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 June 30, 2021

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 15,383,669 shares of common stock as of August 2, 2021.

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, 2020 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) the uncertainties on the Company’s business, results of operations and financial condition, caused by the COVID-19 pandemic, which will depend on several factors, including the scope and duration of the pandemic, its continued influence on financial markets, the effectiveness of the Company’s work from home arrangements and staffing levels in operational facilities, the impact of market participants on which the Company relies and actions taken by governmental authorities and other third parties in response to the pandemic; (3) credit risk, including risk that negative credit quality trends may lead to a deterioration of asset quality, risk that our allowance for credit losses may not be sufficient to absorb actual losses in our loan portfolio, and risk from concentrations in our loan portfolio; (4) changes in the real estate market, including the value of collateral securing portions of our loan portfolio; (5) changes in the interest rate environment; (6) operational risk, including cybersecurity risk and risk of fraud, data processing system failures, and network breaches; (7) changes in technology and increased competition, including competition from non-bank financial institutions; (8) changes in consumer preferences, spending and borrowing habits, demand for our products and services, and customers' performance and creditworthiness; (9) difficulty growing loan and deposit balances; (10) our ability to effectively execute our business plan, including with respect to future acquisitions; (11) changes in regulations, laws, taxes, government policies, monetary policies and accounting policies affecting bank holding companies and their subsidiaries; (12) 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; (13) regulatory enforcement actions and adverse legal actions; (14) difficulty attracting and retaining key employees; (15) the Company’s ability to pursue available remedies in the event of a loan default for loans under the Paycheck Protection Program, ("PPP"), and the risk of holding the PPP loans at unfavorable interest rates and on terms that are less favorable than those with customers to whom the Company would have otherwise lent; and (16) 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.

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City Holding Company and Subsidiaries

Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

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

	(Unaudited) June 30, 2021	December 31, 2020
Assets		
Cash and due from banks	$ 97,523	$ 77,412
Interest-bearing deposits in depository institutions	512,367	451,247
Cash and Cash Equivalents	609,890	528,659
Investment securities available for sale, at fair value	1,340,681	1,178,789
Other securities	24,548	27,372
Total Investment Securities	1,365,229	1,206,161
Gross loans	3,529,416	3,622,119
Allowance for credit losses	(20,016)	(24,549)
Net Loans	3,509,400	3,597,570
Bank owned life insurance	119,491	118,243
Premises and equipment, net	76,263	76,925
Accrued interest receivable	15,967	15,793
Goodwill and other intangible assets, net	117,857	118,592
Other assets	89,958	96,697
Total Assets	$ 5,904,055	$ 5,758,640
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,279,932	$ 1,176,990
Interest-bearing:		
Demand deposits	1,070,004	1,027,201
Savings deposits	1,301,219	1,188,003
Time deposits	1,153,391	1,260,022
Total Deposits	4,804,546	4,652,216
Short-term borrowings:		
Securities sold under agreements to repurchase	311,316	295,956
Net deferred tax liability	2,310	3,202
Other liabilities	90,407	106,160
Total Liabilities	5,208,579	5,057,534
Commitments and contingencies - see Note H		
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 June 30, 2021 and December 31, 2020, less 3,520,586 and 3,280,040 shares in treasury, respectively	47,619	47,619
Capital surplus	169,674	171,304
Retained earnings	613,553	589,988
Cost of common stock in treasury	(157,936)	(139,038)
Accumulated other comprehensive income:		
Unrealized gain on securities available-for-sale	28,227	36,894
Underfunded pension liability	(5,661)	(5,661)
Total Accumulated Other Comprehensive Income	22,566	31,233
Total Shareholders' Equity	695,476	701,106
Total Liabilities and Shareholders' Equity	$ 5,904,055	$ 5,758,640

See notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Interest Income				
Interest and fees on loans	**$ 33,114**	$ 37,718	**$ 67,438**	$ 79,053
Interest and dividends on investment securities:				
Taxable	**5,932**	5,718	**11,174**	11,589
Tax-exempt	**1,291**	821	**2,544**	1,528
Interest on deposits in depository institutions	**162**	55	**280**	360
Total Interest Income	**40,499**	44,312	**81,436**	92,530
Interest Expense				
Interest on deposits	**2,460**	5,963	**5,740**	13,201
Interest on short-term borrowings	**125**	279	**242**	743
Interest on long-term debt	**—**	—	**—**	100
Total Interest Expense	**2,585**	6,242	**5,982**	14,044
Net Interest Income	**37,914**	38,070	**75,454**	78,486
(Recovery of) provision for credit losses	**(2,000)**	1,250	**(2,440)**	9,222
Net Interest Income After (Recovery of) Provision for Credit Losses	**39,914**	36,820	**77,894**	69,264
Non-Interest Income				
Gains (losses) on sale of investment securities, net	**29**	(6)	**312**	56
Unrealized gains (losses) recognized on equity securities still held	**410**	242	**359**	(2,159)
Service charges	**5,895**	4,945	**11,776**	12,667
Bankcard revenue	**7,221**	5,888	**13,434**	11,003
Trust and investment management fee income	**2,012**	1,931	**4,045**	3,730
Bank owned life insurance	**940**	848	**2,400**	2,523
Sale of VISA shares	**—**	—	**—**	17,837
Other income	**941**	783	**1,752**	2,318
Total Non-Interest Income	**17,448**	14,631	**34,078**	47,975
Non-Interest Expense				
Salaries and employee benefits	**15,559**	14,873	**31,230**	30,724
Occupancy related expense	**2,525**	2,402	**5,147**	4,890
Equipment and software related expense	**2,655**	2,504	**5,199**	4,933
FDIC insurance expense	**382**	167	**787**	167
Advertising	**824**	933	**1,705**	1,776
Bankcard expenses	**1,746**	1,498	**3,330**	2,933
Postage, delivery, and statement mailings	**568**	592	**1,160**	1,208
Office supplies	**371**	353	**763**	747
Legal and professional fees	**589**	589	**1,264**	1,190
Telecommunications	**676**	531	**1,366**	1,042
Repossessed asset losses, net of expenses	**1**	76	**80**	274
Other expenses	**3,678**	3,950	**7,352**	8,052
Total Non-Interest Expense	**29,574**	28,468	**59,383**	57,936
Income Before Income Taxes	**27,788**	22,983	**52,589**	59,303
Income tax expense	**5,640**	4,732	**10,627**	12,054
Net Income Available to Common Shareholders	**$ 22,148**	$ 18,251	**$ 41,962**	$ 47,249

Average shares outstanding, basic		**15,573**		16,081		**15,614**		16,123
Effect of dilutive securities		**21**		16		**26**		19
Average shares outstanding, diluted		**15,594**		16,097		**15,640**		16,142
Basic earnings per common share	**$**	**1.41**	$	1.12	**$**	**2.66**	$	2.90
Diluted earnings per common share	**$**	**1.41**	$	1.12	**$**	**2.66**	$	2.90

See notes to consolidated financial statements.

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income available to common shareholders	**$ 22,148**	$ 18,251	**$ 41,962**	$ 47,249
Available-for-Sale Securities				
Unrealized gains (losses) on available-for-sale securities arising during the period	**9,154**	4,652	**(11,086)**	31,365
Reclassification adjustment for (gains) losses	**(29)**	6	**(312)**	(56)
Reclassification of unrealized gains on held-to-maturity securities to available-for-sale	**—**	—	**—**	1,562
Other comprehensive income (loss) before income taxes	**9,125**	4,658	**(11,398)**	32,871
Tax effect	**(2,187)**	(1,089)	**2,731**	(7,682)
Other comprehensive income (loss), net of tax	**6,938**	3,569	**(8,667)**	25,189
Comprehensive Income, Net of Tax	**$ 29,086**	$ 21,820	**$ 33,295**	$ 72,438

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Three Months Ended June 30, 2021 and 2020
(in thousands, except share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at March 31, 2020	$ 47,619	$ 170,096	$ 556,718	$ (116,665)	$ 27,460	$ 685,228
Net income	—	—	18,251	—	—	18,251
Other comprehensive income	—	—	—	—	3,569	3,569
Cash dividends declared ($0.57 per share)	—	—	(9,165)	—	—	(9,165)
Stock-based compensation expense	—	693	—	—	—	693
Restricted awards granted	—	(879)	—	879	—	—
Exercise of 1,516 stock options	—	(29)	—	96	—	67
Purchase of 79,238 treasury shares	—	—	—	(4,893)	—	(4,893)
Balance at June 30, 2020	$ 47,619	$ 169,881	$ 565,804	$ (120,583)	$ 31,029	$ 693,750

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at March 31, 2021	**$ 47,619**	**$ 170,526**	**$ 600,396**	**$ (142,484)**	**$ 15,628**	**$ 691,685**
Net income	**—**	**—**	**22,148**	**—**	**—**	**22,148**
Other comprehensive income	**—**	**—**	**—**	**—**	**6,938**	**6,938**
Cash dividends declared ($0.58 per share)	**—**	**—**	**(8,991)**	**—**	**—**	**(8,991)**
Stock-based compensation expense	**—**	**625**	**—**	**—**	**—**	**625**
Restricted awards granted	**—**	**(1,396)**	**—**	**1,396**	**—**	**—**
Exercise of 2,921 stock options	**—**	**(81)**	**—**	**233**	**—**	**152**
Purchase of 216,906 treasury shares	**—**	**—**	**—**	**(17,081)**	**—**	**(17,081)**
Balance at June 30, 2021	**$ 47,619**	**$ 169,674**	**$ 613,553**	**$ (157,936)**	**$ 22,566**	**$ 695,476**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Six Months Ended June 30, 2021 and 2020
(in thousands, except share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2019	$ 47,619	$ 170,309	$ 539,253	$ (105,038)	$ 5,840	$ 657,983
Cumulative change in accounting principle	—	—	(2,335)	—	—	(2,335)
Balance at January 1, 2020	47,619	170,309	536,918	(105,038)	5,840	655,648
Net income	—	—	47,249	—	—	47,249
Other comprehensive income	—	—	—	—	25,189	25,189
Cash dividends declared ($1.14 per share)	—	—	(18,363)	—	—	(18,363)
Stock-based compensation expense	—	1,702	—	—	—	1,702
Restricted awards granted	—	(2,033)	—	2,033	—	—
Exercise of 4,166 stock options	—	(97)	—	286	—	189
Purchase of 261,137 treasury shares	—	—	—	(17,864)	—	(17,864)
Balance at June 30, 2020	$ 47,619	$ 169,881	$ 565,804	$ (120,583)	$ 31,029	$ 693,750

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2020	**$ 47,619**	**$ 171,304**	**$ 589,988**	**$ (139,038)**	**$ 31,233**	**$ 701,106**
Net income	**—**	**—**	**41,962**	**—**	**—**	**41,962**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(8,667)**	**(8,667)**
Cash dividends declared ($1.16 per share)	**—**	**—**	**(18,397)**	**—**	**—**	**(18,397)**
Stock-based compensation expense	**—**	**1,778**	**—**	**—**	**—**	**1,778**
Restricted awards granted	**—**	**(1,860)**	**—**	**1,860**	**—**	**—**
Exercise of 11,690 stock options	**—**	**(1,548)**	**—**	**2,085**	**—**	**537**
Purchase of 292,016 treasury shares	**—**	**—**	**—**	**(22,843)**	**—**	**(22,843)**
Balance at June 30, 2021	**$ 47,619**	**$ 169,674**	**$ 613,553**	**$ (157,936)**	**$ 22,566**	**$ 695,476**

See notes to consolidated financial statements.

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

	Six months ended June 30, 2021	2020
Net income	**$ 41,962**	$ 47,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and (accretion), net	**4,036**	873
(Recovery of) provision for credit losses	**(2,440)**	9,222
Depreciation of premises and equipment	**2,906**	2,772
Deferred income tax expense	**1,889**	2,323
Net periodic employee benefit cost	**317**	362
Pension contributions	**(1,000)**	(450)
Unrealized and realized investment securities (gains) losses, net	**(670)**	2,103
Gain from the sale of VISA shares	**—**	(17,837)
Stock-compensation expense	**1,778**	1,702
Excess tax benefit from stock-compensation expense	**(221)**	(137)
Increase in value of bank-owned life insurance	**(2,399)**	(2,523)
Loans held for sale		
Loans originated for sale	**(17,723)**	(9,372)
Proceeds from the sale of loans originated for sale	**17,295**	9,854
Gain on sale of loans	**(154)**	(177)
Change in accrued interest receivable	**(174)**	(2,631)
Change in other assets	**(9,956)**	(9,515)
Change in other liabilities	**4,881**	16,334
Net Cash Provided by Operating Activities	**40,327**	50,152
Net decrease (increase) in loans	**92,250**	(46,146)
Securities available-for-sale		
Purchases	**(316,479)**	(232,478)
Proceeds from sales	**—**	28,548
Proceeds from maturities and calls	**136,560**	51,246
Other investments		
Purchases	**(116)**	(2,132)
Proceeds from sales	**3,619**	2,282
Proceeds from the sale of VISA shares	**—**	17,837
Purchases of premises and equipment	**(2,561)**	(3,798)
Proceeds from the disposals of premises and equipment	**366**	134
Proceeds from the disposition of assets held-for-sale	**—**	440
Proceeds from bank-owned life insurance policies	**2,147**	1,513
Payments for low income housing tax credits	**(1,559)**	(716)
Net Cash Used in Investing Activities	**(85,773)**	(183,270)
Net increase in non-interest-bearing deposits	**102,942**	274,382
Net increase in interest-bearing deposits	**49,485**	61,150
Net increase in short-term borrowings	**15,360**	71,421
Repayment of long-term debt	**—**	(4,124)
Purchases of treasury stock	**(22,843)**	(17,864)
Proceeds from exercise of stock options	**537**	189
Lease payments	**(431)**	(434)
Dividends paid	**(18,373)**	(18,492)
Net Cash Provided by Financing Activities	**126,677**	366,228
Increase in Cash and Cash Equivalents	**81,231**	233,110
Cash and cash equivalents at beginning of period	**528,659**	140,144
Cash and Cash Equivalents at End of Period	**$ 609,890**	$ 373,254

Supplemental Cash Flow Information:		
Cash paid for interest	**$ 6,851**	$ 14,878
Cash paid for income taxes	**10,650**	2,400

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements *(Unaudited)*
June 30, 2021

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 94 banking offices in West Virginia (58), Kentucky (19), 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.

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 six months ended June 30, 2021 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2021. The Company's accounting and reporting policies conform with generally accepted accounting principles for interim financial information, with the instructions to Form 10-Q and Article 10 of Regulation S-X, and with Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management's estimates.

The consolidated balance sheet as of December 31, 2020 has been derived from audited financial statements included in the Company's 2020 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 2020 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:

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. In March 2020, the FASB issued ASU No. 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* This amendment provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and is effective as of March 12, 2020 through December 31, 2022. Management has reviewed the loan portfolio and taken the appropriate steps to prepare for the change from LIBOR to SOFR.

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

Note C – Investments

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

	June 30, 2021				December 31, 2020			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
Obligations of states and								
political subdivisions	**271,658**	**9,853**	**167**	**281,344**	266,483	11,467	139	277,811
Mortgage-backed securities:								
U.S. government agencies	**987,297**	**24,937**	**2,327**	**1,009,907**	815,682	34,807	105	850,384
Private label	**9,271**	**786**	**—**	**10,057**	9,976	916	—	10,892
Trust preferred securities	**4,563**	**—**	**280**	**4,283**	4,557	—	457	4,100
Corporate securities	**32,377**	**1,468**	**—**	**33,845**	31,465	2,146	1	33,610
Total Debt Securities	**1,305,166**	**37,044**	**2,774**	**1,339,436**	1,128,163	49,336	702	1,176,797
Certificates of deposit held for investment	**1,245**	**—**	**—**	**1,245**	1,992	—	—	1,992
Total Securities Available-for-Sale	**$ 1,306,411**	**$ 37,044**	**$ 2,774**	**$ 1,340,681**	$ 1,130,155	$ 49,336	$ 702	$ 1,178,789

The Company's other investment securities include marketable and non-marketable equity securities. At June 30, 2021 and December 31, 2020, the Company held $9.1 million and $11.8 million in marketable equity securities, respectively. 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 community bank holding companies including Eagle Financial Services, Inc. (EFSI) (1.5%). Changes in the fair value of the marketable equity securities are recorded in "unrealized gains (losses) recognized on equity securities still held" in the consolidated statements of income. The Company's non-marketable securities consist of securities with limited marketability, such as stock in the Federal Reserve Bank ("FRB") or the Federal Home Loan Bank ("FHLB"). At June 30, 2021 and December 31, 2020, the Company held $15.4 million and $15.5 million, respectively, in non-marketable equity securities. These securities are carried at cost due to the restrictions placed on their transferability.

The Company'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 June 30, 2021 and December 31, 2020 there were no securities of any non-governmental issuer whose aggregate carrying value or estimated fair value exceeded 10% of shareholders' equity.

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of June 30, 2021 and December 31, 2020. 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):

	June 30, 2021					
	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	**$ 10,876**	**$ 102**	**$ 2,419**	**$ 65**	**$ 13,295**	**$ 167**
Mortgage-backed securities:						
U.S. Government agencies	**349,736**	**2,314**	**32,229**	**13**	**381,965**	**2,327**
Trust preferred securities	—	—	**4,283**	**280**	**4,283**	**280**
Total available-for-sale	**$ 360,612**	**$ 2,416**	**$ 38,931**	**$ 358**	**$ 399,543**	**$ 2,774**

	December 31, 2020					
	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	$ 10,578	$ 139	$ —	$ —	$ 10,578	$ 139
Mortgage-backed securities:						
U.S. Government agencies	62,412	105	35	—	62,447	105
Trust preferred securities	—	—	4,100	457	4,100	457
Corporate securities	488	1	—	—	488	1
Total available-for-sale	$ 73,478	$ 245	$ 4,135	$ 457	$ 77,613	$ 702

The Company incurred no credit-related investment impairment losses in either the six months ended June 30, 2021 or June 30, 2020.

As of June 30, 2021, 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 June 30, 2021, management believes the unrealized losses detailed in the table above are temporary and therefore no allowance for credit losses has been recognized on the Company's securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income. During the six months ended June 30, 2021 and 2020, the Company had no credit-related net investment impairment losses.

The amortized cost and estimated fair value of debt securities at June 30, 2021, by contractual maturity, is shown in the following table (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

	Amortized Cost	Estimated Fair Value
Available-for-Sale Debt Securities		
Due in one year or less	$ 4,121	$ 4,176
Due after one year through five years	41,677	43,217
Due after five years through ten years	261,225	275,126
Due after ten years	998,143	1,016,917
Total	$ 1,305,166	$ 1,339,436

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Gross realized gains on securities sold	**$ 29**	$ —	**$ 312**	$ 133
Gross realized losses on securities sold	**—**	(6)	**—**	(77)
Net investment security gains (losses)	**$ 29**	$ (6)	**$ 312**	$ 56
Gross unrealized gains recognized on equity securities still held	**$ 2,216**	$ 708	**$ 2,720**	$ 837
Gross unrealized losses recognized on equity securities still held	**(1,806)**	(466)	**(2,361)**	(2,996)
Net unrealized gains (losses) recognized on equity securities still held	**$ 410**	$ 242	**$ 359**	$ (2,159)

During January 2020, the Company sold the entirety of its Visa Inc. Class B common shares (86,605) in a cash transaction which resulted in a pre-tax gain of $17.8 million. The carrying value of the Visa Class B shares on the Company's balance sheet was $0, as the Company had no historical cost basis in the shares.

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated $645 million and $644 million at June 30, 2021 and December 31, 2020, respectively.

Note D – Loans

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

	June 30, 2021		December 31, 2020
Commercial and industrial	**358,583**		372,989
1-4 Family	**108,079**		109,812
Hotels	**290,119**		294,464
Multi-family	**212,715**		215,671
Non Residential Non-Owner Occupied	**653,264**		641,351
Non Residential Owner Occupied	**209,100**		213,484
Commercial real estate	**1,473,277**		1,474,782
Residential real estate	**1,521,102**		1,587,694
Home equity	**127,608**		136,469
Consumer	**45,184**		47,688
Demand deposit account (DDA) overdrafts	**3,662**		2,497
Gross loans	**3,529,416**		3,622,119
Allowance for credit losses	**(20,016)**		(24,549)
Net loans	**$ 3,509,400**	$	3,597,570
Construction loans included in:			
Commercial real estate	**$ 43,904**	$	40,449
Residential real estate	**20,838**		27,078

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

Paycheck Protection Program

The Company originated loans to its customers under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA") under the provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Loans covered by the PPP may be eligible for loan forgiveness. The remaining loan balances, if any, after the loan forgiveness, are fully guaranteed by the SBA. Through June 30, 2021, the Company has funded approximately $136 million of SBA-approved PPP loans to over 2,500 customers. The Company started submitting forgiveness applications on behalf of its customers during the fourth quarter of 2020 and as of June 30, 2021, has received forgiveness proceeds of approximately $86 million.

Note E – Allowance For Credit Losses

The following table summarizes the activity in the allowance for credit losses, by portfolio loan classification, for the three and six months ended June 30, 2021 and 2020 (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.

	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	DDA Overdrafts	Total
Six months ended June 30, 2021							
Beginning balance	**$ 3,644**	**$ 10,997**	**$ 8,093**	**$ 630**	**$ 163**	**$ 1,022**	**$ 24,549**
Charge-offs	**(245)**	**(1,719)**	**(179)**	**(72)**	**(226)**	**(883)**	**(3,324)**
Recoveries	**71**	**179**	**91**	**26**	**143**	**721**	**1,231**
(Recovery of) provision for credit losses	**(114)**	**(1,090)**	**(1,214)**	**(116)**	**165**	**(71)**	**(2,440)**
Ending balance	**$ 3,356**	**$ 8,367**	**$ 6,791**	**$ 468**	**$ 245**	**$ 789**	**$ 20,016**
Six months ended June 30, 2020							
Beginning balance	$ 2,059	$ 2,606	$ 3,448	$ 1,187	$ 975	$ 1,314	11,589
Impact of adopting CECL	1,715	3,254	2,139	(598)	(810)	60	5,760
Charge-offs	(77)	(422)	(859)	(206)	(91)	(1,162)	(2,817)
Recoveries	14	331	103	56	141	800	1,445
Provision for (recovery of) credit losses	2,555	4,321	2,492	208	(95)	(259)	9,222
Ending balance	$ 6,266	$ 10,090	$ 7,323	$ 647	$ 120	$ 753	$ 25,199
Three months ended June 30, 2021							
Beginning balance	**$ 3,525**	**$ 10,867**	**$ 8,060**	**$ 608**	**$ 151**	**$ 865**	**$ 24,076**
Charge-offs	**(211)**	**(1,718)**	**(86)**	**(8)**	**(79)**	**(430)**	**(2,532)**
Recoveries	**25**	**15**	**17**	**3**	**104**	**308**	**472**
Provision for (recovery of) credit losses	**17**	**(797)**	**(1,200)**	**(135)**	**69**	**46**	**(2,000)**
Ending balance	**$ 3,356**	**$ 8,367**	**$ 6,791**	**$ 468**	**$ 245**	**$ 789**	**$ 20,016**
Three months ended June 30, 2020							
Beginning Balance	$ 5,855	$ 9,389	$ 6,958	$ 702	$ 233	$ 1,256	24,393
Charge-offs	—	(39)	(376)	(161)	(36)	(459)	(1,071)
Recoveries	5	128	8	9	128	349	627
Provision for (recovery of) credit losses	406	612	733	97	(205)	(393)	1,250
	$ 6,266	$ 10,090	$ 7,323	$ 647	$ 120	$ 753	25,199

Management systematically monitors the loan portfolio and the appropriateness of the allowance for credit losses on a quarterly basis to provide for expected losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance and other relevant factors. The Company's estimate of future economic conditions utilized in its provision estimate is primarily dependent on expected unemployment ranges over a two-year period. Beyond two years, a straight line reversion to historical average loss rates is applied over the life of the loan pool in the migration methodology. The vintage methodology applies future average loss rates based on net losses in historical periods where the unemployment rate was within the forecasted range. The provision for credit losses recorded during the six months ended June 30, 2021 reflects the expected economic impact from the COVID-19 pandemic. As a result of COVID-19, expected unemployment ranges significantly increased during the quarter ended March 31, 2020 and resulted in an increase in the Company's provision for credit losses. During the quarter ended June 30, 2021, the Company partially recovered a portion of the provision for credit losses incurred in the quarter ended March 31, 2020, due to improvements in the outlook for unemployment ranges utilized by the Company and partial adjustments to other qualitative and other 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.

Non-Performing Loans

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

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

Non-Performing Loans

The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 90 days still accruing as of June 30, 2021 (in thousands):

	Non-accrual With No Allowance for Credit Losses	Non-accrual With Allowance for Credit Losses	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 172	$ 648	$ —
1-4 Family	—	1,963	—
Hotels	1,350	114	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	683	—
Non Residential Owner Occupied	1,922	351	—
Commercial Real Estate	3,272	3,111	—
Residential Real Estate	1	2,481	278
Home Equity	—	81	—
Consumer	—	—	—
Total	$ 3,445	$ 6,321	$ 278

The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 90 days still accruing as of December 31, 2020 (in thousands):

	Non-accrual With No Allowance for Credit Losses	Non-accrual With Allowance for Credit Losses	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 172	$ 596	$ —
1-4 Family	—	2,056	—
Hotels	—	2,951	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	508	—
Non Residential Owner Occupied	2,297	589	—
Commercial Real Estate	2,297	6,104	—
Residential Real Estate	21	2,947	—
Home Equity	—	95	—
Consumer	—	—	—
Total	$ 2,490	$ 9,742	$ —

The Company recognized less than $0.1 million of interest income on nonaccrual loans during each of the six months ended June 30, 2021 and 2020.

The following table presents the amortized cost basis of individually evaluated impaired collateral-dependent loans as of June 30, 2021 and December 31, 2020 (in thousands). Changes in the fair value of the collateral for collateral-dependent loans are reported as credit loss expense or a reversal of credit loss expense in the period of change.

	June 30, 2021		December 31, 2020	
	Secured by		Secured by	
	Real Estate	**Equipment**	Real Estate	Equipment
Commercial and industrial	**$ 172**	**$ —**	$ 173	$ —
1-4 Family	**—**	**—**	—	—
Hotels	**1,350**	**—**	2,837	—
Multi-family	**—**	**—**	—	—
Non Residential Non-Owner Occupied	**—**	**—**	—	—
Non Residential Owner Occupied	**1,922**	**—**	2,296	—
Commercial real estate	**3,272**	**—**	5,133	—
Total	**$ 3,444**	**$ —**	$ 5,306	$ —

The Company would have recognized less than $0.2 million and $0.1 million of interest income during each of the six months ended June 30, 2021 and 2020, respectively, if such loans had been current in accordance with their original terms. There were no significant commitments to provide additional funds on non-accrual or impaired loans at June 30, 2021.

Generally, all loan types are considered past due when the contractual terms of a loan are not met and the borrower is 30 days or more past due on a payment. Furthermore, residential and home equity loans are generally subject to charge-off when the loan becomes 120 days past due, depending on the estimated fair value of the collateral less cost to dispose, versus the outstanding loan balance. Commercial loans are generally charged off when the loan becomes 120 days past due. Open-end consumer loans are generally charged off when the loan becomes 180 days past due.

The following tables present the aging of the amortized cost basis in past-due loans as of June 30, 2021 and December 31, 2020 by class of loan (in thousands):

	June 30, 2021						
	30-59 Past Due	**60-89 Past Due**	**90+ Past Due**	**Total Past Due**	**Current Loans**	**Non-accrual**	**Total Loans**
Commercial and industrial	**$ 722**	**$ —**	**$ —**	**$ 722**	**$ 357,041**	**$ 820**	**$ 358,583**
1-4 Family	**111**	**—**	**—**	**111**	**106,005**	**1,963**	**108,079**
Hotels	**—**	**—**	**—**	**—**	**288,655**	**1,464**	**290,119**
Multi-family	**—**	**—**	**—**	**—**	**212,715**	**—**	**212,715**
Non Residential Non-Owner Occupied	**—**	**—**	**—**	**—**	**652,581**	**683**	**653,264**
Non Residential Owner Occupied	**10**	**377**	**—**	**387**	**206,440**	**2,273**	**209,100**
Commercial real estate	**121**	**377**	**—**	**498**	**1,466,396**	**6,383**	**1,473,277**
Residential real estate	**4,956**	**219**	**278**	**5,453**	**1,513,167**	**2,482**	**1,521,102**
Home Equity	**494**	**28**	**—**	**522**	**127,005**	**81**	**127,608**
Consumer	**11**	**1**	**—**	**12**	**45,172**	**—**	**45,184**
Overdrafts	**414**	**3**	**—**	**417**	**3,245**	**—**	**3,662**
Total	**$ 6,718**	**$ 628**	**$ 278**	**$ 7,624**	**$ 3,512,026**	**$ 9,766**	**$ 3,529,416**

	December 31, 2020						
	30-59 Past Due	60-89 Past Due	90+ Past Due	Total Past Due	Current Loans	Non-accrual	Total Loans
Commercial and industrial	$ 1,213	$ 27	$ —	$ 1,240	$ 370,981	$ 768	$ 372,989
1-4 Family	484	—	—	484	107,272	2,056	109,812
Hotels	—	—	—	—	291,513	2,951	294,464
Multi-family	—	—	—	—	215,671	—	215,671
Non Residential Non-Owner Occupied	119	—	—	119	640,724	508	641,351
Non Residential Owner Occupied	23	—	—	23	210,575	2,886	213,484
Commercial real estate	626	—	—	626	1,465,755	8,401	1,474,782
Residential real estate	5,177	816	—	5,993	1,578,733	2,968	1,587,694
Home Equity	575	—	—	575	135,799	95	136,469
Consumer	63	50	—	113	47,575	—	47,688
Overdrafts	334	7	—	341	2,156	—	2,497
Total	$ 7,988	$ 900	$ —	$ 8,888	$ 3,600,999	$ 12,232	$ 3,622,119

Troubled Debt Restructurings ("TDRs")

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. These modifications range from partial deferrals (interest only) to full deferrals (principal and interest). When determining whether the borrower is experiencing financial difficulties, the

Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

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

	June 30, 2021	December 31, 2020
Commercial and industrial	$ —	$ —
1-4 Family	117	121
Hotels	1,116	2,634
Multi-family	1,843	1,883
Non Residential Non-Owner Occupied	—	—
Non Residential Owner Occupied	—	—
Commercial real estate	3,076	4,638
Residential real estate	17,788	19,226
Home equity	1,920	2,001
Consumer	203	277
Total	$ 22,987	$ 26,142

The Company has allocated $0.3 million and $1.6 million of the allowance for credit losses for these loans as of June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021, the Company has not committed to lend any additional amounts in relation to these loans.

The following table presents loans by class, modified as TDRs, that occurred during the six months ended June 30, 2021 and 2020, respectively (dollars in thousands):

	June 30, 2021			June 30, 2020		
	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	—	$ —	$ —	—	$ —	$ —
1-4 Family	—	—	—	—	—	—
Hotels	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
Non Owner Non-Owner Occupied	—	—	—	—	—	—
Non Owner Owner Occupied	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Residential real estate	6	404	404	24	1,720	1,716
Home equity	—	—	—	2	70	70
Consumer	—	—	—	—	—	—
Total	6	$ 404	$ 404	26	$ 1,790	$ 1,786

The TDRs above increased the allowance for credit losses by less than $0.1 million in each of the six months ended June 30, 2021 and 2020 and resulted in no charge-offs during those same time periods.

The Company had one TDR that had a partial charge-off of $1.7 million during 2021, and no significant TDRs that subsequently defaulted in 2020.

Most TDRs above are reported due to filing Chapter 7 bankruptcy. 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.

COVID-19 Pandemic

In March of 2020, in response to the COVID-19 pandemic, regulatory guidance was issued that clarified the accounting for loan modifications. Modifications of loan terms do not automatically result in a TDR. Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extension of repayment terms, or other delays that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time of modification. In addition, modifications or deferrals pursuant to the CARES Act do not represent TDRs. However, these deferrals do not absolve the company from performing its normal risk rating and therefore a loan could be current and have a less than satisfactory risk rating.

Through June 30, 2021, the Company granted deferrals of approximately $144 million to its mortgage customers. These deferral arrangements ranged from 30 days to 90 days. As of June 30, 2021, approximately $2 million of these loans were still deferring, while approximately $142 million have resumed making their normal loan payment. As of June 30, 2021, approximately $4 million of these deferrals were previously and currently considered TDRs due to Chapter 7 bankruptcies.

Through June 30, 2021, the Company granted deferrals of approximately $479 million to its commercial customers. These deferral arrangements ranged from one month to six months. As of June 30, 2021, approximately $92 million of these loans related to hotel and lodging customers were still deferring, while approximately $387 million have resumed making their normal loan payment.

Credit Quality Indicators

All commercial loans within the portfolio are subject to internal risk rating. All non-commercial loans are evaluated based on payment history. The Company's internal risk ratings for commercial loans are: Exceptional, Good, Acceptable, Pass/Watch, Special Mention, Substandard and Doubtful. Each internal risk rating is defined in the loan policy using the following criteria: balance sheet yields; ratios and leverage; cash flow spread and coverage; prior history; capability of management; market position/industry; potential impact of changing economic, legal, regulatory or environmental conditions; purpose; structure; collateral support; and guarantor support. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. Based on an individual loan's risk grade, estimated loss percentages are applied to the outstanding balance of the loan to determine the amount of expected loss.

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

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

Based on the most recent analysis performed, the risk category of loans by class of loans at June 30, 2021 is as follows (in thousands):

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	
	2021	**2020**	**2019**	**2018**	**2017**	**Prior**		**Total**
Commercial and industrial								
Pass	$ 59,635	$ 77,375	$ 47,007	$ 52,751	$ 26,977	$ 18,105	$ 68,518	$ 350,368
Special mention	—	511	21	7	35	—	186	760
Substandard	219	847	1,418	791	437	1,938	1,805	7,455
Total	$ 59,854	$ 78,733	$ 48,446	$ 53,549	$ 27,449	$ 20,043	$ 70,509	$ 358,583
Commercial real estate - 1-4 Family								
Pass	$ 12,724	$ 19,026	$ 12,928	$ 6,881	$ 4,941	$ 33,556	$ 11,771	$ 101,827
Special mention	—	290	—	—	—	602	—	892
Substandard	—	117	324	—	739	4,180	—	5,360
Total	$ 12,724	$ 19,433	$ 13,252	$ 6,881	$ 5,680	$ 38,338	$ 11,771	$ 108,079
Commercial real estate - Hotels								
Pass	$ 1,978	$ 20,950	$ 85,967	$ 26,152	$ 41,848	$ 48,645	$ —	$ 225,540
Special mention	—	114	8,943	—	—	8,611	—	17,668
Substandard	68	483	15,413	—	6,912	23,801	234	46,911
Total	$ 2,046	$ 21,547	$ 110,323	$ 26,152	$ 48,760	$ 81,057	$ 234	$ 290,119
Commercial real estate - Multi-family								
Pass	$ 6,482	$ 80,101	$ 55,201	$ 2,335	$ 20,152	$ 45,009	$ 1,521	$ 210,801
Special mention	—	—	1,843	—	—	—	—	1,843
Substandard	—	—	—	—	—	71	—	71
Total	$ 6,482	$ 80,101	$ 57,044	$ 2,335	$ 20,152	$ 45,080	$ 1,521	$ 212,715

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	$ 60,049	$ 155,753	$ 92,616	$ 110,794	$ 49,039	$ 167,195	$ 9,418	$ 644,864
Special mention	124	189	192	262	278	189	—	1,234
Substandard	898	557	1,382	1,389	30	2,910	—	7,166
Total	$ 61,071	$ 156,499	$ 94,190	$ 112,445	$ 49,347	$ 170,294	$ 9,418	$ 653,264
Commercial real estate - Non Residential Owner Occupied								
Pass	$ 26,857	$ 29,480	$ 25,433	$ 23,499	$ 18,813	$ 51,953	$ 4,412	$ 180,447
Special mention	—	30	2,829	48	329	2,677	—	5,913
Substandard	202	116	4,250	670	6,048	11,454	—	22,740
Total	$ 27,059	$ 29,626	$ 32,512	$ 24,217	$ 25,190	$ 66,084	$ 4,412	$ 209,100
Commercial real estate - Total								
Pass	$ 108,089	$ 305,309	$ 272,144	$ 169,661	$ 134,792	$ 346,357	$ 27,130	$ 1,363,482
Special mention	124	623	13,807	310	606	12,079	—	27,549
Substandard	1,168	1,273	21,368	2,059	13,729	42,415	234	82,246
Total	$ 109,381	$ 307,205	$ 307,319	$ 172,030	$ 149,127	$ 400,851	$ 27,364	$ 1,473,277
Residential real estate								
Performing	$ 164,523	$ 371,421	$ 186,802	$ 138,754	$ 106,784	$ 442,449	$ 107,886	$ 1,518,619
Non-performing	—	—	—	41	227	580	1,635	2,483
Total	$ 164,523	$ 371,421	$ 186,802	$ 138,795	$ 107,011	$ 443,029	$ 109,521	$ 1,521,102
Home equity								
Performing	$ 4,497	$ 7,926	$ 4,998	$ 3,870	$ 1,757	$ 11,196	$ 93,283	$ 127,527
Non-performing	—	—	—	—	—	—	81	81
Total	$ 4,497	$ 7,926	$ 4,998	$ 3,870	$ 1,757	$ 11,196	$ 93,364	$ 127,608
Consumer								
Performing	$ 8,680	$ 12,654	$ 11,344	$ 6,948	$ 2,163	$ 1,663	$ 1,732	$ 45,184
Non-performing	—	—	—	—	—	—	—	—
Total	$ 8,680	$ 12,654	$ 11,344	$ 6,948	$ 2,163	$ 1,663	$ 1,732	$ 45,184

Based on the most recent analysis performed, the risk category of loans by class of loans at December 31, 2020 is as follows (in thousands):

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2020	2019	2018	2017	2016	Prior		
Commercial and industrial								
Pass	$ 123,920	$ 51,972	$ 59,152	$ 30,440	$ 16,673	$ 6,942	$ 75,018	$ 364,117
Special mention	72	27	13	47	—	433	508	1,100
Substandard	783	1,553	918	589	268	1,733	1,928	7,772
Total	$ 124,775	$ 53,552	$ 60,083	$ 31,076	$ 16,941	$ 9,108	$ 77,454	$ 372,989
Commercial real estate - 1-4 Family								
Pass	$ 19,970	$ 17,540	$ 8,217	$ 7,444	$ 6,158	$ 33,075	$ 10,274	$ 102,678
Special mention	192	—	—	—	159	753	—	1,104
Substandard	119	343	—	863	102	4,603	—	6,030
Total	$ 20,281	$ 17,883	$ 8,217	$ 8,307	$ 6,419	$ 38,431	$ 10,274	$ 109,812
Commercial real estate - Hotels								
Pass	$ 23,886	$ 95,269	$ 26,206	$ 42,593	$ 21,490	$ 43,686	$ —	$ 253,130
Substandard	343	15,412	—	6,750	4,465	14,364	—	41,334
Total	$ 24,229	$ 110,681	$ 26,206	$ 49,343	$ 25,955	$ 58,050	$ —	$ 294,464
Commercial real estate - Multi-family								
Pass	$ 81,127	$ 56,371	$ 2,688	$ 20,730	$ 23,873	$ 27,009	$ 1,363	$ 213,161
Special mention	—	1,883	551	—	—	—	—	2,434
Substandard	—	—	—	—	—	76	—	76
Total	$ 81,127	$ 58,254	$ 3,239	$ 20,730	$ 23,873	$ 27,085	$ 1,363	$ 215,671

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
	2020	2019	2018	2017	2016	Prior		
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	$ 155,937	$ 101,011	$ 115,524	$ 51,329	$ 76,219	$ 125,349	$ 8,825	$ 634,194
Special mention	16	504	592	37	—	147	—	1,296
Substandard	580	1,385	1,159	52	1,187	1,338	160	5,861
Total	$ 156,533	$ 102,900	$ 117,275	$ 51,418	$ 77,406	$ 126,834	$ 8,985	$ 641,351
Commercial real estate - Non Residential Owner Occupied								
Pass	$ 31,443	$ 26,685	$ 26,403	$ 20,582	$ 20,032	$ 50,988	$ 5,098	$ 181,231
Special mention	234	2,901	53	90	—	2,470	—	5,748
Substandard	117	5,084	696	6,069	3,820	10,557	162	26,505
Total	$ 31,794	$ 34,670	$ 27,152	$ 26,741	$ 23,852	$ 64,015	$ 5,260	$ 213,484
Commercial real estate - Total								
Pass	$ 312,363	$ 296,876	$ 179,038	$ 142,678	$ 147,772	$ 280,107	$ 25,560	$ 1,384,394
Special mention	442	5,288	1,196	127	159	3,370	—	10,582
Substandard	1,159	22,224	1,855	13,734	9,574	30,938	322	79,806
Total	$ 313,964	$ 324,388	$ 182,089	$ 156,539	$ 157,505	$ 314,415	$ 25,882	$ 1,474,782
Residential real estate								
Performing	$ 407,135	$ 233,709	$ 176,523	$ 134,425	$ 102,828	$ 416,473	$ 113,633	$ 1,584,726
Non-performing	—	—	—	164	41	1,184	1,579	2,968
Total	$ 407,135	$ 233,709	$ 176,523	$ 134,589	$ 102,869	$ 417,657	$ 115,212	$ 1,587,694
Home equity								
Performing	$ 9,038	$ 6,241	$ 5,375	$ 2,126	$ 1,309	$ 11,573	$ 100,712	$ 136,374
Non-performing	—	—	—	—	—	—	95	95
Total	$ 9,038	$ 6,241	$ 5,375	$ 2,126	$ 1,309	$ 11,573	$ 100,807	$ 136,469
Consumer								
Performing	$ 15,342	$ 14,977	$ 9,229	$ 3,154	$ 1,688	$ 1,422	$ 1,876	$ 47,688
Non-performing	—	—	—	—	—	—	—	—
Total	$ 15,342	$ 14,977	$ 9,229	$ 3,154	$ 1,688	$ 1,422	$ 1,876	$ 47,688

Note F – Derivative Instruments

As of June 30, 2021 and December 31, 2020, 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):

	June 30, 2021				December 31, 2020			
		Notional Amount		**Fair Value**		Notional Amount		Fair Value
Non-hedging interest rate derivatives:								
Customer counterparties:								
Loan interest rate swap - assets	**$**	**581,190**	**$**	**31,211**	$	647,613	$	52,364
Loan interest rate swap - liabilities		**100,091**		**2,884**		37,721		562
Non-hedging interest rate derivatives:								
Financial institution counterparties:								
Loan interest rate swap - assets		**109,846**		**3,112**		37,721		562
Loan interest rate swap - liabilities		**585,041**		**31,332**		661,866		52,607

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

	Three months ended June 30,				Six months ended June 30,			
		2021		2020		**2021**		2020
Change in Fair Value Non-Hedging Interest Rate Derivatives:								
Other income (expense) - derivative assets	**$**	**4,854**	$	3,807	**$**	**(18,140)**	$	41,718
Other (expense) income - derivative liabilities		**(4,854)**		(3,807)		**18,140**		(41,718)
Other (expense) income - derivative liabilities		**(185)**		10		**352**		183

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 value of $29.4 million as of June 30, 2021.

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.

During the year ended December 31, 2020, the Company entered into a series of fair value hedge agreements to reduce the interest rate risk associated with the change in fair value of certain securities. The total notional amount of these agreements was $150 million. The gains or losses on these hedges are recognized in current earnings as fair value changes. The fair value of these hedges was $2.8 million and $0.2 million at June 30, 2021 and December 31, 2020, respectively.

Note G – Employee Benefit Plans

Restricted Shares, Restricted Stock Units, Performance Share Units

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

Restricted shares are forfeited if the 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 and performance share units that have performance-based criteria, management has evaluated those criteria and has determined that, as of June 30, 2021, the criteria were probable of being met.

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

	Six months ended June 30,			
	2021		2020	
	Restricted Awards	**Average Market Price at Grant**	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	**158,554**	**$ 67.40**	148,083	$ 62.62
Granted	**38,036**	**76.65**	37,103	67.40
Forfeited	**—**	**—**	—	—
Vested	**(52,050)**	**61.23**	(26,450)	49.58
Outstanding at June 30	**144,540**	**$ 71.75**	158,736	$ 65.91

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

	Three months ended June 30		Six months ended June 30,	
	2021	2020	**2021**	2020
Stock-based compensation expense associated with restricted shares	**$ 691**	$ 681	**$ 1,475**	$ 1,310

At period-end:	**June 30, 2021**
Unrecognized stock-based compensation expense associated with restricted shares	**$ 6,016**
Weighted average period (in years) in which the above amount is expected to be recognized	**3.2**

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 six months ended June 30, 2021 and 2020, 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 June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Components of net periodic cost:				
Interest cost	**$ 83**	$ 112	**$ 166**	$ 224
Expected return on plan assets	**(205)**	(203)	**(410)**	(406)
Net amortization and deferral	**280**	272	**561**	544
Net Periodic Pension Cost	**$ 158**	$ 181	**$ 317**	$ 362

Note H – Commitments and Contingencies

COVID-19

The COVID-19 pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, the effects could have a material adverse impact on the Company in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk, human capital and self-insurance, as well as financial statement related risk associated with critical accounting estimates such as the allowance for credit losses or valuation impairments on the Company's goodwill, intangible assets and deferred taxes.

Credit Related Financial Instruments

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

	June 30, 2021	December 31, 2020
Commitments to extend credit:		
Home equity lines	**$ 223,049**	$ 215,619
Commercial real estate	**73,961**	65,828
Other commitments	**239,386**	245,647
Standby letters of credit	**7,833**	6,460
Commercial letters of credit	**208**	610

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

Litigation

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

Note I – Accumulated Other Comprehensive Income

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

	Three months ended June 30,			Six months ended June 30,		
	Defined Benefit Pension Plan	Securities Available--for-Sale	Total	Defined Benefit Pension Plan	Securities Available--for-Sale	Total
2021						
Beginning Balance	**$ (5,661)**	**$ 21,289**	**$ 15,628**	**$ (5,661)**	**$ 36,894**	**$ 31,233**
Other comprehensive income (loss) before reclassifications	**—**	**6,960**	**6,960**	**—**	**(8,430)**	**(8,430)**
Amounts reclassified from other comprehensive income	**—**	**(22)**	**(22)**	**—**	**(237)**	**(237)**
	—	**6,938**	**6,938**	**—**	**(8,667)**	**(8,667)**
Ending Balance	**$ (5,661)**	**$ 28,227**	**$ 22,566**	**$ (5,661)**	**$ 28,227**	**$ 22,566**
2020						
Beginning Balance	$ (6,270)	$ 33,730	$ 27,460	$ (6,270)	$ 12,110	$ 5,840
Other comprehensive income before reclassifications	—	3,565	3,565	—	24,036	24,036
Amounts reclassified from other comprehensive income	—	4	4	—	(44)	(44)
Reclassification of unrealized gains on held-to-maturity securities to available-for-sale		—	—		1,197	1,197
	—	3,569	3,569	—	25,189	25,189
Ending Balance	$ (6,270)	$ 37,299	$ 31,029	$ (6,270)	$ 37,299	$ 31,029

	Amounts reclassified from Other Comprehensive Income				
	Three months ended June 30,		Six months ended June 30,		Affected line item in the Consolidated Statements of Income
	2021	2020	**2021**	2020	
Securities available-for-sale:					
Net securities gains (losses) reclassified into earnings	**$ 29**	$ (6)	**$ 312**	$ 56	Gains (losses) on sale of investment securities, net
Related income tax (expense) income	**(7)**	2	**(75)**	(12)	Income tax expense
Net effect on accumulated other comprehensive income	**$ 22**	$ (4)	**$ 237**	$ 44	

Note J – 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 June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Net income available to common shareholders	**$ 22,148**	$ 18,251	**$ 41,962**	$ 47,249
Less: earnings allocated to participating securities	**(206)**	(180)	**(385)**	(463)
Net earnings allocated to common shareholders	**$ 21,942**	$ 18,071	**$ 41,577**	$ 46,786
Distributed earnings allocated to common stock	**$ 8,921**	$ 9,073	**$ 17,845**	$ 18,147
Undistributed earnings allocated to common stock	**13,021**	8,998	**23,732**	28,639
Net earnings allocated to common shareholders	**$ 21,942**	$ 18,071	**$ 41,577**	$ 46,786
Average shares outstanding	**15,573**	16,081	**15,614**	16,123
Effect of dilutive securities:				
Employee stock awards	**21**	16	**26**	19
Shares for diluted earnings per share	**15,594**	16,097	**15,640**	16,142
Basic earnings per share	**$ 1.41**	$ 1.12	**$ 2.66**	$ 2.90
Diluted earnings per share	**$ 1.41**	$ 1.12	**$ 2.66**	$ 2.90

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 K – Fair Value Measurements

Fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

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

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

The Company bases fair value of assets and liabilities on quoted market prices, prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. If such information is not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty creditworthiness, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the 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 June 30, 2021.

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)
June 30, 2021					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	**$ 281,344**	**$ —**	**$ 281,344**	**$ —**	
Mortgage-backed securities:					
U.S. Government agencies	**1,009,907**	**—**	**1,009,907**	**—**	
Private label	**10,057**	**—**	**5,833**	**4,224**	
Trust preferred securities	**4,283**	**—**	**4,283**	**—**	
Corporate securities	**33,845**	**—**	**29,841**	**4,004**	
Marketable equity securities	**9,134**	**4,019**	**5,115**	**—**	
Certificates of deposit held for investment	**1,245**	**—**	**1,245**	**—**	
Derivative assets	**37,138**	**—**	**37,138**	**—**	
Financial Liabilities					
Derivative liabilities	**34,297**	**—**	**34,297**	**—**	
Nonrecurring fair value measurements					
Financial Assets					
Loans individually evaluated	**$ 8,214**	**$ —**	**$ —**	**$ 8,214**	**$ (478)**
Non-Financial Assets					
Other real estate owned	**1,309**	**—**	**—**	**1,309**	**(2)**
December 31, 2020					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	$ 277,811	$ —	$ 277,811	$ —	
Mortgage-backed securities:					
U.S. Government agencies	850,384	—	850,384	—	
Private label	10,892	—	6,061	4,831	
Trust preferred securities	4,100	—	4,100	—	
Corporate securities	33,610	—	29,606	4,004	
Marketable equity securities	11,839	6,800	5,039	—	
Certificates of deposit held for investment	1,992	—	1,992	—	
Derivative assets	53,166	—	53,166	—	
Financial Liabilities					
Derivative liabilities	53,288	—	53,288	—	
Nonrecurring fair value measurements					
Financial Assets					
Loans individually evaluated	$ 7,634	$ —	$ —	$ 7,634	$ (1,118)
Non-Financial Assets					
Other real estate owned	1,650	—	—	1,650	(292)

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 credit 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 six months ended June 30, 2021 and 2020, collateral discounts ranged from 10% to 30%. During the six months ended June 30, 2021 and 2020, 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). 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
June 30, 2021					
Assets:					
Cash and cash equivalents	**$ 609,890**	**$ 609,890**	**$ 609,890**	**$ —**	**$ —**
Securities available-for-sale	**1,340,681**	**1,340,681**	**—**	**1,332,453**	**8,228**
Marketable equity securities	**9,134**	**9,134**	**4,019**	**5,115**	**—**
Net loans	**3,509,400**	**3,447,763**	**—**	**—**	**3,447,763**
Accrued interest receivable	**15,967**	**15,967**	**15,967**	**—**	**—**
Derivative assets	**37,138**	**37,138**	**—**	**37,138**	**—**
Liabilities:					
Deposits	**4,804,546**	**4,809,759**	**3,651,155**	**1,158,604**	**—**
Short-term debt	**311,316**	**311,316**	**—**	**311,316**	**—**
Accrued interest payable	**815**	**815**	**815**	**—**	**—**
Derivative liabilities	**34,297**	**34,297**	**—**	**34,297**	**—**
December 31, 2020					
Assets:					
Cash and cash equivalents	$ 528,659	$ 528,659	$ 528,659	$ —	$ —
Securities available-for-sale	1,178,789	1,178,789	—	1,169,954	8,835
Marketable equity securities	11,839	11,839	6,800	5,039	—
Net loans	3,597,570	3,578,013	—	—	3,578,013
Accrued interest receivable	15,793	15,793	15,793	—	—
Derivative assets	53,166	53,166	—	53,166	—
Liabilities:					
Deposits	4,652,216	4,665,905	3,392,194	1,273,711	—
Short-term debt	295,956	295,956	—	295,956	—
Accrued interest payable	1,586	1,586	1,586	—	—
Derivative liabilities	53,288	53,288	—	53,288	—

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

COVID-19 Pandemic/Update

The COVID-19 pandemic has placed significant health, economic and other major pressure throughout the communities the Company serves, the United States and the entire world. The Company has implemented a number of procedures in response to the pandemic to support the safety and well-being of our employees, customers and shareholders that continue through the date of this report:

- We have addressed the safety of our branches by following recommended state mandates. During this time, we have found ways to service our customers based on their needs; in person, over the phone, via digital banking access and our drive thru facilities. We have adapted our delivery channels to meet our customer's needs, including opening deposit accounts and closing loans in our drive thrus.
- Provided extensions and deferrals to loan customers affected by COVID-19 provided such customers were not 30 days past due at March 19, 2020. Through June 30, 2021, the Company granted deferrals of approximately $144 million to its mortgage customers. These deferral arrangements ranged from 30 days to 90 days. As of June 30, 2021, approximately $2 million of these loans were still deferring, while approximately $142 million have resumed making their normal loan payment. Through June 30, 2021, the Company granted deferrals of approximately $479 million to its commercial customers. These deferral arrangements ranged from one month to six months. As of June 30, 2021, approximately $92 million of these loans related to hotel and lodging customers were still deferring, while approximately $387 million have resumed making their normal loan payment.
- We have chosen to participate in the CARES Act Paycheck Protection Program ("PPP") that provided government guaranteed and forgivable loans to our customers. As of June 30, 2021, the Company has funded approximately $136 million of SBA-approved PPP loans to over 2,500 customers. The Company started submitting forgiveness applications on behalf of its customers during the fourth quarter of 2020 and as of June 30, 2021, has received forgiveness proceeds of approximately $86 million.

The Company continues to closely monitor this pandemic and expects to make future changes to respond to the pandemic as this situation continues to evolve.

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 2020 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 2020 Annual Report of the Company. Based on the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses and income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

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

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

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

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

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

The Company 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, 2017 and forward.

Financial Summary

Six months ended June 30, 2021 vs. 2020

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

	Six months ended June 30,	
	2021	2020
Net income available to common shareholders (*in thousands*)	**$ 41,962**	$ 47,249
Earnings per common share, basic	**$ 2.66**	$ 2.90
Earnings per common share, diluted	**$ 2.66**	$ 2.90
Dividend payout ratio	**43.6 %**	39.3 %
ROA*	**1.44 %**	1.81 %
ROE*	**11.9 %**	13.7 %
ROATCE*	**14.3 %**	16.6 %
Average equity to average assets ratio	**12.1 %**	13.2 %

*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 six months ended June 30, 2021 decreased $3.0 million compared to the six months ended June 30, 2020 (see *Net Interest Income*). The Company recorded a recovery of credit losses of $2.4 million for the six months ended June 30, 2021 compared to a provision for credit losses of $9.2 million for the six months ended June 30, 2020 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income decreased $13.9 million and non-interest expense increased $1.4 million for the six months ended June 30, 2021 from the six months ended June 30, 2020.

Financial Summary

Three months ended June 30, 2021 vs. 2020

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

	Three months ended June 30,	
	2021	2020
Net income available to common shareholders (*in thousands*)	**$ 22,148**	$ 18,251
Earnings per common share, basic	**$ 1.41**	$ 1.12
Earnings per common share, diluted	**$ 1.41**	$ 1.12
Dividend payout ratio	**41.2 %**	50.8 %
ROA*	**1.49 %**	1.35 %
ROE*	**12.6 %**	10.5 %
ROATCE*	**15.2 %**	12.6 %
Average equity to average assets ratio	**11.8 %**	12.9 %

*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 three months ended June 30, 2021 decreased $0.2 million compared to the three months ended June 30, 2020 (see *Net Interest Income*). The Company recorded a recovery of credit losses of $2.0 million for the three months ended June 30, 2021 compared to a provision for credit losses of $1.3 million for the three months ended

June 30, 2020 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $2.8 million and non-interest expense increased $1.1 million for the three months ended June 30, 2021 from the three months ended June 30, 2020.

Balance Sheet Analysis

Selected balance sheet fluctuations from the year ended December 31, 2020 are summarized in the following table (in millions):

	June 30, 2021	December 31, 2020	$ Change	% Change
Cash and cash equivalents	$ **609.9**	$ 528.7	$ 81.2	15.4 %
Investment securities	**1,365.2**	1,206.2	159.0	13.2 %
Gross loans	**3,529.4**	3,622.1	(92.7)	(2.6)%
Total deposits	**4,804.5**	4,652.2	152.3	3.3 %
Customer repurchase agreements	**311.3**	296.0	15.3	5.2 %
Other liabilities	**90.4**	106.2	(15.8)	(14.9)%

Cash and cash equivalents increased $81 million from December 31, 2020 to $610 million at June 30, 2021, due to an increase in deposit balances primarily as a result of the third round of Economic Income Payments as part of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 and a weak loan demand environment.

Investment securities increased $159 million (13.2%) from December 31, 2020 to $1.4 billion at June 30, 2021, due to the increase in deposit balances and a weak loan demand environment.

Gross loans decreased $93 million (2.6%) from December 31, 2020 to $3.53 billion at June 30, 2021. PPP loans decreased $5.6 million from December 31, 2020, as loans forgiven of $53 million were partially offset by the Company's participation in the second round of the PPP lending ($47 million). Excluding outstanding PPP loans (included in the commercial and industrial loan category), total loans decreased $87.0 million, (2.4%), from December 31, 2020 to $3.48 billion at June 30, 2021. Residential real estate loans decreased $66.6 million (4.2%); home equity loans decreased $8.9 million (6.5%); commercial and industrial loans decreased $8.8 million (2.8%) (excluding PPP loans); consumer loans decreased $2.5 million (5.3%); and commercial real estate loans decreased $1.5 million (0.1%).

Other liabilities decreased $16 million to $90 million, respectively, at June 30, 2021, primarily as a result of market value changes in the Company's interest rate swap derivatives.

Total deposits increased $152 million from December 31, 2020 to $4.80 billion at June 30, 2021. This increase was largely attributable to the third round of Economic Impact Payments as part of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (approximately $180 million).

Customer repurchase agreements increased $15 million to $311 million at June 30, 2021 due to the liquidity needs of the Company's customers, specifically customers leaving monies in these deposit accounts due to the security of these deposits.

Net Interest Income

Six months ended June 30, 2021 vs. 2020

The Company's tax equivalent net interest income decreased $2.8 million, or (3.5)%, from $78.9 million for the six months ended June 30, 2020 to $76.1 million for the six months ended June 30, 2021. Excluding the impact of accretion from fair value adjustments, net interest income decreased $1.3 million for the six months ended June 30, 2021. Lower loan yields (49 basis points) and lower investment yields (53 basis points) decreased net interest income by $8.7 million and $3.5 million, respectively. These decreases were partially offset by an increase in average investment securities ($276 million), which increased net interest income by $4.3 million and lower rates paid on interest-bearing liabilities (51 basis points) that lowered interest expense by approximately $7.4 million. In addition, the Company received additional interest income of $0.5 million from an investment security that was called during the six months ended June 30, 2021. The Company's reported net interest margin decreased from 3.33% for the six months ended June 30, 2020 to 2.86% for the six months ended June 30, 2021.

As a result of the COVID-19 crisis on March 15, 2020, the Federal Reserve cut the target range for the Fed Funds Rate to a range of 0-25 basis points, which had the impact of lowering interest rates on variable rates tied to Prime, LIBOR or Fed Funds, as well as decreasing deposit rates. The Company's loan portfolio has historically included a significant portion of adjustable rate residential mortgage loans made in markets where the Company has a presence, and significant commercial loans collateralized with real estate.

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

	Six months ended June 30,					
	2021			2020		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio[1]:						
Residential real estate[2]	$ **1,675,222**	$ **32,987**	**3.97 %**	$ 1,785,795	$ 38,930	4.38 %
Commercial, financial, and agriculture[2]	**1,837,947**	**32,701**	**3.59**	1,791,510	38,141	4.28
Installment loans to individuals[2],[3]	**50,187**	**1,426**	**5.73**	57,217	1,715	6.03
Previously securitized loans[4]	***	**324**	***	***	267	***
Total loans	**3,563,356**	**67,438**	**3.82**	3,634,522	79,053	4.37
Securities:						
Taxable	**995,871**	**11,174**	**2.26**	853,882	11,589	2.73
Tax-exempt[5]	**241,924**	**3,220**	**2.68**	107,671	1,934	3.61
Total securities	**1,237,795**	**14,394**	**2.35**	961,553	13,523	2.83
Deposits in depository institutions	**571,130**	**280**	**0.10**	169,626	360	0.43
Total interest-earning assets	**5,372,281**	**82,112**	**3.08**	4,765,701	92,936	3.92
Cash and due from banks	**85,998**			75,132		
Bank premises and equipment	**76,748**			78,042		
Goodwill and intangible assets	**118,270**			119,886		
Other assets	**212,051**			213,147		
Less: allowance for credit losses	**(24,302)**			(20,303)		
Total assets	$ **5,841,046**			$ 5,231,605		
Liabilities						
Interest-bearing demand deposits	$ **1,039,260**	$ **246**	**0.05 %**	$ 881,904	$ 647	0.15 %
Savings deposits	**1,254,752**	**346**	**0.06**	1,021,608	1,063	0.21
Time deposits[2]	**1,208,925**	**5,149**	**0.86**	1,359,442	11,491	1.70
Short-term borrowings	**297,990**	**243**	**0.16**	232,900	743	0.64
Long-term debt	—	—	—	1,670	100	12.04
Total interest-bearing liabilities	**3,800,927**	**5,984**	**0.32**	3,497,524	14,044	0.81
Noninterest-bearing demand deposits	**1,254,938**			948,196		
Other liabilities	**81,273**			95,516		
Stockholders' equity	**703,908**			690,369		
Total liabilities and stockholders' equity	$ **5,841,046**			$ 5,231,605		
Net interest income		$ **76,128**			$ 78,892	
Net yield on earning assets			**2.86 %**			3.33 %

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

Loan fees	$	1,323	$	725

(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:

	2021		2020	
Residential real estate	$	317	$	345
Commercial, financial and agriculture		690		1,891
Installment loans to individuals		51		76
Time deposits		97		311
	$	1,155	$	2,623

(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)

	Six months ended June 30, 2021 vs. 2020 Increase (Decrease) Due to Change In:		
	Volume	**Rate**	**Net**
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ (2,404)	$ (3,539)	$ (5,943)
Commercial, financial, and agriculture	986	(6,426)	(5,440)
Installment loans to individuals	(210)	(79)	(289)
Previously securitized loans	—	57	57
Total loans	(1,628)	(9,987)	(11,615)
Securities:			
Taxable	1,922	(2,337)	(415)
Tax-exempt[1]	2,405	(1,119)	1,286
Total securities	4,327	(3,456)	871
Deposits in depository institutions	850	(930)	(80)
Total interest-earning assets	$ 3,549	$ (14,373)	$ (10,824)
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 115	$ (516)	$ (401)
Savings deposits	242	(959)	(717)
Time deposits	(1,269)	(5,073)	(6,342)
Short-term borrowings	207	(707)	(500)
Long-term debt	(100)	—	(100)
Total interest-bearing liabilities	$ (805)	$ (7,255)	$ (8,060)
Net Interest Income	$ 4,354	$ (7,118)	$ (2,764)

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

Net Interest Income

Three months ended June 30, 2021 vs. 2020

The Company's tax equivalent net interest income was flat at $38.3 million for the three months ended June 30, 2020 and the three months ended June 30, 2021. Excluding the impact of accretion from fair value adjustments, net interest income increased $0.4 million for the three months ended June 30, 2021. Lower rates paid on interest-bearing liabilities (primarily time deposits) decreased interest expense by $3.2 million during the quarter ended June 30, 2021 and an increase in average investment securities ($272 million) added $2.0 million to interest income. In addition, the Company received additional interest income of $0.5 million from an investment security that was called during the three months ended June 30, 2021. These increases were essentially offset by lower loan yields (37 basis points) and lower average loan balances ($119 million), which decreased interest income by $2.9 million and $1.4 million, respectively, as compared to the quarter ended June 30, 2020. In addition, lower yields (32 basis points) on investment securities lowered interest income by $1.2 million. The Company's reported net interest margin decreased from 3.13% for the three months ended June 30, 2020 to 2.81% for the three months ended June 30, 2021.

As a result of the COVID-19 crisis on March 15, 2020, the Federal Reserve cut the target range for the Fed Funds Rate to a range of 0-25 basis points, which had the impact of lowering interest rates on variable rates tied to Prime, LIBOR or Fed Funds, as well as decreasing deposit rates. The Company's loan portfolio has historically included a significant portion of adjustable rate residential mortgage loans made in markets where the Company has a presence, and significant commercial loans collateralized with real estate.

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

	Three months ended June 30,					
	2021			2020		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio[1]:						
Residential real estate[2]	$ 1,652,165	$ 16,135	3.92 %	$ 1,785,631	$ 19,048	4.29 %
Commercial, financial, and agriculture[2]	1,839,478	16,158	3.52	1,818,344	17,665	3.91
Installment loans to individuals[2],[3]	49,522	713	5.77	56,199	852	6.10
Previously securitized loans[4]	***	109	***	***	152	***
Total loans	3,541,165	33,115	3.75	3,660,174	37,717	4.14
Securities:						
Taxable	1,046,008	5,932	2.27	896,997	5,718	2.56
Tax-exempt[5]	244,233	1,633	2.68	120,751	1,039	3.46
Total securities	1,290,241	7,565	2.35	1,017,748	6,757	2.67
Deposits in depository institutions	628,158	162	0.10	236,320	55	0.09
Total interest-earning assets	5,459,564	40,842	3.00	4,914,242	44,529	3.64
Cash and due from banks	92,243			79,501		
Bank premises and equipment	76,660			78,717		
Goodwill and intangible assets	118,088			119,681		
Other assets	206,709			230,423		
Less: allowance for credit losses	(23,701)			(24,700)		
Total assets	$ 5,929,563			$ 5,397,864		
Liabilities						
Interest-bearing demand deposits	$ 1,069,896	$ 122	0.05 %	$ 893,832	$ 178	0.08 %
Savings deposits	1,287,966	163	0.05	1,037,387	363	0.14
Time deposits[2]	1,181,953	2,175	0.74	1,353,619	5,422	1.61
Short-term borrowings	305,134	125	0.16	256,790	279	0.44
Total interest-bearing liabilities	3,844,949	2,585	0.27	3,541,628	6,242	0.71
Noninterest-bearing demand deposits	1,311,340			1,044,009		
Other liabilities	72,940			115,110		
Shareholders' equity	700,334			697,117		
Total liabilities and shareholders' equity	$ 5,929,563			$ 5,397,864		
Net interest income		$ 38,257			$ 38,287	
Net yield on earning assets			2.81 %			3.13 %

(1)	For purposes of this table, non-accruing loans have been included in average balances and the following amounts (in thousands) of net loan fees have been included in interest income:		
	Loan fees, net	$ 488	$ 609

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

	2021	2020
Residential real estate	$ 211	$ 194
Commercial, financial and agriculture	365	651
Installment loans to individuals	23	37
Time deposits	48	155
	$ 647	$ 1,037

(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 June 30, 2021 vs. 2020		
	Increase (Decrease) Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ (1,428)	$ (1,485)	$ (2,913)
Commercial, financial, and agriculture	206	(1,713)	(1,507)
Installment loans to individuals	(102)	(37)	(139)
Previously securitized loans	—	(43)	(43)
Total loans	(1,324)	(3,278)	(4,602)
Securities:			
Taxable	952	(738)	214
Tax-exempt[1]	1,065	(471)	594
Total securities	2,017	(1,209)	808
Deposits in depository institutions	91	16	107
Total interest-earning assets	$ 784	$ (4,471)	$ (3,687)
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 35	$ (91)	$ (56)
Savings deposits	88	(288)	(200)
Time deposits	(690)	(2,557)	(3,247)
Short-term borrowings	53	(207)	(154)
Total interest-bearing liabilities	$ (514)	$ (3,143)	$ (3,657)
Net Interest Income	$ 1,298	$ (1,328)	$ (30)

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

Non-GAAP Financial Measures

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Net interest income (GAAP)	**$ 37,914**	$ 38,070	**$ 75,454**	$ 78,486
Taxable equivalent adjustment	**343**	217	**674**	406
Net interest income, fully taxable equivalent	**$ 38,257**	$ 38,287	**$ 76,128**	$ 78,892
Less accretion income	**(647)**	(1,037)	**(1,155)**	(2,623)
Net interest income excluding accretion income	**$ 37,610**	$ 37,250	**$ 74,973**	$ 76,269
Equity to assets (GAAP)	**11.78 %**	12.55 %		
Effect of goodwill and other intangibles, net	**(1.80)**	(1.93)		
Tangible common equity to tangible assets	**9.98 %**	10.62 %		
Return on tangible equity (GAAP)	**15.2 %**	12.6 %	**14.3 %**	16.6 %
Impact of sale of VISA shares	**—**	—	**—**	(4.80)
Return on tangible equity, excluding sale of VISA shares	**15.2 %**	12.6 %	**14.3 %**	11.8 %
Return on assets (GAAP)	**1.49 %**	1.35 %	**1.44 %**	1.81 %
Impact of sale of VISA shares	**—**	—	**—**	(0.52)
Return on assets, excluding sale of VISA shares	**1.49 %**	1.35 %	**1.44 %**	1.29 %

Loans

Table Five
Loan Portfolio

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

	June 30, 2021	December 31, 2020	June 30, 2020
Commercial and industrial	358,583	372,989	369,122
1-4 Family	108,079	109,812	123,814
Hotels	290,119	294,464	295,179
Multi-family	212,715	215,671	204,580
Non Residential Non-Owner Occupied	653,264	641,351	628,628
Non Residential Owner Occupied	209,100	213,484	215,472
Commercial real estate	1,473,277	1,474,782	1,467,673
Residential real estate	1,521,102	1,587,694	1,631,151
Home equity	127,608	136,469	142,672
Consumer	45,184	47,688	52,278
DDA overdrafts	3,662	2,497	2,700
Total loans	$ 3,529,416	$ 3,622,119	$ 3,665,596

Loan balances decreased $92.7 million from December 31, 2020 to June 30, 2021.

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. Included in C&I loans are PPP loans of $49.8 million at June 30, 2021, which decreased $5.6 million from December 31, 2020. Excluding PPP loans, C&I loans decreased $8.8 million from December 31, 2020 to June 30, 2021, primarily due to seasonal loan needs of customers.

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 $1.5 million from December 31, 2020 to June 30, 2021. At June 30, 2021, $43.9 million of the commercial real estate loans were for commercial properties under construction.

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

◦ Commercial 1-4 Family loans decreased $1.7 million from December 31, 2020 to June 30, 2021. Commercial 1-4 Family loans consist of residential single-family, duplex, triplex, and fourplex rental properties and totaled $108.1 million as of June 30, 2021. Risk characteristics are driven by rental housing demand as well as economic and employment conditions. These properties exhibit greater risk than multi-family properties due to fewer income sources.
◦ Hotel loans decreased $4.3 million from December 31, 2020 to June 30, 2021. The Hotel portfolio is comprised of all lodging establishments and totaled $290.1 million as of June 30, 2021. Risk characteristics relate to the demand for travel.
◦ Multi-family loans decreased $3.0 million from December 31, 2020 to June 30, 2021. Multi-family consists of 5 or more family residential apartment lending. The portfolio totaled $212.7 million as of June 30, 2021. Risk characteristics are driven by rental housing demand as well as economic and employment conditions.
◦ Non-residential commercial real estate includes properties such as retail, office, warehouse, storage, healthcare, entertainment, religious, and other nonresidential commercial properties. The non-residential product type is further segmented into owner- and non-owner occupied properties. Nonresidential non-owner occupied commercial real estate

totaled $653.3 million at June 30, 2021 and increased $11.9 million from December 31, 2020 to June 30, 2021. Nonresidential owner-occupied commercial real estate totaled $209.1 million at June 30, 2021 and decreased $4.4 million from December 31, 2020 to June 30, 2021. Risk characteristics relate to levels of consumer spending and overall economic conditions.

Residential real estate loans decreased $66.6 million from December 31, 2020 to June 30, 2021. 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 June 30, 2021, $20.8 million of the residential real estate loans were for properties under construction.

Home equity loans decreased $8.9 million during the first six months of 2021. The Company's home equity loans represent loans to consumers that are secured by a second (or junior) lien on a residential property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first lien. These loans consist of home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Home equity loans are underwritten with less documentation, lower loan-to-value ratios and for shorter terms than residential mortgage loans. The amount of credit extended is directly related to the value of the real estate at the time the loan is made.

Consumer loans may be secured by automobiles, boats, recreational vehicles and other personal property or they may be unsecured. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. Consumer loans decreased $2.5 million during the first six months of 2021.

Allowance for Credit Losses

The Company adopted ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* effective January 1, 2020, using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. ASU No. 2016-13 replaced the incurred loss impairment methodology 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 new current expected credit losses model ("CECL") will apply to the allowance for credit losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures. As a result of adopting CECL, the Company increased its allowance for credit losses ("ACL") by $3.0 million and decreased retained earnings by $2.3 million on January 1, 2020. In addition, the adoption required the Company to "gross up" its previously purchased credit impaired loans through the allowance at January 1, 2020. As a result, the Company increased its ACL and loan balances as of January 1, 2020 by $2.7 million.

Management systematically monitors the loan portfolio and the appropriateness of the allowance for credit losses on a quarterly basis to provide for expected losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance and other relevant factors. The Company's estimate of future economic conditions utilized in its provision estimate is primarily dependent on expected unemployment ranges over a two-year period. Beyond two years, a straight line reversion to historical average loss rates is applied over the life of the loan pool in the migration methodology. The vintage methodology applies future average loss rates based on net losses in historical periods where the unemployment rate was within the forecasted range. The provision for credit losses recorded during the six months ended June 30, 2021 reflects the expected economic impact from the COVID-19 pandemic. As a result of COVID-19, expected unemployment ranges significantly increased during the quarter ended March 31, 2020 and resulted in an increase in the Company's provision for credit losses. During the quarter ended June 30, 2021, the Company partially recovered a portion of the provision for credit losses incurred in the quarter ended March 31, 2020, due to improvements in the outlook for unemployment ranges utilized by the Company and partial adjustments to other qualitative and other factors. As a result of the Company’s quarterly analysis of the adequacy of the ACL, the Company recorded a recovery of credit losses of $2.4 million during the six months ended June 30, 2021, compared to a provision for credit losses of $9.2 million for the comparable period in 2020.

Individual credits in excess of $1 million are selected at least annually for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the appropriateness of the allowance.

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

Based on the Company’s analysis of the adequacy of the allowance for credit losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for credit losses as of June 30, 2021 is adequate to provide for expected losses inherent in the Company’s loan portfolio. Future provisions for credit losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

Table Six
Analysis of the Allowance for Credit Losses

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

	Six months ended June 30,		Year ended December 31,
	2021	2020	2020
Balance at beginning of period	**$ 24,549**	$ 11,589	$ 11,589
Charge-offs:			
Commercial and industrial	**(245)**	(77)	(843)
Commercial real estate	**(1,719)**	(422)	(1,113)
Residential real estate	**(179)**	(859)	(1,250)
Home equity	**(72)**	(206)	(420)
Consumer	**(226)**	(91)	(192)
DDA overdrafts	**(883)**	(1,162)	(2,345)
Total charge-offs	**(3,324)**	(2,817)	(6,163)
Recoveries:			
Commercial and industrial	**71**	14	91
Commercial real estate	**179**	331	525
Residential real estate	**91**	103	184
Home equity	**26**	56	136
Consumer	**143**	141	238
DDA overdrafts	**721**	800	1,467
Total recoveries	**1,231**	1,445	2,641
Net charge-offs	**(2,093)**	(1,372)	(3,522)
Impact of adopting CECL	**—**	5,760	5,760
(Recovery of) provision for credit losses	**(2,440)**	9,222	10,722
Balance at end of period	**$ 20,016**	$ 25,199	$ 24,549
As a Percent of Average Total Loans:			
Net charge-offs (annualized)	**0.12 %**	0.08 %	0.10 %
Provision for (recovery of) credit losses (annualized)	**(0.14)%**	0.51 %	0.29 %
As a Percent of Non-Performing Loans:			
Allowance for credit losses	**199.28 %**	185.12 %	200.69 %
As a Percent of Total Loans:			
Allowance for credit losses	**0.57 %**	0.69 %	0.68 %

Table Seven
Allocation of the Allowance for Credit Losses

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

	As of June 30, 2021	As of June 30, 2020	As of December 31, 2020
Commercial and industrial	**$ 3,356**	$ 6,266	$ 3,644
Commercial real estate	**8,367**	10,090	10,997
Residential real estate	**6,791**	7,323	8,093
Home equity	**468**	647	630
Consumer	**245**	120	163
DDA overdrafts	**789**	753	1,022
Allowance for Credit Losses	**$ 20,016**	$ 25,199	$ 24,549

The ACL decreased from $24.5 million at December 31, 2020 to $20.0 million at June 30, 2021. Below is a summary of the significant changes in the components of the ACL from December 31, 2020 to June 30, 2021.

The allowance allocated to the commercial real estate portfolio decreased from $11.0 million at December 31, 2020 to $8.4 million at June 30, 2021 due to a decline in loan balances and improvements in the outlook for employment ranges utilized by the Company.

The allowance related to the residential real estate loan portfolio decreased from $8.1 million at December 31, 2020 to $6.8 million at June 30, 2021 due to a decline in loan balances and improvements in the outlook for employment ranges utilized by the Company.

Table Eight
Non-Performing Loans

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

	June 30, 2021	June 30, 2020	December 31, 2020
Non-accrual loans with allowance for credit losses	**$ 6,321**	$ 10,584	$ 9,742
Non-accrual loans with no allowance for credit losses	**3,445**	$ 2,960	$ 2,490
Total non-accrual loans	**9,766**	13,544	12,232
Accruing loans past due 90 days or more	**278**	68	—
Total non-performing loans	**10,044**	13,612	12,232
Other real estate owned ("OREO")	**1,309**	3,997	1,650
Total non-performing assets	**$ 11,353**	$ 17,609	$ 13,882
Non-performing assets (as a percent of loans and OREO)	**0.32 %**	0.48 %	0.38 %
Past-due loans	**$ 7,624**	$ 7,071	$ 8,888
Past-due loans (as a percentage of total loans)	**0.22 %**	0.19 %	0.25 %

Table Nine
Troubled Debt Restructurings ("TDRs")

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

	As of June 30, 2021	As of June 30, 2020	December 31, 2020
Commercial and industrial	**$ —**	$ —	$ —
1-4 Family	**117**	126	121
Hotels	**1,116**	2,634	2,634
Multi-family	**1,843**	1,921	1,883
Non Residential Non-Owner Occupied	**—**	—	—
Non Residential Owner Occupied	**—**	234	—
Commercial real estate	**3,076**	4,915	4,638
Residential real estate	**17,788**	20,631	19,226
Home equity	**1,920**	2,138	2,001
Consumer	**203**	185	277
Total TDRs	**$ 22,987**	$ 27,869	$ 26,142

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 83% of the Company's total TDRs as of June 30, 2021. The average age of these TDRs was 13.4 years; the average current balance as a percentage of the original balance was 68.0%; and the average loan-to-value ratio was 63.1% as of June 30, 2021. Of the total 386 Chapter 7 related TDRs, 28 had an estimated loss exposure based on the current balance and the latest appraised value at June 30, 2021.

COVID-19 Pandemic

In March of 2020, in response to the COVID-19 pandemic, regulatory guidance was issued that clarified the accounting for loan modifications. Modifications of loan terms do not automatically result in a TDR. Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extension of repayment terms, or other delays that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time of modification. In addition, modifications or deferrals pursuant to the CARES Act do not represent TDRs. However, these deferrals do not absolve the company from performing its normal risk rating and therefore a loan could be current and have a less than satisfactory risk rating.

Through June 30, 2021, the Company granted deferrals of approximately $144 million to its mortgage customers. These deferral arrangements ranged from 30 days to 90 days. As of June 30, 2021, approximately $2 million of these loans were still deferring, while approximately $142 million have resumed making their normal loan payment. As of June 30, 2021, approximately $4 million of these deferrals were previously and currently considered TDRs due to Chapter 7 bankruptcies.

Through June 30, 2021, the Company granted deferrals of approximately $479 million to its commercial customers. These deferral arrangements ranged from one month to six months. As of June 30, 2021, approximately $92 million of these loans related to hotel and lodging customers were still deferring, while approximately $387 million have resumed making their normal loan payment.

Non-Interest Income and Non-Interest Expense

Six months ended June 30, 2021 vs. 2020
(in millions)

	Six months ended June 30,			
	2021	2020	$ Change	% Change
Net investment securities gains (losses)	$ **0.7**	$ (2.1)	$ 2.8	133.3 %
Sale of VISA shares	**—**	17.8	(17.8)	(100.0)
Non-interest income, excluding net investment securities gains and sale of VISA shares	**33.4**	32.2	1.2	3.7
Non-interest expense	**59.4**	57.9	1.5	2.6

Non-Interest Income: Non-interest income was $34.1 million for the six months ended June 30, 2021, as compared to $48.0 million for the six months ended June 30, 2020. During the six months ended June 30, 2021, the Company reported $0.7 million of unrealized fair value gains on the Company's equity securities compared to $2.1 million unrealized fair value losses on the Company's equity securities during the six months ended June 30, 2020. Also, during the six months ended June 30, 2020, the Company sold the entirety of its Visa Inc. Class B common shares (86,605) in a cash transaction which resulted in a pre-tax gain of $17.8 million. Excluding these items, non-interest income increased from $32.2 million for the six months ended June 30, 2020 to $33.4 million for the six months ended June 30, 2021. This increase was largely attributable to an increase of $2.4 million, or 22.1%, in bankcard revenue, that was partially offset by a decrease of $0.9 million, or 7.0%, in service charge revenue.

Non-Interest Expense: Non-interest expenses increased $1.5 million (2.6%), from $57.9 million in the first six months of 2020 to $59.4 million in the first six months of 2021 mainly due to increases in FDIC insurance expense ($0.6 million), salaries and employee benefits ($0.5 million), and bankcard expenses ($0.4 million). These increases were partially offset by a decrease in other expenses of $0.7 million.

Income Tax Expense: The Company’s effective income tax rate for the six months ended June 30, 2021 was 20.2% compared to 20.3% for the six months ended June 30, 2020.

Non-Interest Income and Non-Interest Expense

Three months ended June 30, 2021 vs. 2020
(in millions)

	Three months ended June 30,			
	2021	2020	$ Change	% Change
Net investment securities gains (losses)	$ **0.4**	$ 0.2	$ 0.2	100.0 %
Non-interest income, excluding net investment securities gains	**17.0**	14.4	2.6	18.1 %
Non-interest expense	**29.6**	28.5	1.1	3.9 %

Non-Interest Income: Non-interest income was $17.4 million for the second quarter of 2021 as compared to $14.6 million for the second quarter of 2020. During the second quarter of 2021, the Company reported $0.4 million of unrealized fair value gains on the Company’s equity securities compared to $0.2 million of unrealized fair value gains on the Company’s equity securities in the second quarter of 2020. Exclusive of these gains, non-interest income increased from $14.4 million for the second quarter of 2020 to $17.0 million for the second quarter of 2021. This increase was primarily due to higher bankcard revenue ($1.3 million, or 22.6%) and service charges ($1.0 million, or 19.2%). For the second consecutive quarter, bankcard revenues of $7.2 million for the quarter ended June 30, 2021 established a new quarterly high for the Company as customer spending via their debit cards continued to increase.

Non-Interest Expense: Non-interest expenses increased $1.1 million (3.9%), from $28.5 million in the second quarter of 2020 to $29.6 million in the second quarter of 2021. This increase was largely due to increased salary and employee benefits of $0.7 million, bankcard expenses of $0.2 million, and FDIC insurance expense of $0.2 million. Salary and employee benefits increased due to an uptick in health insurance and customary salary increases. Bankcard expenses increased due to higher activity, while the increase in FDIC insurance expense reflects a credit utilized in the quarter ended June 30, 2020.

Income Tax Expense: The Company's effective income tax rate for the three months ended June 30, 2021 was 20.3% compared to 20.6% for the three months ended June 30, 2020.

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
June 30, 2021		
+400	**4.25 %**	**+17.6 %**
+300	**3.25**	**+17.6**
+200	**2.25**	**+15.0**
+100	**1.25**	**+9.6**
December 31, 2020		
+400	4.25 %	+22.1 %
+300	3.25	+21.5
+200	2.25	+17.9
+100	1.25	+12.0

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 2021 and beyond. The estimates above do not necessarily imply that the Company will experience increases in net income if market interest rates rise. The table above indicates how the Company's net income behaves relative to an increase in rates compared to what would otherwise occur if rates remain stable.

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 June 30, 2021, City National could pay dividends up to $64.4 million plus net profits for the remainder of 2021, as defined by statute, up to the dividend declaration date without prior regulatory permission.

Additionally, City Holding anticipates continuing the payment of dividends on its common stock, which are expected to approximate $36.0 million on an annualized basis over the next 12 months based on common shares outstanding at June 30, 2021. 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 $1.2 million of additional cash over the next 12 months. As of June 30, 2021, City Holding reported a cash balance of $7.5 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.

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 June 30, 2021, 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 June 30, 2021, City National has the capacity to borrow $2.0 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 59.4% as of June 30, 2021 and deposit balances fund 81.4% of total assets. The Company has obligations to extend credit, but these obligations are primarily associated with existing home equity loans that have predictable borrowing patterns across the portfolio. The Company has investment security balances with carrying values that totaled $1.37 billion at June 30, 2021, and that exceeded the Company's non-deposit sources of borrowing, which totaled $311.3 million. Further, the Company's deposit mix has a high proportion of transaction and savings accounts that fund 61.8% of the Company's total assets.

As illustrated in the consolidated statements of cash flows, the Company generated $40.3 million of cash from operating activities during the first six months of 2021, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings. The Company used $85.8 million of cash in investing activities during the first six months of 2021, primarily due to purchases of securities available-for-sale of $316.5 million. This decrease was partially offset by proceeds from maturities and calls of securities available-for-sale of $136.6 million and a net decrease in loans of $92.3 million. The Company generated $126.7 million of cash in financing activities during the first six months of 2021, principally as a result of increases in non-interest-bearing deposits of $102.9 million, interest-bearing deposits of $49.5 million, and short-term borrowings of $15.4 million. These increases were partially offset by purchases of treasury stock of $22.8 million and dividends paid to the Company's common stockholders of $18.4 million.

Capital Resources

Shareholders' equity decreased $5.6 million for the six months ended June 30, 2021 due to the repurchase of 292,016 common shares at a weighted average price of $78.22 per share ($22.8 million) as part of a one million share repurchase plan authorized by the Board of Directors in March 2021, cash dividends declared of $18.4 million, and other comprehensive loss of $8.7 million. These decreases were partially offset by net income of $42.0 million and stock based related compensation expense of $1.8 million.

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

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

	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
June 30, 2021	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	**$ 561,317**	**16.4 %**	**$ 239,572**	**7.0 %**	**$ 222,460**	**6.5 %**
City National Bank	**503,675**	**14.8 %**	**237,965**	**7.0 %**	**220,968**	**6.5 %**
Tier I Capital						
City Holding Company	**561,317**	**16.4 %**	**290,909**	**8.5 %**	**273,797**	**8.0 %**
City National Bank	**503,675**	**14.8 %**	**288,958**	**8.5 %**	**271,960**	**8.0 %**
Total Capital						
City Holding Company	**577,543**	**16.9 %**	**359,358**	**10.5 %**	**342,246**	**10.0 %**
City National Bank	**519,901**	**15.3 %**	**356,948**	**10.5 %**	**339,950**	**10.0 %**
Tier I Leverage Ratio						
City Holding Company	**561,317**	**9.7 %**	**231,581**	**4.0 %**	**289,476**	**5.0 %**
City National Bank	**503,675**	**8.8 %**	**228,905**	**4.0 %**	**286,132**	**5.0 %**

	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
December 31, 2020	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	$ 557,641	16.2 %	$ 241,221	7.0 %	$ 223,991	6.5 %
City National Bank	482,754	14.1 %	239,569	7.0 %	222,457	6.5 %
Tier I Capital						
City Holding Company	557,641	16.2 %	292,911	8.5 %	275,681	8.0 %
City National Bank	482,754	14.1 %	290,906	8.5 %	273,793	8.0 %
Total Capital						
City Holding Company	577,292	16.8 %	361,831	10.5 %	344,601	10.0 %
City National Bank	502,405	14.7 %	359,354	10.5 %	342,242	10.0 %
Tier I Leverage Ratio						
City Holding Company	557,641	10.2 %	218,163	4.0 %	272,704	5.0 %
City National Bank	482,754	9.0 %	215,277	4.0 %	269,097	5.0 %

As of June 30, 2021, 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 June 30, 2021, management believes that City Holding and City National have met all capital adequacy requirements.

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

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

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

Item 4 - Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company’s periodic SEC filings. There has been no change in the Company’s internal control over financial reporting during the quarter ended June 30, 2021 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, 2020.

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

On March 31, 2021, the Board of Directors of the Company authorized the Company to buy back up to 1,000,000 shares of its common stock (approximately 6% of outstanding shares) in open market transactions at prices that are accretive to the earnings per share of continuing shareholders. No time limit was placed on the duration of the share repurchase program. As part of this authorization, the Company terminated its previous repurchase program that was approved in February 2019. The following table sets forth information regarding the Company's common stock repurchases transacted during the quarter ended June 30, 2021:

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
April 1 - April 30, 2021	55,000	$ 79.83	55,000	945,000
May 1 - May 31, 2021	74,185	79.22	129,185	870,815
June 1 - June 30, 2021	87,721	77.67	216,906	783,094

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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 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(b)	**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 December 18, 2019 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed December 20, 2019 with the Securities and Exchange Commission).

4(a)	**Rights Agreement dated as of June 13, 2001** (attached to, and incorporated by reference from, City Holding Company's Form 8–A, filed June 22, 2001, with the Securities and Exchange Commission).
4(b)	**Amendment No. 1 to the Rights Agreement** dated as of November 30, 2005 (attached to, and incorporated by reference from, City Holding Company’s Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).
31(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
31(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
32(a)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
32(b)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
101	Interactive Data File - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*
104	Cover Page Interative Data file (formatted as inline XBRL and contained in Exhibit 101).

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

City Holding Company
(Registrant)

/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: August 5, 2021

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 June 30, 2021 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: August 5, 2021

/s/ Charles R. Hageboeck

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

Exhibit 31(b)

CERTIFICATION

I, David L. Bumgarner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 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: August 5, 2021

/s/ David L. Bumgarner

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

Exhibit 32(a)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of City Holding Company (the "Company") for the period ending June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Hageboeck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Charles R. Hageboeck

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

Date: August 5, 2021

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 June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Bumgarner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ David L. Bumgarner

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

Date: August 5, 2021

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.