$ 34,854

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

The Company's troubled debt restructurings ("TDRs") related to its borrowers who had filed for Chapter 7 bankruptcy protection make up 69% of the Company's total TDRs as of September 30, 2019. The average age of these TDRs was 12.4 years; the average current balance as a percentage of the original balance was 68.7%; and the average loan-to-value ratio was 64.1% as of September 30, 2019. Of the total 465 Chapter 7 related TDRs, 29 had an estimated loss exposure based on the current balance and appraised value at September 30, 2019.

Non-Interest Income and Non-Interest Expense

Nine months ended September 30, 2019 vs. 2018
(in millions)

	Nine months ended September 30,			
	2019	2018	$ Change	% Change
Net investment securities gains	$ —	$ 1.2	$ (1.2)	(100.0)%
Non-interest income, excluding net investment securities gains	**50.4**	44.7	5.7	12.8
Merger related expenses	**0.8**	0.2	0.6	300.0
Non-interest expense, excluding merger related expenses	**87.8**	74.7	13.1	17.5

Non-Interest Income: Non-interest income was $50.4 million for the nine months ended September 30, 2019 as compared to $45.9 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, the Company realized a security gain of $0.07 million due to the call of a security and $0.03 million of unrealized fair value losses on the Company's equity securities compared to $1.2 million of unrealized fair value gains on the Company's equity securities for the nine months ended September 30, 2018. Exclusive of these investment gains and losses, non-interest income increased from $44.7 million for the nine months ended September 30, 2018 to $50.4 million for the nine months ended September 30, 2019. This increase was largely attributable to an increase of $2.4 million, or 17.6%, in bankcard revenues and an increase of $1.5 million, or 6.9%, in service charges, with $1.1 million and $1.2 million, respectively, due to the acquisitions of Poage and Farmers Deposit. In addition, bank owned life insurance revenues increased $0.6 million and other income increased $0.9 million. Other income increased due to the completion of the sale of the Company's Virginia Beach, VA branch to Select Bancorp, Inc. on June 28, 2019. As a result of this transaction, the Company recognized a gain of $0.7 million.

Non-Interest Expense: During the nine months ended September 30, 2019 and September 30, 2018, the Company incurred $0.8 million and $0.2 million, respectively, of acquisition and integration expenses associated with the acquisitions of Poage and Farmers Deposit. Excluding these expenses, non-interest expenses increased $13.1 million (17.6% increase) from $74.7 million in the nine months ended September 30, 2018 to $87.8 million in the nine months ended September 30, 2019. This increase was primarily due to an increase in salaries and employee benefits of $5.8 million due to the acquisitions of Poage and Farmers Deposit ($3.5 million) and annual salary adjustments ($1.9 million). In addition, other expenses increased $3.6 million, equipment and software expenses increased $1.0 million, occupancy related expenses increased $1.0 million, and bankcard expenses increased $1.0 million. These expenses were primarily attributable to the acquisitions of Poage and Farmers Deposit.

Income Tax Expense: The Company's effective income tax rate for the nine months ended September 30, 2019 was 21.1% compared to 20.6% for the nine months ended September 30, 2018.

Non-Interest Income and Non-Interest Expense

Three months ended September 30, 2019 vs. 2018
(in millions)

	Three months ended September 30,			
	2019	2018	$ Change	% Change
Net investment securities gains	$ **(0.3)**	$ 0.4	$ (0.7)	(175.0)%
Non-interest income, excluding net investment securities gains	**17.0**	15.4	1.6	10.4 %
Merger related expenses	—	0.2	(0.2)	(100.0)%
Non-interest expense, excluding merger related expenses	**28.4**	24.8	3.6	14.5 %

Non-Interest Income: Non-interest income was $16.7 million for the third quarter of 2019 as compared to $15.8 million for the third quarter of 2018. During the third quarter of 2019, the Company reported $0.2 million of unrealized fair value losses on the Company's equity securities compared to $0.4 million of unrealized fair value gains on the Company's equity securities in the third quarter of 2018. Exclusive of these unrealized fair value gains and losses, non-interest income increased from $15.4 million for the third quarter of 2018 to $17.0 million for the third quarter of 2019. This increase was largely attributable to an increase of $0.8 million, or 16.3%, in bankcard revenues and an increase of $0.6 million, or 7.7%, in service charges, with $0.4

million and $0.5 million, respectively, due to the late 2018 acquisitions of Poage and Farmers Deposit. In addition, trust and investment management fee income increased $0.2 million.

Non-Interest Expense: Non-interest expenses increased $3.4 million (13.4% increase), from $25.0 million in the third quarter of 2018 to $28.4 million in the third quarter of 2019. This increase was predominantly due to an increase in salaries and employee benefits of $1.6 million due to the acquisitions of Poage and Farmers Deposit ($1.2 million) and annual salary adjustments ($0.6 million), that were partially offset by lower health insurance expenses ($0.3 million). Primarily due to the acquisitions of Poage and Farmers Deposit, other expenses increased $1.0 million, bankcard expenses increased $0.4 million, occupancy related expenses increased $0.4 million and equipment and software related expenses increased $0.3 million from the third quarter of 2018 to the third quarter of 2019. Partially offsetting these increases was a decrease of $0.3 million in FDIC insurance expense. As the Deposit Insurance Fund ("DIF") reserve ratio exceeded 1.38% at June 30, 2019, the Company received a Small Bank Assessment Credit for the full amount of its Federal Deposit Insurance Corporation ("FDIC") assessment. Based on its remaining credit, the Company does not expect to record FDIC expense until the second quarter of 2020.

Income Tax Expense: The Company's effective income tax rate for the three months ended September 30, 2019 was 21.7% compared to 21.3% for the three months ended September 30, 2018.

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 risk factor affecting the Company's balance sheet and net interest margin. Significant changes in interest rates by the Federal Reserve could result in similar changes in LIBOR interest rates, prime rates, and other benchmark interest rates that could 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's Asset and Liability Committee ("ALCO") has been delegated the responsibility of managing the Company's interest-sensitive balance sheet accounts to maximize earnings while managing interest rate risk. ALCO, comprised of various members of executive and senior management, is also responsible for establishing policies to monitor and limit the Company's exposure to interest rate risk and to manage the Company's liquidity position. ALCO satisfies its responsibilities through quarterly meetings during which product pricing issues, liquidity measures, and interest sensitivity positions are monitored.

In order to measure and manage its interest rate risk, the Company uses an asset/liability management 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 of 300 points or decrease of 200 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity.

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

Immediate Basis Point Change in Interest Rates	Implied Federal Funds Rate Associated with Change in Interest Rates	Estimated Increase (Decrease) in Net Income Over 12 Months
September 30, 2019		
+300	**5.00%**	**+2.9 %**
+200	**4.00**	**+4.2**
+100	**3.00**	**+3.3**
-50	**1.50**	**-1.2**
-100	**1.00**	**-6.8**
-200	**0.00**	**-13.5**
December 31, 2018		
+300	5.50%	+1.6 %
+200	4.50	+2.6
+100	3.50	+2.8
-50	2.00	-3.1
-100	1.50	-6.9
-200	0.50	-16.3

These estimates are highly dependent upon assumptions made by management, including, but not limited to, assumptions regarding the manner in which interest-bearing demand deposit and savings deposit accounts reprice in different interest rate scenarios, changes in the composition of deposit balances, pricing behavior of competitors, prepayments of loans and deposits under alternative rate environments, and new business volumes and pricing. As a result, there can be no assurance that the estimates above will be achieved in the event that interest rates increase or decrease during the remainder of 2019 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 or decrease in rates compared to what would otherwise occur if rates remain stable.

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

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, 2019, City National could pay dividends up to $78.1 million plus net profits for the remainder of 2019, as defined by statute, up to the dividend declaration date without prior regulatory permission.

Over the next 12 months, City Holding has an obligation to remit interest payments approximating $0.2 million on the junior subordinated deferrable interest debentures held by Town Square Statutory Trust I. However, interest payments on the debentures can be deferred for up to five years under certain circumstances.

Additionally, City Holding anticipates continuing the payment of dividends on its common stock, which are expected to approximate $35.4 million on an annualized basis over the next 12 months based on common shares outstanding at September 30, 2019. 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 $1.7 million of additional cash over the next 12 months. As of September 30, 2019, City Holding reported a cash balance of $10.6 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.

Excluding the interest and dividend payments discussed above, City Holding has no significant commitments or obligations in years after 2019 other than the repayment of its $4.1 million obligation under the debentures held by Town Square Statutory Trust I. However, this obligation does not mature until June 2036, or earlier at the option of City Holding. It is expected that City Holding will be able to obtain the necessary cash, either through dividends obtained from City National or the issuance of other debt, to fully repay the debentures at their maturity.

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 FHLB and other financial institutions. As of September 30, 2019, City National's assets are significantly funded by deposits and capital. Additionally, City National maintains borrowing facilities with the FHLB and other financial institutions that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of September 30, 2019, City National has the capacity to borrow $1.9 billion from the FHLB and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systemic financial industry crisis. Also, although it has no current intention to do so, City National could liquidate its unpledged securities, if necessary, to provide an additional funding source. City National also segregates certain mortgage loans, mortgage-backed securities, and other investment securities in a separate subsidiary so that it can separately monitor the asset quality of these primarily mortgage-related assets, which could be used to raise cash through securitization transactions or obtain additional equity or debt financing if necessary.

The Company manages its asset and liability mix to balance its desire to maximize net interest income against its desire to minimize risks associated with capitalization, interest rate volatility, and liquidity. With respect to liquidity, the Company has chosen a conservative posture and believes that its liquidity position is strong. The Company's net loan to asset ratio is 72.0% as of September 30, 2019 and deposit balances fund 81.3% 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 $878.2 million at September 30, 2019, and that exceeded the Company's non-deposit sources of borrowing, which totaled $206.7 million. Further, the Company's deposit mix has a high proportion of transaction and savings accounts that fund 54.0% of the Company's total assets.

As illustrated in the Consolidated Statements of Cash Flows, the Company generated $70.2 million of cash from operating activities during the first nine months of 2019, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings. The Company used $52.8 million of cash in investing activities during the first nine months of 2019, primarily due to purchases of securities available-for-sale of $170.4 million, purchases of other investments of $10.4 million, and the sale of the Virginia Beach branch for $24.7 million. These decreases were partially offset by proceeds from sales and maturities of securities available-for-sale of $125.5 million, proceeds from sales of other investments of $12.6 million, proceeds from maturities and calls of held-to-maturity securities of $9.6 million, and a net decrease in loans of $5.3 million. The Company used $24.2 million of cash in financing activities during the first nine months of 2019, principally as a result of a decrease in short-term borrowings of $59.3 million, dividends paid of $26.3 million to the Company's common stockholders, and purchases of treasury stock of $19.4 million. These decreases were partially offset by increases in interest-bearing deposits of $63.1 million and non-interest bearing deposits of $17.2 million.

Capital Resources

Shareholders' equity increased $48.8 million for the nine months ended September 30, 2019 due to net income of $66.7 million, other comprehensive income of $25.9 million, and stock based related compensation expense of $1.9 million. These increases were partially offset by cash dividends declared of $26.8 million and the repurchase of 260,674 common shares at a weighted average price of $74.54 per share ($19.4 million) as part of a one million share repurchase plan authorized by the Board of Directors in February 2019.

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

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

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

September 30, 2019	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	**$ 518,175**	**15.6%**	**$ 232,287**	**7.0%**	**$ 215,695**	**6.5%**
City National Bank	**461,067**	**14.0%**	**230,519**	**7.0%**	**214,053**	**6.5%**
Tier I Capital						
City Holding Company	**522,175**	**15.7%**	**282,063**	**8.5%**	**265,471**	**8.0%**
City National Bank	**461,067**	**14.0%**	**279,916**	**8.5%**	**263,450**	**8.0%**
Total Capital						
City Holding Company	**535,441**	**16.1%**	**348,430**	**10.5%**	**331,839**	**10.0%**
City National Bank	**474,333**	**14.4%**	**345,779**	**10.5%**	**329,313**	**10.0%**
Tier I Leverage Ratio						
City Holding Company	**522,175**	**10.9%**	**192,136**	**4.0%**	**240,170**	**5.0%**
City National Bank	**461,067**	**9.7%**	**189,789**	**4.0%**	**237,236**	**5.0%**

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

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

As of September 30, 2019, management believes that City Holding Company and its banking subsidiary, City National, were "well capitalized." City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). Regulatory agencies can initiate certain mandatory actions if either City Holding or City National fails to meet the minimum capital requirements, as shown above. As of September 30, 2019, management believes that City Holding and City National have met all capital adequacy requirements.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Regulatory Relief Act”) went into effect. The Regulatory Relief Act provides for a simplification of the minimum capital level requirements applicable to the Company. The FDIC issued its final rules regarding this change on September 17, 2019. Beginning on March 31, 2020, the Company will have the option of using a single community bank leverage ratio (Tier 1 capital to average consolidated assets) requirement of over nine percent to qualify as “well-capitalized.” This new framework will replace the Basel III Capital Rules applicable to the Company. As of September 30, 2019, the Company would have satisfied the community bank leverage ratio requirement had it been in effect.

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, 2019 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

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

On February 27, 2019, the Board of Directors of the Company authorized the Company to buy back up to 1,000,000 of its common shares (the "Program") in open market transactions, in block trades or otherwise at prices that are accretive to the earnings per share of continuing shareholders. The Program, which has no time limit on the duration, permits management to commence or suspend purchases at any time or from time-to-time based upon market and business conditions and without prior notice. The following table sets forth information regarding the Company's common stock repurchases transacted during the quarter ended September 30, 2019:

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
July 1 - July 31, 2019	—	$ —	161,950	838,050
August 1 - August 31, 2019	75,823	$ 74.26	237,773	762,227
September 1 - September 30, 2019	22,901	$ 73.86	260,674	739,326

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents

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 November 14, 2011, by and among Virginia Savings Bancorp, Inc., Virginia Savings Bank, F.S.B., City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated November 14, 2011, and filed with the Securities and Exchange Commission on November 14, 2011).
2(b)	**Agreement and Plan of Merger,** dated August 2, 2012, by and among Community Financial Corporation, Community Bank, City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated August 7, 2012, and filed with the Securities and Exchange Commission on August 7, 2012).
2(c)	**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(d)	**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)	**Articles of Incorporation of City Holding Company** (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission).
3(b)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7, 1984, and filed with the Securities and Exchange Commission on March 22, 1984).
3(c)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated March 4, 1986 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1986, filed March 31, 1987 with the Securities and Exchange Commission).
3(d)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated September 29, 1987 (attached to and incorporated by reference from, City Holding Company's Registration Statement on Form S-4, Registration No. 33-23295, filed with the Securities and Exchange Commission on August 3, 1988).
3(e)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated May 6, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
3(f)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated May 7, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
3(g)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated August 1, 1994 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended September 30, 1994, filed November 14, 1994 with the Securities and Exchange Commission).
3(h)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated December 9, 1998 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1998, filed March 31, 1999 with the Securities and Exchange Commission).
3(i)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).
3(j)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated May 10, 2006 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q, Quarterly Report for the quarter ended June 30, 2006, filed August 9, 2006 with the Securities and Exchange Commission).
3(k)	**Articles of Amendment to the Articles of Incorporation of City Holding Company**, dated April 19, 2017 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended March 31, 2017, filed May 5, 2017 with the Securities and Exchange Commission).
3(l)	**Amended and Restated Bylaws of City Holding Company**, revised February 24, 2010 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2010 with the Securities and Exchange Commission).
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).
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*

* 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)

/s/ Charles R. Hageboeck

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

/s/ David L. Bumgarner

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

Date: November 6, 2019

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, 2019 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 6, 2019

/s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief 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, 2019 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 6, 2019

/s/ David L. Bumgarner

David L. Bumgarner
Executive Vice President and Chief 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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Hageboeck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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

Date: November 6, 2019

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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Bumgarner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David L. Bumgarner

David L. Bumgarner
Executive Vice President and Chief Financial Officer

Date: November 6, 2019

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.