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, 2022

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 14,855,178 shares of common stock as of August 1, 2022.

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, 2021 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) changes in global geopolitical conditions; (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.

Index

City Holding Company and Subsidiaries

Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

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

	(Unaudited) June 30, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 90,449	$ 101,804
Interest-bearing deposits in depository institutions	606,530	532,827
Cash and Cash Equivalents	696,979	634,631
Investment securities available for sale, at fair value	1,497,227	1,408,165
Other securities	24,383	25,531
Total Investment Securities	1,521,610	1,433,696
Gross loans	3,566,758	3,543,814
Allowance for credit losses	(17,015)	(18,166)
Net Loans	3,549,743	3,525,648
Bank owned life insurance	120,528	120,978
Premises and equipment, net	72,388	74,071
Accrued interest receivable	16,342	15,627
Deferred tax assets, net	30,802	63
Goodwill and other intangible assets, net	116,428	117,121
Other assets	118,375	81,860
Total Assets	$ 6,243,195	$ 6,003,695
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,531,660	$ 1,373,125
Interest-bearing:		
Demand deposits	1,189,056	1,135,848
Savings deposits	1,435,645	1,347,448
Time deposits	985,567	1,068,915
Total Deposits	5,141,928	4,925,336
Securities sold under agreements to repurchase	402,368	312,458
Other liabilities	106,906	84,796
Total Liabilities	5,651,202	5,322,590
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, 2022 and December 31, 2021, less 4,183,399 and 3,985,690 shares in treasury, respectively	47,619	47,619
Capital surplus	169,557	170,942
Retained earnings	667,933	641,826
Cost of common stock in treasury	(209,133)	(193,542)
Accumulated other comprehensive (loss) income:		
Unrealized (loss) gain on securities available-for-sale	(80,498)	17,745
Underfunded pension liability	(3,485)	(3,485)
Total Accumulated Other Comprehensive (Loss) Income	(83,983)	14,260
Total Shareholders' Equity	591,993	681,105
Total Liabilities and Shareholders' Equity	$ 6,243,195	$ 6,003,695

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

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest Income				
Interest and fees on loans	**$ 33,208**	$ 33,114	**$ 65,082**	$ 67,438
Interest and dividends on investment securities:				
Taxable	**7,547**	5,932	**13,770**	11,174
Tax-exempt	**1,205**	1,291	**2,421**	2,544
Interest on deposits in depository institutions	**782**	162	**1,020**	280
Total Interest Income	**42,742**	40,499	**82,293**	81,436
Interest Expense				
Interest on deposits	**1,328**	2,460	**2,849**	5,740
Interest on short-term borrowings	**124**	125	**238**	242
Total Interest Expense	**1,452**	2,585	**3,087**	5,982
Net Interest Income	**41,290**	37,914	**79,206**	75,454
Recovery of credit losses	**—**	(2,000)	**(756)**	(2,440)
Net Interest Income After Recovery of Credit Losses	**41,290**	39,914	**79,962**	77,894
Non-Interest Income				
Gains on sale of investment securities, net	**—**	29	**—**	312
Unrealized (losses) gains recognized on equity securities still held, net	**(601)**	410	**(1,324)**	359
Service charges	**7,067**	5,895	**13,792**	11,776
Bankcard revenue	**7,062**	7,221	**13,506**	13,434
Trust and investment management fee income	**2,100**	2,012	**4,297**	4,045
Bank owned life insurance	**978**	940	**2,992**	2,400
Other income	**1,243**	941	**2,034**	1,752
Total Non-Interest Income	**17,849**	17,448	**35,297**	34,078
Non-Interest Expense				
Salaries and employee benefits	**16,413**	15,559	**31,990**	31,230
Occupancy related expense	**2,620**	2,525	**5,329**	5,147
Equipment and software related expense	**2,732**	2,655	**5,501**	5,199
FDIC insurance expense	**409**	382	**844**	787
Advertising	**951**	824	**1,749**	1,705
Bankcard expenses	**1,665**	1,746	**3,271**	3,330
Postage, delivery, and statement mailings	**551**	568	**1,187**	1,160
Office supplies	**427**	371	**837**	763
Legal and professional fees	**525**	589	**1,052**	1,264
Telecommunications	**754**	676	**1,338**	1,366
Repossessed asset (gains) losses, net of expenses	**(32)**	1	**8**	80
Other expenses	**3,674**	3,678	**7,110**	7,352
Total Non-Interest Expense	**30,689**	29,574	**60,216**	59,383
Income Before Income Taxes	**28,450**	27,788	**55,043**	52,589
Income tax expense	**5,767**	5,640	**11,018**	10,627
Net Income Available to Common Shareholders	**$ 22,683**	$ 22,148	**$ 44,025**	$ 41,962

Average shares outstanding, basic	**14,888**	15,573	**14,930**	15,614
Effect of dilutive securities	**21**	21	**24**	26
Average shares outstanding, diluted	**14,909**	15,594	**14,954**	15,640
Basic earnings per common share	**$ 1.51**	$ 1.41	**$ 2.92**	$ 2.66
Diluted earnings per common share	**$ 1.51**	$ 1.41	**$ 2.92**	$ 2.66

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
Net income available to common shareholders	**$ 22,683**	$ 22,148	**$ 44,025**	$ 41,962
Available-for-Sale Securities				
Unrealized (losses) gains on available-for-sale securities arising during the period	**(51,806)**	9,154	**(129,608)**	(11,086)
Reclassification adjustment for gains	**—**	(29)	**—**	(312)
Other comprehensive (loss) income before income taxes	**(51,806)**	9,125	**(129,608)**	(11,398)
Tax effect	**12,537**	(2,187)	**31,365**	2,731
Other comprehensive (loss) income, net of tax	**(39,269)**	6,938	**(98,243)**	(8,667)
Comprehensive (Loss) Income, Net of Tax	**$ (16,586)**	$ 29,086	**$ (54,218)**	$ 33,295

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

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Three Months Ended June 30, 2022 and 2021
(in thousands, except share amounts)

	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

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at March 31, 2022	**$ 47,619**	**$ 170,206**	**$ 654,138**	**$ (194,819)**	**$ (44,714)**	**$ 632,430**
Net income	**—**	**—**	**22,683**	**—**	**—**	**22,683**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(39,269)**	**(39,269)**
Cash dividends declared ($0.60 per share)	**—**	**—**	**(8,888)**	**—**	**—**	**(8,888)**
Stock-based compensation expense	**—**	**687**	**—**	**—**	**—**	**687**
Restricted awards granted	**—**	**(951)**	**—**	**951**	**—**	**—**
Exercise of 13,078 stock options	**—**	**(385)**	**—**	**1,046**	**—**	**661**
Purchase of 208,243 treasury shares	**—**	**—**	**—**	**(16,311)**	**—**	**(16,311)**
Balance at June 30, 2022	**$ 47,619**	**$ 169,557**	**$ 667,933**	**$ (209,133)**	**$ (83,983)**	**$ 591,993**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity *(Unaudited)*
City Holding Company and Subsidiaries
Six Months Ended June 30, 2022 and 2021
(in thousands, except share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 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

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	**$ 47,619**	**$ 170,942**	**$ 641,826**	**$ (193,542)**	**$ 14,260**	**$ 681,105**
Net income	**—**	**—**	**44,025**	**—**	**—**	**44,025**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(98,243)**	**(98,243)**
Cash dividends declared ($1.20 per share)	**—**	**—**	**(17,918)**	**—**	**—**	**(17,918)**
Stock-based compensation expense	**—**	**1,658**	**—**	**—**	**—**	**1,658**
Restricted awards granted	**—**	**(2,658)**	**—**	**2,658**	**—**	**—**
Exercise of 13,078 stock options	**—**	**(385)**	**—**	**1,046**	**—**	**661**
Purchase of 246,450 treasury shares	**—**	**—**	**—**	**(19,295)**	**—**	**(19,295)**
Balance at June 30, 2022	**$ 47,619**	**$ 169,557**	**$ 667,933**	**$ (209,133)**	**$ (83,983)**	**$ 591,993**

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

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

	Six months ended June 30,	
	2022	2021
Net income	**$ 44,025**	$ 41,962
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and (accretion), net	**6,213**	4,036
Recovery of credit losses	**(756)**	(2,440)
Depreciation of premises and equipment	**2,716**	2,906
Deferred income tax expense	**634**	1,889
Net periodic employee benefit cost	**128**	317
Pension contributions	**—**	(1,000)
Unrealized and realized investment securities losses (gains), net	**1,324**	(670)
Stock-compensation expense	**1,658**	1,778
Excess tax benefit from stock-compensation expense	**(91)**	(221)
Increase in value of bank-owned life insurance	**(2,992)**	(2,399)
Loans held for sale		
Loans originated for sale	**(23,467)**	(17,723)
Proceeds from the sale of loans originated for sale	**23,512**	17,295
Gain on sale of loans	**(224)**	(154)
Change in accrued interest receivable	**(715)**	(174)
Change in other assets	**(11,350)**	(9,956)
Change in other liabilities	**4,781**	4,881
Net Cash Provided by Operating Activities	**45,396**	40,327
Net (increase) decrease in loans	**(22,554)**	92,250
Securities available-for-sale		
Purchases	**(362,820)**	(316,479)
Proceeds from maturities and calls	**131,306**	136,560
Other investments		
Purchases	**(258)**	(116)
Proceeds from sales	**83**	3,619
Purchases of premises and equipment	**(1,050)**	(2,561)
Proceeds from the disposals of premises and equipment	**64**	366
Proceeds from bank-owned life insurance policies	**3,624**	2,147
Payments for low income housing tax credits	**(832)**	(1,559)
Net Cash Used in Investing Activities	**(252,437)**	(85,773)
Net increase in non-interest-bearing deposits	**158,535**	102,942
Net increase in interest-bearing deposits	**58,098**	49,485
Net increase in short-term borrowings	**89,910**	15,360
Purchases of treasury stock	**(19,295)**	(22,843)
Proceeds from exercise of stock options	**661**	537
Lease payments	**(382)**	(431)
Dividends paid	**(18,138)**	(18,373)
Net Cash Provided by Financing Activities	**269,389**	126,677
Increase in Cash and Cash Equivalents	**62,348**	81,231
Cash and cash equivalents at beginning of period	**634,631**	528,659
Cash and Cash Equivalents at End of Period	**$ 696,979**	$ 609,890
Supplemental Cash Flow Information:		
Cash paid for interest	**$ 3,257**	$ 6,851
Cash paid for income taxes	**10,828**	10,650

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

Notes to Consolidated Financial Statements *(Unaudited)*
June 30, 2022

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, 2022 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2022. 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, 2021 has been derived from audited financial statements included in the Company's 2021 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 2021 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 would be phased out by the end of 2021. In March 2020, the FASB issued ASU No. 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* This amendment provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and is effective as of March 12, 2020 through December 31, 2022. In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform (Topic 848): Scope," which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Management has reviewed all contracts, identified those that will be affected, and will transition the LIBOR based loans to SOFR, or another index, by June 30, 2023.

Pending Adoption

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

In March 2022, the FASB issued ASU No. 2022-02, *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures."* The amendments in this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The amendments in this update also require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. This ASU will become effective for the Company on January 1, 2023. The adoption of ASU No. 2022-02 is not expected to 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, 2022				December 31, 2021			
	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	**$ 264,756**	**$ 509**	**$ 21,768**	**$ 243,497**	$ 263,809	$ 8,622	$ 215	$ 272,216
Mortgage-backed securities:								
U.S. government agencies	**1,298,690**	**817**	**83,011**	**1,216,496**	1,080,381	18,739	4,809	1,094,311
Private label	**8,070**	**—**	**186**	**7,884**	8,555	553	—	9,108
Trust preferred securities	**4,579**	**—**	**779**	**3,800**	4,570	—	367	4,203
Corporate securities	**27,202**	**59**	**1,711**	**25,550**	27,292	1,047	12	28,327
Total Securities Available-for-Sale	**$ 1,603,297**	**$ 1,385**	**$ 107,455**	**$ 1,497,227**	$ 1,384,607	$ 28,961	$ 5,403	$ 1,408,165

The Company's other investment securities include marketable equity securities, non-marketable equity securities and certificates of deposits held for investment. At June 30, 2022 and December 31, 2021, the Company held $7.9 million and $9.2 million in marketable equity securities, respectively. Changes in the fair value of the marketable equity securities are recorded in "unrealized (losses) gains 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, 2022 and December 31, 2021, the Company held $15.5 million and $15.3 million, respectively, in non-marketable equity securities. These securities are carried at cost due to the restrictions placed on their transferability. At both June 30, 2022 and December 31, 2021, the Company held $1.0 million in certificates of deposits held for investment.

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, 2022 and December 31, 2021 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, 2022 and December 31, 2021. 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, 2022					
	Less Than Twelve Months		**Twelve Months or Greater**		**Total**	
	Estimated Fair Value	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**
Securities available-for-sale:						
Obligations of states and political subdivisions	**$ 184,415**	**$ 21,399**	**$ 3,084**	**$ 369**	**$ 187,499**	**$ 21,768**
Mortgage-backed securities:						
U.S. Government agencies	**871,121**	**70,168**	**57,259**	**12,843**	**928,380**	**83,011**
Private label	**7,761**	**186**	**—**	**—**	**7,761**	**186**
Trust preferred securities	**—**	**—**	**3,800**	**779**	**3,800**	**779**
Corporate securities	**14,482**	**1,711**	**—**	**—**	**14,482**	**1,711**
Total available-for-sale	**$ 1,077,779**	**$ 93,464**	**$ 64,143**	**$ 13,991**	**$ 1,141,922**	**$ 107,455**

	December 31, 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	$ 13,277	$ 152	$ 2,420	$ 63	$ 15,697	$ 215
Mortgage-backed securities:						
U.S. Government agencies	521,407	4,802	23,295	7	544,702	4,809
Trust preferred securities	—	—	4,203	367	4,203	367
Corporate securities	988	12	—	—	988	12
Total available-for-sale	$ 535,672	$ 4,966	$ 29,918	$ 437	$ 565,590	$ 5,403

As of June 30, 2022, management does not intend to sell any impaired security and it is not more than likely that it will be required to sell any impaired security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread fluctuations on agency-issued mortgage-related securities, general financial market uncertainty and market volatility. These conditions should not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of June 30, 2022, management believes the unrealized losses detailed in the table above are temporary and therefore no allowance for credit losses has been recognized on the Company's securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income. During the three months ended June 30, 2022 and 2021, the Company had no credit-related net investment impairment losses.

The amortized cost and estimated fair value of debt securities at June 30, 2022, 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	$ 4,435	$ 4,454
Due after one year through five years	45,012	44,735
Due after five years through ten years	443,123	429,972
Due after ten years	1,110,727	1,018,066
Total	$ 1,603,297	$ 1,497,227

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,	
	2022	2021	**2022**	2021
Gross realized gains on securities sold	**$ —**	$ 29	**$ —**	$ 312
Gross realized losses on securities sold	**—**	—	**—**	—
Net investment security gains	**$ —**	$ 29	**$ —**	$ 312
Gross unrealized gains recognized on equity securities still held	**$ 2**	$ 2,216	**$ 42**	$ 2,720
Gross unrealized losses recognized on equity securities still held	**(603)**	(1,806)	**(1,366)**	(2,361)
Net unrealized losses recognized on equity securities still held	**$ (601)**	$ 410	**$ (1,324)**	$ 359

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated $765 million and $711 million at June 30, 2022 and December 31, 2021, respectively.

Note D – Loans

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

	June 30, 2022	December 31, 2021
Commercial and industrial	**$ 360,481**	$ 346,184
1-4 Family	**108,765**	107,873
Hotels	**337,910**	311,315
Multi-family	**203,856**	215,677
Non Residential Non-Owner Occupied	**551,240**	639,818
Non Residential Owner Occupied	**180,188**	204,233
Commercial real estate	**1,381,959**	1,478,916
Residential real estate	**1,651,005**	1,548,965
Home equity	**125,742**	122,345
Consumer	**44,580**	40,901
Demand deposit account (DDA) overdrafts	**2,991**	6,503
Gross loans	**3,566,758**	3,543,814
Allowance for credit losses	**(17,015)**	(18,166)
Net loans	**$ 3,549,743**	$ 3,525,648
Construction loans included in:		
Commercial real estate	**$ 6,767**	$ 11,783
Residential real estate	**18,751**	17,252

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

Note 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, 2022 and 2021 (in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments.

	Beginning Balance	Charge-offs	Recoveries	(Recovery of) provision for credit losses	Ending Balance
Six months ended June 30, 2022					
Commercial and industrial	**$ 3,480**	**$ (34)**	**$ 91**	**$ (18)**	**$ 3,519**
1-4 Family	**598**	**(24)**	**34**	**(34)**	**574**
Hotels	**2,426**	**—**	**—**	**82**	**2,508**
Multi-family	**483**	**—**	**—**	**(23)**	**460**
Non Residential Non-Owner Occupied	**2,319**	**—**	**44**	**(267)**	**2,096**
Non Residential Owner Occupied	**1,485**	**—**	**—**	**(90)**	**1,395**
Commercial real estate	**7,311**	**(24)**	**78**	**(332)**	**7,033**
Residential real estate	**5,716**	**(106)**	**49**	**(665)**	**4,994**
Home equity	**517**	**(19)**	**20**	**(180)**	**338**
Consumer	**106**	**(32)**	**47**	**(43)**	**78**
DDA overdrafts	**1,036**	**(1,235)**	**770**	**482**	**1,053**
	$ 18,166	**$ (1,450)**	**$ 1,055**	**$ (756)**	**$ 17,015**
Six months ended June 30, 2021					
Commercial and industrial	$ 3,644	$ (245)	$ 71	$ (114)	$ 3,356
1-4 Family	771	(35)	93	(132)	697
Hotels	3,347	(1,683)	—	(176)	1,488
Multi-family	674	—	—	(112)	562
Non Residential Non-Owner Occupied	3,223	(1)	37	(250)	3,009
Non Residential Owner Occupied	2,982	—	49	(420)	2,611
Commercial real estate	10,997	(1,719)	179	(1,090)	8,367
Residential real estate	8,093	(179)	91	(1,214)	6,791
Home equity	630	(72)	26	(116)	468
Consumer	163	(226)	143	165	245
DDA Overdrafts	1,022	(883)	721	(71)	789
	$ 24,549	$ (3,324)	$ 1,231	$ (2,440)	$ 20,016

	Beginning Balance	Charge-offs	Recoveries	(Recovery of) provision for credit losses	Ending Balance
Three months ended June 30, 2022					
Commercial and industrial	**$ 3,458**	**$ —**	**$ 32**	**$ 29**	**$ 3,519**
1-4 Family	**574**	**(24)**	**5**	**19**	**574**
Hotels	**2,545**	**—**	**—**	**(37)**	**2,508**
Multi-family	**477**	**—**	**—**	**(17)**	**460**
Non Residential Non-Owner Occupied	**2,281**	**—**	**20**	**(205)**	**2,096**
Non Residential Owner Occupied	**1,382**	**—**	**—**	**13**	**1,395**
Commercial real estate	**7,259**	**(24)**	**25**	**(227)**	**7,033**
Residential real estate	**5,039**	**(56)**	**4**	**7**	**4,994**
Home equity	**410**	**(19)**	**3**	**(56)**	**338**
Consumer	**86**	**(9)**	**19**	**(18)**	**78**
DDA overdrafts	**1,028**	**(604)**	**364**	**265**	**1,053**
	$ 17,280	**$ (712)**	**$ 447**	**$ —**	**$ 17,015**
Three months ended June 30, 2021					
Commercial and industrial	$ 3,525	$ (211)	$ 25	$ 17	$ 3,356
1-4 Family	749	(35)	9	(26)	697
Hotels	3,181	(1,683)	—	(10)	1,488
Multi-family	658	—	—	(96)	562
Non Residential Non-Owner Occupied	3,487	—	6	(484)	3,009
Non Residential Owner Occupied	2,792	—	—	(181)	2,611
Commercial real estate	10,867	(1,718)	15	(797)	8,367
Residential real estate	8,060	(86)	17	(1,200)	6,791
Home equity	608	(8)	3	(135)	468
Consumer	151	(79)	104	69	245
DDA Overdrafts	865	(430)	308	46	789
	$ 24,076	$ (2,532)	$ 472	$ (2,000)	$ 20,016

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

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

Non-Performing Loans

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

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

The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 90 days still accruing as of June 30, 2022 (in thousands):

	Non-accrual With No Allowance for Credit Losses	Non-accrual With Allowance for Credit Losses	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 125	$ 1,235	$ —
1-4 Family	—	1,453	—
Hotels	—	113	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	868	—
Non Residential Owner Occupied	—	349	—
Commercial Real Estate	—	2,783	—
Residential Real Estate	272	1,289	58
Home Equity	—	54	—
Consumer	—	—	—
Total	$ 397	$ 5,361	$ 58

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, 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	$ —	$ 996	$ 43
1-4 Family	—	1,016	—
Hotels	—	113	—
Multi-family	—	—	—
Non Residential Non-Owner Occupied	—	652	—
Non Residential Owner Occupied	—	592	—
Commercial Real Estate	—	2,373	—
Residential Real Estate	63	2,746	—
Home Equity	—	40	—
Consumer	—	—	—
Total	$ 63	$ 6,155	$ 43

The Company recognized no interest income on nonaccrual loans during each of the three and six months ended June 30, 2022 and 2021.

There were no individually evaluated impaired collateral-dependent loans as of June 30, 2022 or December 31, 2021. 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.

The Company would have recognized less than $0.1 million of interest income during each of the three and six months ended June 30, 2022 and 2021 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 individually evaluated loans at June 30, 2022.

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, 2022 and December 31, 2021 by class of loan (in thousands):

	June 30, 2022						
	30-59 Past Due	60-89 Past Due	90+ Past Due	Total Past Due	Current Loans	Non-accrual	Total Loans
Commercial and industrial	$ 130	$ —	$ —	$ 130	$ 358,990	$ 1,361	$ 360,481
1-4 Family	46	—	—	46	107,266	1,453	108,765
Hotels	—	—	—	—	337,797	113	337,910
Multi-family	—	—	—	—	203,856	—	203,856
Non Residential Non-Owner Occupied	—	—	—	—	550,372	868	551,240
Non Residential Owner Occupied	—	—	—	—	179,839	349	180,188
Commercial real estate	46	—	—	46	1,379,130	2,783	1,381,959
Residential real estate	4,666	574	58	5,298	1,644,146	1,561	1,651,005
Home Equity	247	35	—	282	125,406	54	125,742
Consumer	49	—	—	49	44,531	—	44,580
Overdrafts	426	5	—	431	2,560	—	2,991
Total	$ 5,564	$ 614	$ 58	$ 6,236	$ 3,554,763	$ 5,759	$ 3,566,758

	December 31, 2021						
	30-59 Past Due	60-89 Past Due	90+ Past Due	Total Past Due	Current Loans	Non-accrual	Total Loans
Commercial and industrial	$ 116	$ 177	$ 43	$ 336	$ 344,852	$ 996	$ 346,184
1-4 Family	21	—	—	21	106,836	1,016	107,873
Hotels	—	—	—	—	311,202	113	311,315
Multi-family	—	—	—	—	215,677	—	215,677
Non Residential Non-Owner Occupied	—	—	—	—	639,166	652	639,818
Non Residential Owner Occupied	—	—	—	—	203,641	592	204,233
Commercial real estate	21	—	—	21	1,476,522	2,373	1,478,916
Residential real estate	5,166	156	—	5,322	1,540,834	2,809	1,548,965
Home Equity	592	26	—	618	121,687	40	122,345
Consumer	59	1	—	60	40,841	—	40,901
Overdrafts	485	4	—	489	6,014	—	6,503
Total	$ 6,439	$ 364	$ 43	$ 6,846	$ 3,530,750	$ 6,218	$ 3,543,814

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, 2022	December 31, 2021
Commercial and industrial	**$ 381**	$ 414
1-4 Family	**107**	112
Hotels	**—**	—
Multi-family	**—**	1,802
Non Residential Non-Owner Occupied	**—**	—
Non Residential Owner Occupied	**—**	—
Commercial real estate	**107**	1,914
Residential real estate	**16,022**	16,943
Home equity	**1,649**	1,784
Consumer	**80**	225
Total	**18,239**	$ 21,280

The Company has allocated $0.3 million of the allowance for credit losses for these loans as of both June 30, 2022 and December 31, 2021. As of June 30, 2022, 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 three and six months ended June 30, 2022 and 2021, respectively (dollars in thousands):

	Three Months Ended					
	June 30, 2022			June 30, 2021		
	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	**5**	**585**	**585**	6	404	404
Home equity	**1**	**30**	**30**	—	—	—
Consumer	—	—	—	—	—	—
Total	**6**	**$ 615**	**$ 615**	6	$ 404	$ 404

	Six Months Ended					
	June 30, 2022			June 30, 2021		
	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	**8**	**911**	**911**	9	558	558
Home equity	**1**	**30**	**30**	—	—	—
Consumer	**—**	**—**	**—**	—	—	—
Total	**9**	**$ 941**	**$ 941**	9	$ 558	$ 558

The TDRs above increased the allowance for credit losses by less than $0.1 million in each of the three months ended June 30, 2022 and 2021 and resulted in no charge-offs during those same time periods.

The Company had no TDRs that subsequently defaulted during 2022.

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, 2022, the Company granted deferrals of approximately $143 million to its mortgage customers. These deferral arrangements ranged from 30 days to 90 days. As of June 30, 2022, approximately $0.3 million of these loans were still deferring, while approximately $143 million have resumed making their normal loan payment. As of June 30, 2022, approximately $4 million of the loans previously deferred were previously and currently considered TDRs due to Chapter 7 bankruptcies. As of June 30, 2022, all outstanding commercial deferrals had 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, 2022 is as follows (in thousands):

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		**Total**
Commercial and industrial								
Pass	**$ 30,359**	**$ 93,159**	**$ 65,730**	**$ 28,957**	**$ 24,397**	**$ 12,088**	**$ 95,930**	**$ 350,620**
Special mention	**—**	**—**	**443**	**11**	**—**	**20**	**3,200**	**3,674**
Substandard	**965**	**591**	**624**	**1,366**	**345**	**1,647**	**649**	**6,187**
Total	**$ 31,324**	**$ 93,750**	**$ 66,797**	**$ 30,334**	**$ 24,742**	**$ 13,755**	**$ 99,779**	**$ 360,481**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial and industrial								
Pass	$ 87,148	$ 82,946	$ 41,908	$ 27,355	$ 23,895	$ 6,755	$ 65,775	$ 335,782
Special mention	3	480	17	—	21	—	3,324	3,845
Substandard	319	1,531	1,574	510	395	1,550	678	6,557
Total	$ 87,470	$ 84,957	$ 43,499	$ 27,865	$ 24,311	$ 8,305	$ 69,777	$ 346,184
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - 1-4 Family								
Pass	**$ 15,142**	**$ 23,223**	**$ 13,592**	**$ 9,281**	**$ 5,563**	**$ 27,638**	**$ 10,861**	**$ 105,300**
Special mention	**233**	**—**	**118**	**—**	**—**	**378**	**—**	**729**
Substandard	**89**	**—**	**269**	**70**	**—**	**2,308**	**—**	**2,736**
Total	**$ 15,464**	**$ 23,223**	**$ 13,979**	**$ 9,351**	**$ 5,563**	**$ 30,324**	**$ 10,861**	**$ 108,765**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - 1-4 Family								
Pass	$ 26,425	$ 16,163	$ 10,659	$ 6,208	$ 4,250	$ 28,734	$ 10,877	$ 103,316
Special mention	—	122	—	—	—	718	—	840
Substandard	—	276	158	—	722	2,561	—	3,717
Total	$ 26,425	$ 16,561	$ 10,817	$ 6,208	$ 4,972	$ 32,013	$ 10,877	$ 107,873

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - Hotels								
Pass	**$ 59,931**	**$ 37,348**	**$ 12,633**	**$ 63,529**	**$ 20,880**	**$ 87,984**	**$ 206**	**$ 282,511**
Special mention	**—**	**—**	**—**	**24,533**	**—**	**—**	**—**	**24,533**
Substandard	**127**	**58**	**3,289**	**—**	**—**	**27,392**	**—**	**30,866**
Total	**$ 60,058**	**$ 37,406**	**$ 15,922**	**$ 88,062**	**$ 20,880**	**$ 115,376**	**$ 206**	**$ 337,910**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Hotels								
Pass	$ 38,197	$ 16,183	$ 64,107	$ 21,222	$ 41,526	$ 55,895	$ 279	$ 237,409
Special mention	103	—	29,914	—	—	—	—	30,017
Substandard	398	140	15,413	—	5,601	22,337	—	43,889
Total	$ 38,698	$ 16,323	$ 109,434	$ 21,222	$ 47,127	$ 78,232	$ 279	$ 311,315
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - Multi-family								
Pass	**$ 9,421**	**$ 22,050**	**$ 68,455**	**$ 49,217**	**$ 2,226**	**$ 51,987**	**$ 440**	**$ 203,796**
Special mention	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Substandard	**—**	**—**	**—**	**—**	**—**	**60**	**—**	**60**
Total	**$ 9,421**	**$ 22,050**	**$ 68,455**	**$ 49,217**	**$ 2,226**	**$ 52,047**	**$ 440**	**$ 203,856**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Multi-family								
Pass	$ 20,434	$ 78,837	$ 53,033	$ 2,264	$ 19,783	$ 38,918	$ 540	$ 213,809
Special mention	—	—	1,802	—	—	—	—	1,802
Substandard	—	—	—	—	—	66	—	66
Total	$ 20,434	$ 78,837	$ 54,835	$ 2,264	$ 19,783	$ 38,984	$ 540	$ 215,677

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	**$ 31,974**	**$ 115,045**	**$ 100,322**	**$ 76,011**	**$ 90,867**	**$ 127,579**	**$ 2,923**	**$ 544,721**
Special mention	**—**	**114**	**177**	**181**	**—**	**132**	**—**	**604**
Substandard	**—**	**645**	**6**	**1,348**	**2,214**	**1,702**	**—**	**5,915**
Total	**$ 31,974**	**$ 115,804**	**$ 100,505**	**$ 77,540**	**$ 93,081**	**$ 129,413**	**$ 2,923**	**$ 551,240**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Non Residential Non-Owner Occupied								
Pass	$ 144,927	$ 135,423	$ 85,296	$ 99,618	$ 33,770	$ 130,342	$ 2,655	$ 632,031
Special mention	119	183	186	257	—	138	—	883
Substandard	640	16	1,365	2,134	22	2,727	—	6,904
Total	$ 145,686	$ 135,622	$ 86,847	$ 102,009	$ 33,792	$ 133,207	$ 2,655	$ 639,818
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - Non Residential Owner Occupied								
Pass	**$ 8,136**	**$ 38,028**	**$ 18,192**	**$ 25,935**	**$ 18,675**	**$ 49,917**	**$ 3,064**	**$ 161,947**
Special mention	**—**	**—**	**—**	**349**	**—**	**815**	**114**	**1,278**
Substandard	**975**	**196**	**112**	**2,187**	**608**	**11,893**	**992**	**16,963**
Total	**$ 9,111**	**$ 38,224**	**$ 18,304**	**$ 28,471**	**$ 19,283**	**$ 62,625**	**$ 4,170**	**$ 180,188**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Non Residential Owner Occupied								
Pass	$ 46,445	$ 28,535	$ 25,647	$ 22,197	$ 15,296	$ 37,806	$ 2,509	$ 178,435
Special mention	—	30	2,744	42	319	2,294	—	5,429
Substandard	199	114	2,372	634	6,677	9,503	870	20,369
Total	$ 46,644	$ 28,679	$ 30,763	$ 22,873	$ 22,292	$ 49,603	$ 3,379	$ 204,233

	Term Loans Amortized Cost Basis by Origination Year and Risk Level						Revolving Loans Amortized Cost Basis	Total
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Commercial real estate - Total								
Pass	**$ 124,604**	**$ 235,694**	**$ 213,194**	**$ 223,973**	**$ 138,211**	**$ 345,105**	**$ 17,494**	**$ 1,298,275**
Special mention	**233**	**114**	**295**	**25,063**	**—**	**1,325**	**114**	**27,144**
Substandard	**1,191**	**899**	**3,676**	**3,605**	**2,822**	**43,355**	**992**	**56,540**
Total	**$ 126,028**	**$ 236,707**	**$ 217,165**	**$ 252,641**	**$ 141,033**	**$ 389,785**	**$ 18,600**	**$ 1,381,959**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Commercial real estate - Total								
Pass	$ 276,429	$ 275,141	$ 238,742	$ 151,509	$ 114,626	$ 291,696	$ 16,860	$ 1,365,003
Special mention	222	334	34,647	299	319	3,151	—	38,972
Substandard	1,238	546	19,308	2,769	13,023	37,191	866	74,941
Total	$ 277,889	$ 276,021	$ 292,697	$ 154,577	$ 127,968	$ 332,038	$ 17,726	$ 1,478,916
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Residential real estate								
Performing	**$ 262,192**	**$ 356,382**	**$ 289,758**	**$ 132,534**	**$ 93,352**	**$ 418,528**	**$ 96,698**	**$ 1,649,444**
Non-performing	**—**	**204**	**—**	**224**	**37**	**828**	**268**	**1,561**
Total	**$ 262,192**	**$ 356,586**	**$ 289,758**	**$ 132,758**	**$ 93,389**	**$ 419,356**	**$ 96,966**	**$ 1,651,005**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Residential real estate								
Performing	$ 375,465	$ 326,107	$ 155,829	$ 110,551	$ 87,870	$ 389,519	$ 100,815	$ 1,546,156
Non-performing	—	—	232	29	120	692	1,736	2,809
Total	$ 375,465	$ 326,107	$ 156,061	$ 110,580	$ 87,990	$ 390,211	$ 102,551	$ 1,548,965
June 30, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**		
Home equity								
Performing	**$ 8,025**	**$ 8,142**	**$ 5,524**	**$ 3,265**	**$ 2,595**	**$ 8,623**	**$ 89,514**	**$ 125,688**
Non-performing	**—**	**—**	**—**	**—**	**—**	**—**	**54**	**54**
Total	**$ 8,025**	**$ 8,142**	**$ 5,524**	**$ 3,265**	**$ 2,595**	**$ 8,623**	**$ 89,568**	**$ 125,742**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Home equity								
Performing	$ 9,008	$ 6,474	$ 3,582	$ 2,949	$ 1,431	$ 8,176	$ 90,685	$ 122,305
Non-performing	—	—	—	—	—	—	40	40
Total	$ 9,008	$ 6,474	$ 3,582	$ 2,949	$ 1,431	$ 8,176	$ 90,725	$ 122,345

June 30, 2022	Term Loans Amortized Cost Basis by Origination Year and Risk Level 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Total
Consumer								
Performing	**$ 10,140**	**$ 10,184**	**$ 7,105**	**$ 5,803**	**$ 3,265**	**$ 6,738**	**$ 1,345**	**$ 44,580**
Non-performing	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**$ 10,140**	**$ 10,184**	**$ 7,105**	**$ 5,803**	**$ 3,265**	**$ 6,738**	**$ 1,345**	**$ 44,580**
December 31, 2021	2021	2020	2019	2018	2017	Prior		
Consumer								
Performing	$ 13,584	$ 9,545	$ 8,313	$ 4,920	$ 1,324	$ 1,624	$ 1,591	$ 40,901
Non-performing	—	—	—	—	—	—	—	—
Total	$ 13,584	$ 9,545	$ 8,313	$ 4,920	$ 1,324	$ 1,624	$ 1,591	$ 40,901

Note F – Derivative Instruments

As of June 30, 2022 and December 31, 2021, 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, 2022		December 31, 2021	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Non-hedging interest rate derivatives:				
Customer counterparties:				
Loan interest rate swap - assets	**$ 61,736**	**$ 1,101**	$ 532,136	$ 20,614
Loan interest rate swap - liabilities	**616,040**	**42,085**	138,138	3,560
Non-hedging interest rate derivatives:				
Financial institution counterparties:				
Loan interest rate swap - assets	**628,311**	**43,213**	147,644	3,867
Loan interest rate swap - liabilities	**61,736**	**1,101**	535,577	20,679

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,	
	2022	2021	**2022**	2021
Change in Fair Value Non-Hedging Interest Rate Derivatives:				
Other income (expense) - derivative assets	**$ 15,448**	$ 4,854	**$ 18,524**	$ (18,140)
Other (expense) income - derivative liabilities	**(15,448)**	(4,854)	**(18,524)**	18,140
Other income (expense) - derivative liabilities	**311**	(185)	**888**	352

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 and $34.8 million as of June 30, 2022 and December 31, 2021, respectively.

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

Fair Value Hedges

During the year ended December 31, 2020, the Company entered into a series of fair value hedge agreements to reduce the interest rate risk associated with the change in fair value of certain securities. The total notional amount of these agreements was $150 million and the amortized cost of the hedged assets was $348.0 million and $363.6 million as of June 30, 2022 and December 31, 2021, respectively. During the three and six months ended June 30, 2022 and 2021, the fair value hedge agreements were effective. The gains or losses on these hedges are recognized in current earnings as fair value changes. The fair value of these hedges was $12.3 million and $4.3 million at June 30, 2022 and December 31, 2021, respectively, and was included within other assets in the Consolidated Balance Sheets.

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

	June 30, 2022	December 31, 2021
Investment securities available for sale, at fair value	**$ (12,350)**	$ (4,711)
Other assets	**12,338**	4,308
Cumulative adjustment to Interest and dividends on investment securities	**12**	403

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, 2022, 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,			
	2022		2021	
	Restricted Awards	**Average Market Price at Grant**	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	**146,755**	**$ 72.16**	158,554	$ 67.40
Granted	**33,159**	**77.54**	38,036	76.65
Vested	**(41,635)**	**72.54**	(52,050)	61.23
Outstanding at June 30	**138,279**	**$ 73.58**	144,540	$ 71.75

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,	
	2022	2021	**2022**	2021
Stock-based compensation expense associated with restricted shares	**$ 683**	$ 691	**$ 1,345**	$ 1,475

At period-end:	**June 30, 2022**
Unrecognized stock-based compensation expense associated with restricted shares	**$ 5,699**
Weighted average period (in years) in which the above amount is expected to be recognized	**3.1**

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, 2022 and 2021, 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,	
	2022	2021	**2022**	2021
Components of net periodic cost:				
Interest cost	**$ 90**	$ 83	**$ 180**	$ 166
Expected return on plan assets	**(221)**	(205)	**(442)**	(410)
Net amortization and deferral	**195**	280	**390**	561
Net Periodic Pension Cost	**$ 64**	$ 158	**$ 128**	$ 317

Note H – Commitments and Contingencies

COVID-19

The ongoing COVID-19 pandemic continues to create disruptions to the global economy and to the lives of individuals throughout the world. Given the ongoing and dynamic nature of the circumstances, it is not possible to accurately predict the extent, severity or duration of these conditions or when normal economic and operating conditions will resume. For this reason, the extent to which the COVID-19 pandemic affects the Company's business, operations and financial condition, as well as its regulatory capital and liquidity ratios, is highly uncertain and unpredictable and depends on, among other things, new information that may emerge concerning the scope, duration and severity of the COVID-19 pandemic, actions taken by governmental authorities and other parties in response to the pandemic, the scale of distribution and public acceptance of vaccines for COVID-19 and the effectiveness of such vaccines in stemming or stopping the spread of COVID-19 and the rise of any variants or new strains of the COVID-19 virus. Even after the COVID-19 pandemic subsides, it will likely take time for the U.S. economy to recover, and the length of the recovery period is unknown. The Company's business could be materially and adversely affected during any such recovery period.

Credit-Related Financial Instruments

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The Company has entered into agreements with certain customers to extend credit or provide a conditional commitment to provide payment on drafts presented in accordance with the terms of the underlying credit documents. The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. Overdraft protection commitments, which are included with other commitments below, are uncollateralized and are paid at the Company’s discretion. Conditional commitments generally include standby and commercial letters of credit. Standby letters of credit represent an obligation of the Company to a designated third party contingent upon the failure of a customer of the Company to perform under the terms of the underlying contract between the customer and the third party. Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, drafts will be drawn when the underlying transaction is consummated, as intended, between the customer and a third party. The majority of the Company's commitments have variable interest rates. The funded portion of these financial instruments is reflected in the Company’s balance sheet, while the unfunded portion of these commitments is not reflected in the balance sheet.

The table below presents a summary of the contractual obligations of the Company resulting from significant commitments (in thousands):

	June 30, 2022	December 31, 2021
Commitments to extend credit:		
Home equity lines	**$ 226,151**	$ 221,119
Commercial real estate	**70,646**	50,760
Other commitments	**228,228**	242,250
Standby letters of credit	**5,988**	6,023
Commercial letters of credit	**1,981**	173

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 (Loss) Income

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

	Three months ended 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
2022						
Beginning Balance	**$ (3,485)**	**$ (41,229)**	**$ (44,714)**	**$ (3,485)**	**$ 17,745**	**$ 14,260**
Other comprehensive loss before reclassifications	**—**	**(39,269)**	**(39,269)**	**—**	**(98,243)**	**(98,243)**
	—	**(39,269)**	**(39,269)**	**—**	**(98,243)**	**(98,243)**
Ending Balance	**$ (3,485)**	**$ (80,498)**	**$ (83,983)**	**$ (3,485)**	**$ (80,498)**	**$ (83,983)**
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

	Amounts reclassified from Other Comprehensive (Loss) Income				
	Three months ended June 30,		Six months ended June 30,		Affected line item in the Consolidated Statements of Income
	2022	2021	**2022**	2021	
Securities available-for-sale:					
Net securities gains reclassified into earnings	**$ —**	$ 29	**$ —**	$ 312	Gains on sale of investment securities, net
Related income tax expense	**—**	(7)	**—**	(75)	Income tax expense
Net effect on accumulated other comprehensive (loss) income	**$ —**	$ 22	**$ —**	$ 237	

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,	
	2022	2021	**2022**	2021
Net income available to common shareholders	**$ 22,683**	$ 22,148	**$ 44,025**	$ 41,962
Less: earnings allocated to participating securities	**(203)**	(206)	**(403)**	(385)
Net earnings allocated to common shareholders	**$ 22,480**	$ 21,942	**$ 43,622**	$ 41,577
Distributed earnings allocated to common stock	**$ 8,837**	$ 8,921	**$ 17,671**	$ 17,845
Undistributed earnings allocated to common stock	**13,643**	13,021	**25,951**	23,732
Net earnings allocated to common shareholders	**$ 22,480**	$ 21,942	**$ 43,622**	$ 41,577
Average shares outstanding	**14,888**	15,573	**14,930**	15,614
Effect of dilutive securities:				
Employee stock awards	**21**	21	**24**	26
Shares for diluted earnings per share	**14,909**	15,594	**14,954**	15,640
Basic earnings per share	**$ 1.51**	$ 1.41	**$ 2.92**	$ 2.66
Diluted earnings per share	**$ 1.51**	$ 1.41	**$ 2.92**	$ 2.66

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 amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Liabilities

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

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

The Company utilizes a third party pricing service provider to value its Level 1 and Level 2 investment securities. Annually, the Company obtains an independent auditor's report from its third party pricing service provider regarding its controls over investment securities. On a quarterly basis, the Company reprices its debt securities with a third party that is independent of the primary pricing service provider to verify the reasonableness of the fair values.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes a market approach by obtaining dealer quotations to value its customer interest rate swaps. The Company's derivatives are included within "other assets" and "other liabilities" in the accompanying consolidated balance sheets. Derivative assets are typically secured through securities with financial counterparties or cross collateralization with a borrowing customer. Derivative liabilities are typically secured 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, 2022.

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include individually evaluated loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data for both real estate collateral and non-real estate collateral. The following table presents assets and liabilities measured at fair value (in thousands):

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
June 30, 2022					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	**$ 243,497**	**$ —**	**$ 243,497**	**$ —**	
Mortgage-backed securities:					
U.S. Government agencies	**1,216,496**	**—**	**1,216,496**	**—**	
Private label	**7,884**	**—**	**5,028**	**2,856**	
Trust preferred securities	**3,800**	**—**	**3,800**	**—**	
Corporate securities	**25,550**	**—**	**25,550**	**—**	
Marketable equity securities	**7,888**	**3,975**	**3,913**	**—**	
Certificates of deposit held for investment	**996**	**—**	**996**	**—**	
Derivative assets	**56,688**	**—**	**56,688**	**—**	
Financial Liabilities					
Derivative liabilities	**43,186**	**—**	**43,186**	**—**	
Nonrecurring fair value measurements					
Non-Financial Assets					
Other real estate owned	**946**	**—**	**—**	**946**	**(20)**
December 31, 2021					
Recurring fair value measurements					
Financial Assets					
Obligations of states and political subdivisions	$ 272,216	$ —	$ 272,216	$ —	
Mortgage-backed securities:					
U.S. Government agencies	1,094,311	—	1,094,311	—	
Private label	9,108	—	5,647	3,461	
Trust preferred securities	4,203	—	4,203	—	
Corporate securities	28,327	—	28,327	—	
Marketable equity securities	9,211	4,134	5,077	—	
Certificates of deposit held for investment	996	—	996	—	
Derivative assets	29,029	—	29,029	—	
Financial Liabilities					
Derivative liabilities	24,283	—	24,283	—	
Nonrecurring fair value measurements					
Financial Assets					
Loans individually evaluated	$ —	$ —	$ —	$ —	$ (478)
Non-Financial Assets					
Other real estate owned	1,319	—	—	1,319	(2)

The Company's financial assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) include individually evaluated loans that were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for credit losses based upon the fair value of the underlying collateral (in thousands). The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent individually evaluated loans primarily relate to discounts applied to the customers' reported amount of collateral. The amount of collateral discount depends upon the marketability of the underlying collateral. During the six months ended June 30, 2022 and 2021, collateral discounts ranged from 10% to 30%. During the six months ended June 30, 2022 and 2021, the Company had no Level 2 financial assets and liabilities that were measured on a nonrecurring basis.

Non-Financial Assets and Liabilities

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

Fair Value of Financial Instruments

ASC Topic 825 *"Financial Instruments,"* as amended, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2022					
Assets:					
Cash and cash equivalents	**$ 696,979**	**$ 696,979**	**$ 696,979**	**$ —**	**$ —**
Securities available-for-sale	**1,497,227**	**1,497,227**	**—**	**1,494,371**	**2,856**
Marketable equity securities	**7,888**	**7,888**	**3,975**	**3,913**	**—**
Net loans	**3,549,743**	**3,469,399**	**—**	**—**	**3,469,399**
Accrued interest receivable	**16,342**	**16,342**	**16,342**	**—**	**—**
Derivative assets	**56,688**	**56,688**	**—**	**56,688**	**—**
Liabilities:					
Deposits	**5,141,928**	**4,582,619**	**3,610,268**	**972,351**	**—**
Short-term debt	**402,368**	**402,368**	**—**	**402,368**	**—**
Accrued interest payable	**478**	**478**	**478**	**—**	**—**
Derivative liabilities	**43,186**	**43,186**	**—**	**43,186**	**—**
December 31, 2021					
Assets:					
Cash and cash equivalents	$ 634,631	$ 634,631	$ 634,631	$ —	$ —
Securities available-for-sale	1,408,165	1,408,165	—	1,404,704	3,461
Marketable equity securities	9,211	9,211	4,134	5,077	—
Net loans	3,525,648	3,456,539	—	—	3,456,539
Accrued interest receivable	15,627	15,627	15,627	—	—
Derivative assets	29,029	29,029	—	29,029	—
Liabilities:					
Deposits	4,925,336	4,926,724	3,856,421	1,070,303	—
Short-term debt	312,458	312,458	—	312,458	—
Accrued interest payable	600	600	600	—	—
Derivative liabilities	24,283	24,283	—	24,283	—

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

Critical Accounting Policies and Estimates

The accounting policies of the Company conform with U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management's estimates. As this information changes, management's estimates and assumptions used to prepare the Company's financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One to the audited financial statements included in the Company's 2021 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 2021 Annual Report of the Company. Based on the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses and income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

Allowance for Credit Losses

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

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

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

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

Expected credit losses are estimated over the contractual term of the loan, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a 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 uses a number of economic variables in its scenarios to estimate the allowance for credit losses, with the most significant drivers being an unemployment rate forecast and qualitative adjustments. In the June 30, 2022 estimate, the Company assumed a 2-year unemployment forecast range of 3.7% to 5.0%, compared to 3.5% to 5.2% in both the March 31, 2022 and December 31, 2021 estimates. Historical loss rates from periods where the average unemployment rate matches the forecast range are considered when calculating the forecast period loss rate. Based on sensitivity of the portfolio, leaving the unemployment forecast range unchanged would have increased the reserve $0.4 million.

Based on sensitivity analysis of all portfolios, a 0.0050% change (slight improvement or decline on bank's scale) in all 11 qualitative risk factors (where assigned) would have a $1.9 million impact on the reserve allocation. Changing each factor by 0.01% (moderate improvement or decline) would have a $3.7 million impact. Management recognizes that these are extreme scenarios and it is very unlikely that all risk factors would change by 0.005% or 0.01% simultaneously. For the June 30, 2022 estimate, management assigned a "moderate decline," or 0.005% increase, to the Interest Rate Risk factor for all pools due to the rising rate environment. In total, the change increased the ACL (Allowance for Credit Losses) by approximately $0.4 million.

Income Taxes

The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state taxing authorities for the years ended December 31, 2018 and forward.

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

Financial Summary

Six months ended June 30, 2022 vs. 2021

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

	Six months ended June 30, 2022	2021
Net income available to common shareholders (*in thousands*)	**$ 44,025**	$ 41,962
Earnings per common share, basic	**$ 2.92**	$ 2.66
Earnings per common share, diluted	**$ 2.92**	$ 2.66
Dividend payout ratio	**41.1 %**	43.6 %
ROA*	**1.47 %**	1.44 %
ROE*	**13.6 %**	11.9 %
ROATCE*	**16.6 %**	14.3 %
Average equity to average assets ratio	**10.8 %**	12.1 %

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

The Company's net interest income for the six months ended June 30, 2022 increased $3.8 million compared to the six months ended June 30, 2021 (see *Net Interest Income*). The Company recorded a recovery of credit losses of $0.8 million for the six months ended June 30, 2022 compared to a recovery of credit losses of $2.4 million for the six months ended June 30, 2021 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $1.2 million and non-interest expense increased $0.8 million for the six months ended June 30, 2022 from the six months ended June 30, 2021.

Financial Summary

Three months ended June 30, 2022 vs. 2021

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

	Three months ended June 30,	
	2022	2021
Net income available to common shareholders (*in thousands*)	**$ 22,683**	$ 22,148
Earnings per common share, basic	**$ 1.51**	$ 1.41
Earnings per common share, diluted	**$ 1.51**	$ 1.41
Dividend payout ratio	**39.8 %**	41.2 %
ROA*	**1.51 %**	1.49 %
ROE*	**14.7 %**	12.6 %
ROATCE*	**18.1 %**	15.2 %
Average equity to average assets ratio	**10.3 %**	11.8 %

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

The Company's net interest income for the three months ended June 30, 2022 increased $3.4 million compared to the three months ended June 30, 2021 (see *Net Interest Income*). The Company recorded no provision for credit losses for the three months ended June 30, 2022 compared to a $2.0 million recovery of credit losses for the three months ended June 30, 2021 (see *Allowance for Credit Losses*). As further discussed under the caption *Non-Interest Income and Non-Interest Expense*, non-interest income increased $0.4 million and non-interest expense increased $1.1 million for the three months ended June 30, 2022 from the three months ended June 30, 2021.

Balance Sheet Analysis

Selected balance sheet fluctuations from the year ended December 31, 2021 are summarized in the following table (in millions):

	June 30, 2022	December 31, 2021	$ Change	% Change
Investment securities	**$ 1,521.6**	$ 1,433.7	$ 87.9	6.1 %
Gross loans	**3,566.8**	3,543.8	23.0	0.6 %
Total deposits	**5,141.9**	4,925.3	216.6	4.4 %
Customer repurchase agreements	**402.4**	312.5	89.9	28.8 %

Investment securities increased $87.9 million (6.1%) from December 31, 2021 to $1.5 billion at June 30, 2022, as the Company elected to invest a portion of its excess deposits into investment securities.

Gross loans increased $23.0 million (0.6%) from December 31, 2021 to $3.57 billion at June 30, 2022. PPP loans decreased $6.5 million from $6.6 million at December 31, 2021 to $0.1 million at June 30, 2022. Excluding outstanding PPP loans (included in the commercial and industrial loan category), total loans increased $29.4 million, (0.8%), from December 31, 2021 to $3.57 billion at June 30, 2022. Residential real estate loans increased $102.0 million (6.6%) and commercial and industrial loans (excluding PPP loans) increased $20.8 million (6.1%). These increases were partially offset by lower commercial real estate loans ($97.0 million, or 6.6%).

Total deposits increased $216.6 million (4.4%) from December 31, 2021 to $5.14 billion at June 30, 2022. Noninterest-bearing demand deposit balances increased $158.5 million, savings deposit balances increased $88.2 million, and demand deposit balances increased $53.2 million. These increases were partially offset by an $83.4 million decrease in time deposit balances.

Customer repurchase agreements increased $89.9 million to $402.4 million at June 30, 2022 due to the liquidity needs of the Company's customers.

Net Interest Income

Six months ended June 30, 2022 vs. 2021

The Company’s tax equivalent net interest income increased $3.7 million for the six months ended June 30, 2022. An increase in average investment securities ($225 million) added $2.5 million to interest income and lower rates paid on time deposits and lower time deposit balances decreased interest expense by $2.1 million and $0.8 million, respectively. Higher rates paid on deposits in depository institutions increased net interest income by $0.8 million. These increases were partially offset by lower loan fees which decreased interest income by $1.0 million (due to a decrease in PPP loan fees) and lower yields on loans (3 basis points), which lowered interest income by $0.6 million. In addition, lower accretion decreased interest income by $0.5 million. The Company’s reported net interest margin increased from 2.86% for the six months ended June 30, 2021 to 2.93% for the six months ended June 30, 2022.

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

	Six months ended June 30,					
	2022			2021		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio[1]:						
Residential real estate[2]	**$ 1,697,727**	**$ 31,659**	**3.76 %**	$ 1,675,222	$ 32,987	3.97 %
Commercial, financial, and agriculture[2]	**1,801,999**	**31,952**	**3.58**	1,837,947	32,701	3.59
Installment loans to individuals[2],[3]	**43,916**	**1,238**	**5.68**	50,187	1,426	5.73
Previously securitized loans[4]	***	**233**	***	***	324	***
Total loans	**3,543,642**	**65,082**	**3.70**	3,563,356	67,438	3.82
Securities:						
Taxable	**1,238,361**	**13,770**	**2.24**	995,871	11,174	2.26
Tax-exempt[5]	**223,992**	**3,065**	**2.76**	241,924	3,220	2.68
Total securities	**1,462,353**	**16,835**	**2.32**	1,237,795	14,394	2.35
Deposits in depository institutions	**490,445**	**1,020**	**0.42**	571,130	280	0.10
Total interest-earning assets	**5,496,440**	**82,937**	**3.04**	5,372,281	82,112	3.08
Cash and due from banks	**102,171**			85,998		
Bank premises and equipment	**73,354**			76,748		
Goodwill and intangible assets	**116,818**			118,270		
Other assets	**237,115**			212,051		
Less: allowance for credit losses	**(18,103)**			(24,302)		
Total assets	**$ 6,007,795**			$ 5,841,046		
Liabilities						
Interest-bearing demand deposits	**$ 1,149,277**	**$ 278**	**0.05 %**	$ 1,039,260	$ 246	0.05 %
Savings deposits	**1,407,416**	**357**	**0.05**	1,254,752	346	0.06
Time deposits[2]	**1,026,149**	**2,214**	**0.44**	1,208,925	5,149	0.86
Short-term borrowings	**282,228**	**238**	**0.17**	297,990	243	0.16
Total interest-bearing liabilities	**3,865,070**	**3,087**	**0.16**	3,800,927	5,984	0.32
Noninterest-bearing demand deposits	**1,417,060**			1,254,938		
Other liabilities	**79,610**			81,273		
Stockholders' equity	**646,055**			703,908		
Total liabilities and stockholders' equity	**$ 6,007,795**			$ 5,841,046		
Net interest income		**$ 79,850**			$ 76,128	
Net yield on earning assets			**2.93 %**			2.86 %

(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 (includes PPP fees)	$	301	$	1,323

(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:

	2022		2021	
Residential real estate	$	167	$	317
Commercial, financial and agriculture		404		690
Installment loans to individuals		34		51
Time deposits		41		97
	$	646	$	1,155

(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, 2022 vs. 2021 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ 443	$ (1,771)	$ (1,328)
Commercial, financial, and agriculture	(640)	(109)	(749)
Installment loans to individuals	(178)	(10)	(188)
Previously securitized loans	—	(91)	(91)
Total loans	(375)	(1,981)	(2,356)
Securities:			
Taxable	2,721	(125)	2,596
Tax-exempt[(1)]	(239)	84	(155)
Total securities	2,482	(41)	2,441
Deposits in depository institutions	(40)	780	740
Total interest-earning assets	$ 2,067	$ (1,242)	$ 825
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 26	$ 6	$ 32
Savings deposits	42	(31)	11
Time deposits	(778)	(2,157)	(2,935)
Short-term borrowings	(13)	8	(5)
Total interest-bearing liabilities	(723)	(2,174)	(2,897)
Net Interest Income	$ 2,790	$ 932	$ 3,722

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

Net Interest Income

Three months ended June 30, 2022 vs. 2021

The Company's tax equivalent net interest income increased $3.4 million for the three months ended June 30, 2022. An increase in average investment securities ($194 million) and higher yields on investment securities (10 basis points) added $1.1 million and $0.4 million, respectively, to interest income. Lower rates paid on time deposits and lower time deposit balances decreased interest expense by $0.9 million and $0.3 million, respectively. Higher rates paid on deposits in depository institutions increased net interest income by $0.7 million and higher yields on loans increased net interest income by $0.7 million. The Company's reported net interest margin increased from 2.81% for the three months ended June 30, 2021 to 3.04% for the three months ended June 30, 2022.

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

	Three months ended June 30,					
	2022			2021		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Assets						
Loan portfolio(1):						
Residential real estate(2)	**$ 1,730,617**	**$ 16,063**	**3.72 %**	$ 1,652,165	$ 16,135	3.92 %
Commercial, financial, and agriculture(2)	**1,785,511**	**16,421**	**3.69**	1,839,478	16,158	3.52
Installment loans to individuals(2),(3)	**43,585**	**631**	**5.81**	49,522	713	5.77
Previously securitized loans(4)	***	**93**	***	***	109	***
Total loans	**3,559,713**	**33,208**	**3.74**	3,541,165	33,115	3.75
Securities:						
Taxable	**1,269,049**	**7,548**	**2.39**	1,046,008	5,932	2.27
Tax-exempt(5)	**215,603**	**1,526**	**2.84**	244,233	1,633	2.68
Total securities	**1,484,652**	**9,074**	**2.45**	1,290,241	7,565	2.35
Deposits in depository institutions	**441,239**	**781**	**0.71**	628,158	162	0.10
Total interest-earning assets	**5,485,604**	**43,063**	**3.15**	5,459,564	40,842	3.00
Cash and due from banks	**102,532**			92,243		
Bank premises and equipment	**72,887**			76,660		
Goodwill and intangible assets	**116,645**			118,088		
Other assets	**256,354**			206,709		
Less: allowance for credit losses	**(17,755)**			(23,701)		
Total assets	**$ 6,016,267**			$ 5,929,563		
Liabilities						
Interest-bearing demand deposits	**$ 1,156,200**	**$ 148**	**0.05 %**	$ 1,069,896	$ 122	0.05 %
Savings deposits	**1,430,121**	**182**	**0.05**	1,287,966	163	0.05
Time deposits(2)	**1,004,356**	**999**	**0.40**	1,181,953	2,175	0.74
Short-term borrowings	**288,031**	**123**	**0.17**	305,134	125	0.16
Total interest-bearing liabilities	**3,878,708**	**1,452**	**0.15**	3,844,949	2,585	0.27
Noninterest-bearing demand deposits	**1,435,256**			1,311,340		
Other liabilities	**85,075**			72,940		
Shareholders' equity	**617,228**			700,334		
Total liabilities and shareholders' equity	**$ 6,016,267**			$ 5,929,563		
Net interest income		**$ 41,611**			$ 38,257	
Net yield on earning assets			**3.04 %**			2.81 %

(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 (includes PPP fees)	$	3	$	488

(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:

	2022		2021	
Residential real estate	$	77	$	211
Commercial, financial and agriculture		118		365
Installment loans to individuals		15		23
Time deposits		21		48
	$	231	$	647

(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, 2022 vs. 2021		
	Increase (Decrease) Due to Change In:		
	Volume	Rate	Net
Interest-earning assets:			
Loan portfolio			
Residential real estate	$ 766	$ (838)	$ (72)
Commercial, financial, and agriculture	(474)	737	263
Installment loans to individuals	(85)	3	(82)
Previously securitized loans	—	(16)	(16)
Total loans	207	(114)	93
Securities:			
Taxable	1,265	351	1,616
Tax-exempt[1]	(191)	84	(107)
Total securities	1,074	435	1,509
Deposits in depository institutions	(48)	667	619
Total interest-earning assets	$ 1,233	$ 988	$ 2,221
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 10	$ 16	$ 26
Savings deposits	18	1	19
Time deposits	(327)	(849)	(1,176)
Short-term borrowings	(7)	5	(2)
Total interest-bearing liabilities	$ (306)	$ (827)	$ (1,133)
Net Interest Income	$ 1,539	$ 1,815	$ 3,354

(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,	
	2022	2021	**2022**	2021
Net interest income (GAAP)	**$ 41,290**	$ 37,914	**$ 79,206**	$ 75,454
Taxable equivalent adjustment	**321**	343	**644**	674
Net interest income, fully taxable equivalent	**$ 41,611**	$ 38,257	**$ 79,850**	$ 76,128
Less accretion income	**(231)**	(647)	**(646)**	(1,155)
Net interest income excluding accretion income	**$ 41,380**	$ 37,610	**$ 79,204**	$ 74,973
Equity to assets (GAAP)	**9.48 %**	11.78 %		
Effect of goodwill and other intangibles, net	**(1.72)**	(1.80)		
Tangible common equity to tangible assets	**7.76 %**	9.98 %		

Loans

Table Five
Loan Portfolio

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

	June 30, 2022	December 31, 2021	June 30, 2021
Commercial and industrial	**360,481**	346,184	358,583
1-4 Family	**108,765**	107,873	108,079
Hotels	**337,910**	311,315	290,119
Multi-family	**203,856**	215,677	212,715
Non Residential Non-Owner Occupied	**551,240**	639,818	653,264
Non Residential Owner Occupied	**180,188**	204,233	209,100
Commercial real estate	**1,381,959**	1,478,916	1,473,277
Residential real estate	**1,651,005**	1,548,965	1,521,102
Home equity	**125,742**	122,345	127,608
Consumer	**44,580**	40,901	45,184
DDA overdrafts	**2,991**	6,503	3,662
Total loans	**$ 3,566,758**	$ 3,543,814	$ 3,529,416

Loan balances increased $23.0 million from December 31, 2021 to June 30, 2022.

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 $0.1 million at June 30, 2022, which decreased $6.5 million from December 31, 2021. Excluding PPP loans, C&I loans increased $20.7 million from December 31, 2021 to June 30, 2022.

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 $97.0 million from December 31, 2021 to June 30, 2022. At June 30, 2022, $6.8 million of the commercial real estate loans were for commercial properties under construction.

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

- Commercial 1-4 Family loans increased $0.9 million from December 31, 2021 to June 30, 2022. Commercial 1-4 Family loans consist of residential single-family, duplex, triplex, and fourplex rental properties and totaled $108.8 million as of June 30, 2022. 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 increased $26.6 million from December 31, 2021 to June 30, 2022. The Hotel portfolio is comprised of all lodging establishments and totaled $337.9 million as of June 30, 2022. Risk characteristics relate to the demand for travel.
- Multi-family loans decreased $11.8 million from December 31, 2021 to June 30, 2022. Multi-family consists of 5 or more family residential apartment lending. The portfolio totaled $203.9 million as of June 30, 2022. 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 $551.2 million at June 30, 2022 and decreased $88.6 million from December 31, 2021 to June 30, 2022. Nonresidential owner-occupied commercial real estate totaled $180.2 million at June 30, 2022 and decreased $24.0 million from December 31, 2021. Risk characteristics relate to levels of consumer spending and overall economic conditions.

Residential real estate loans increased $102.0 million from December 31, 2021 to June 30, 2022. Residential real estate loans represent loans to consumers that are secured by a first lien on residential property. Residential real estate loans provide for the purchase or refinance of a residence and first-lien home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family 3, 5 and 7 year adjustable rate mortgages with terms that amortize up to 30 years. The Company also offers fixed-rate residential real estate loans that are sold in the secondary market that are not included on the Company's balance sheet; the Company does not retain the servicing rights to these loans. Residential mortgage loans are generally underwritten to comply with Fannie Mae guidelines, while the home equity loans are underwritten with typically less documentation, but with lower loan-to-value ratios and shorter maturities. At June 30, 2022, $18.8 million of the residential real estate loans were for properties under construction.

Home equity loans increased $3.4 million during the first six months of 2022. The Company's home equity loans represent loans to consumers that are secured by a second (or junior) lien on a residential property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first lien. These loans consist of home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Home equity loans are underwritten with less documentation, lower loan-to-value ratios and for shorter terms than residential mortgage loans. The amount of credit extended is directly related to the value of the real estate at the time the loan is made.

Consumer loans may be secured by automobiles, boats, recreational vehicles and other personal property or they may be unsecured. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. Consumer loans increased $3.7 million during the first six months of 2022.

Allowance for Credit Losses

Management systematically monitors the loan portfolio and the appropriateness of the allowance for credit losses on a quarterly basis to provide for expected losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance and other relevant factors. The Company's estimate of future economic conditions utilized in its provision estimate is primarily dependent on expected unemployment ranges over a two-year period. Beyond two years, a straight line reversion to historical average loss rates is applied over the life of the loan pool in the migration methodology. The vintage methodology applies future average loss rates based on net losses in historical periods where the unemployment rate was within the forecasted range. As a result of the Company’s quarterly analysis of the adequacy of the ACL, the Company did not record a provision for credit losses in the second quarter of 2022, compared to a recovery of credit losses of $2.0 million for the comparable period in 2021.

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, 2022 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
Allocation of the Allowance for Credit Losses

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

	As of June 30, 2022	As of June 30, 2021	As of December 31, 2021
Commercial and industrial	**$ 3,519**	$ 3,356	$ 3,480
1-4 Family	**574**	697	598
Hotels	**2,508**	1,488	2,426
Multi-family	**460**	562	483
Non Residential Non-Owner Occupied	**2,096**	3,009	2,319
Non Residential Owner Occupied	**1,395**	2,611	1,485
Commercial real estate	**7,033**	8,367	7,311
Residential real estate	**4,994**	6,791	5,716
Home equity	**338**	468	517
Consumer	**78**	245	106
DDA overdrafts	**1,053**	789	1,036
Allowance for Credit Losses	**$ 17,015**	$ 20,016	$ 18,166

The ACL decreased from $18.2 million at December 31, 2021 to $17.0 million at June 30, 2022. The allowance related to the residential real estate loan portfolio decreased from $5.7 million at December 31, 2021 to $5.0 million at June 30, 2022 largely due to the repayment of a loan from a previous acquisition and release of the associated credit mark.

Non-Interest Income and Non-Interest Expense

Six months ended June 30, 2022 vs. 2021
(in millions)

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Net investment securities (losses) gains	**$ (1.3)**	$ 0.7	$ (2.0)	(285.7)%
Non-interest income, excluding net investment securities (losses) gains	**36.6**	33.4	3.2	9.6
Non-interest expense	**60.2**	59.4	0.8	1.3

Non-Interest Income: Non-interest income was $35.3 million for the six months ended June 30, 2022, as compared to $34.1 million for the six months ended June 30, 2021. During the six months ended June 30, 2022, the Company reported $1.3 million of unrealized fair value losses compared to $0.7 million unrealized fair value gains on the Company's equity securities and gains on sale of the Company's equity securities during the six months ended June 30, 2021. Excluding these items, non-interest income increased from $33.4 million for the six months ended June 30, 2021 to $36.6 million for the six months ended June 30, 2022. This increase was largely attributable to an increase of $2.0 million in service charges, a $0.6 million increase in bank owned life insurance, a $0.3 million increase in trust and investment management fee income, and a $0.3 million increase in other income.

Non-Interest Expense: Non-interest expenses increased $0.8 million (1.3%), from $59.4 million in the first six months of 2021 to $60.2 million in the first six months of 2022 mainly due to an increase in salaries and employee benefits ($0.8 million).

Income Tax Expense: The Company's effective income tax rate for the six months ended June 30, 2022 was 20.0% compared to 20.2% for the six months ended June 30, 2021.

Non-Interest Income and Non-Interest Expense

Three months ended June 30, 2022 vs. 2021
(in millions)

	Three months ended June 30, 2022	2021	$ Change	% Change
Net investment securities (losses) gains	$ **(0.6)**	$ 0.4	$ (1.0)	(250.0)%
Non-interest income, excluding net investment securities (losses) gains	**18.5**	17.0	1.5	8.8 %
Non-interest expense	**30.7**	29.6	1.1	3.8 %

Non-Interest Income: Non-interest income was $17.8 million for the second quarter of 2022 as compared to $17.4 million for the second quarter of 2021. During the second quarter of 2022, the Company reported $0.6 million of unrealized fair value losses on the Company's equity securities as compared to $0.4 million of unrealized fair value gains on the Company's equity securities in the second quarter of 2021. Exclusive of these gains and losses, non-interest income increased from $17.0 million for the second quarter of 2021 to $18.5 million for the second quarter of 2022. This increase was primarily due to increases in service charges ($1.2 million, or 19.9%) and other revenue ($0.3 million, or 32.1%).

Non-Interest Expense: Non-interest expenses increased $1.1 million (3.8%), from $29.6 million in the second quarter of 2021 to $30.7 million in the second quarter of 2022. This increase was largely due to increased salary and employee benefits of $0.9 million. As anticipated, salary increases (4.7%) from the quarter ended June 30, 2021, were higher than the Company has typically experienced.

Income Tax Expense: The Company's effective income tax rate for the three months ended June 30, 2022 and June 2021 was 20.3%.

Risk Management

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

The Company's 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 at least quarterly meetings during which product pricing issues, liquidity measures, and interest sensitivity positions are monitored.

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

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase of 100 to 300 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity.

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

Immediate Basis Point Change in Interest Rates	Implied Federal Funds Rate Associated with Change in Interest Rates	Estimated Increase or Decrease in Net Income Over 12 Months
June 30, 2022		
+300	**4.75 %**	**-2.8 %**
+200	**3.75**	**+0.4**
+100	**2.75**	**+1.4**
December 31, 2021		
+300	3.25 %	+14.1 %
+200	2.25	+12.5
+100	1.25	+8.5

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 2022 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 and Capital Resources

Liquidity

The Company evaluates the adequacy of liquidity at both the City Holding level and at the City National level. At the City Holding level, the principal source of cash is dividends from City National. Dividends paid by City National to City Holding are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At June 30, 2022, City National could pay dividends up to $76.5 million plus net profits for the remainder of 2022, 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 $35.7 million on an annualized basis over the next 12 months based on common shares outstanding at June 30, 2022. 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, 2022, City Holding reported a cash balance of $5.3 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, 2022, 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, 2022, City National has the capacity to borrow $2.1 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 56.9% as of June 30, 2022 and deposit balances fund 82.4% 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 $1.5 billion at June 30, 2022, and that exceeded the Company’s non-deposit sources of borrowing, which totaled $402.4 million. Further, the Company’s deposit mix has a high proportion of transaction and savings accounts that fund 66.6% of the Company’s total assets.

As illustrated in the consolidated statements of cash flows, the Company generated $45.4 million of cash from operating activities during the first six months of 2022, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings. The Company used $252.4 million of cash in investing activities during the first six months of 2022, primarily due to purchases of securities available-for-sale of $362.8 million and an increase in loans of $22.6 million. This decrease was partially offset by proceeds from maturities and calls of securities available-for-sale of $131.3 million. The Company generated $269.4 million of cash in financing activities during the first six months of 2022, principally as a result of an increase in non-interest-bearing deposits of $158.5 million, short-term borrowings of $89.9 million, and interest-bearing deposits of $58.1 million. This increase was partially offset by purchases of treasury stock of $19.3 million and dividends paid to the Company's common stockholders of $18.1 million.

Capital Resources

Shareholders' equity decreased $89.1 million for the six months ended June 30, 2022, primarily due to other comprehensive loss of $98.2 million, the repurchase of 246,450 common shares at a weighted average price of $78.29 per share ($19.3 million) as part of one million share repurchase plans authorized by the Board of Directors in March 2021 and May 2022, and cash dividends declared of $17.9 million. These decreases were partially offset by net income of $44.0 million and stock based related compensation expense of $1.7 million.

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

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

June 30, 2022	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	**$ 564,158**	**15.9 %**	**$ 249,077**	**7.0 %**	**$ 231,286**	**6.5 %**
City National Bank	**523,705**	**14.8 %**	**247,645**	**7.0 %**	**229,956**	**6.5 %**
Tier I Capital						
City Holding Company	**564,158**	**15.9 %**	**302,451**	**8.5 %**	**284,660**	**8.0 %**
City National Bank	**523,705**	**14.8 %**	**300,712**	**8.5 %**	**283,023**	**8.0 %**
Total Capital						
City Holding Company	**578,657**	**16.3 %**	**373,616**	**10.5 %**	**355,825**	**10.0 %**
City National Bank	**538,204**	**15.2 %**	**371,467**	**10.5 %**	**353,778**	**10.0 %**
Tier I Leverage Ratio						
City Holding Company	**564,158**	**9.4 %**	**239,637**	**4.0 %**	**299,546**	**5.0 %**
City National Bank	**523,705**	**8.8 %**	**237,847**	**4.0 %**	**297,309**	**5.0 %**

December 31, 2021	Actual		Minimum Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	**Ratio**	**Capital Amount**	**Ratio**	**Capital Amount**	**Ratio**
CET I Capital						
City Holding Company	$ 555,532	16.1 %	$ 241,772	7.0 %	$ 224,503	6.5 %
City National Bank	492,721	14.4 %	240,392	7.0 %	223,221	6.5 %
Tier I Capital						
City Holding Company	555,532	16.1 %	293,581	8.5 %	276,311	8.0 %
City National Bank	492,721	14.4 %	291,905	8.5 %	274,734	8.0 %
Total Capital						
City Holding Company	570,336	16.5 %	362,659	10.5 %	345,389	10.0 %
City National Bank	507,526	14.8 %	360,588	10.5 %	343,418	10.0 %
Tier I Leverage Ratio						
City Holding Company	555,532	9.4 %	235,403	4.0 %	294,254	5.0 %
City National Bank	492,721	8.5 %	233,342	4.0 %	291,678	5.0 %

As of June 30, 2022, 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, 2022, 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, 2022 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Readers should carefully consider the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021.

General Risk Factors

Foreign conflicts in Europe could negatively affect our commercial customers and expose us to increased risk related to cyberattacks.

On February 24, 2022, Russian forces launched a military invasion of Ukraine. In response, the United States and certain European Union countries imposed significant economic sanctions on Russia and Russia has responded with counter- sanctions. As a result, the Russian/Ukraine conflict has disrupted international commerce, exacerbated already existing supply chain disruptions, and negatively affected the global economy. Such economic disruptions may negatively impact our commercial customers, which could lead to increased commercial loan losses. Additionally, there is concern that cyberattacks could intensify globally as the war in Ukraine continues, and though we may not be directly impacted by such attacks, our customers, vendors, and other financial services providers may be, which could decrease customer confidence and the demand for our services.

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

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

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, 2022	81,200	76.35	804,330	195,670
May 1 - May 31, 2022	25,000	79.57	829,330	997,000
June 1 - June 30, 2022	102,043	79.59	931,373	894,957

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Change in Control Agreements

David Bumgarner

The Company entered into a Change in Control Agreement (the “Bumgarner Agreement”) with David Bumgarner, Executive Vice-President and Chief Financial Officer, effective as of May 4, 2022. The Bumgarner Agreement provides for payment to Mr. Bumgarner of compensation equal to two (2) times “Termination Compensation” in the event Mr. Bumgarner terminates his employment with the Company for “Good Reason” within 24 month after a “Change in Control.” Additionally, Mr. Bumgarner would be entitled to receive health insurance coverage for a period of 24 months following termination of his employment on the same terms afforded prior to termination of his employment. For purposes of the Bumgarner Agreement, “Termination Compensation” means the highest amount of annual cash compensation including cash bonuses, but not including stock bonuses, stock options or stock acquired pursuant to stock options, and not including the value of any other non-cash benefits (i.e. health, dental, life or disability insurance), received during any one of the three calendar years preceding the year of termination of employment regardless of length of employment. The terms “Good Reason” and “Change in Control” are defined in the Bumgarner Agreement.

The foregoing description is a summary of the Bumgarner Agreement and should be read in conjunction with the full text of the Bumgarner Agreement which is attached to this Quarterly Report on Form 10-Q as Exhibit 10(a) and is incorporated herein by reference.

Jeffrey D. Legge

The Company entered into a Change in Control Agreement (the “Legge Agreement”) with Jeffrey D. Legge, Executive Vice-President and Chief Information Officer and Chief Operations Officer, effective as of May 4, 2022. The Legge Agreement provides for payment to Mr. Legge of compensation equal to two (2) times “Termination Compensation” in the event Mr. Legge terminates his employment with the Company for “Good Reason” within 24 month after a “Change in Control.” Additionally, Mr. Legge would be entitled to receive health insurance coverage for a period of 24 months following termination of his employment on the same terms afforded prior to termination of his employment. For purposes of the Legge Agreement, “Termination Compensation” means the highest amount of annual cash compensation including cash bonuses, but not included stock bonuses, stock options or stock acquired pursuant to stock options, and not including the value of any other non-cash benefits (i.e. health, dental, life or disability insurance), received during any one of the three calendar years preceding the year of termination of employment regardless of length of employment. The terms “Good Reason” and “Change in Control” are defined in the Legge Agreement.

The foregoing description is a summary of the Legge Agreement and should be read in conjunction with the full text of the Legge Agreement which is attached to this Quarterly Report on Form 10-Q as Exhibit 10(b) and is incorporated herein by reference.

Michael T. Quinlan, Jr.

The Company entered into a Change in Control Agreement (the “Quinlan Agreement”) with Michael T. Quinlan, Jr., Executive Vice-President of Retail Banking, effective as of May 4, 2022. The Quinlan Agreement provides for payment to Mr. Quinlan of compensation equal to two (2) times “Termination Compensation” in the event Mr. Quinlan terminates his employment with the Company for “Good Reason” within 24 month after a “Change in Control.” Additionally, Mr. Quinlan would be entitled to receive health insurance coverage for a period of 24 months following termination of his employment on the same terms afforded prior to termination of his employment. For purposes of the Quinlan Agreement, “Termination Compensation” means the highest amount of annual cash compensation including cash bonuses, but not included stock bonuses, stock options or stock acquired pursuant to stock options, and not including the value of any other non-cash benefits (i.e. health, dental, life or disability insurance), received during any one of the three calendar years preceding the year of termination of employment regardless of length of employment. The terms “Good Reason” and “Change in Control” are defined in the Quinlan Agreement.

The foregoing description is a summary of the Quinlan Agreement and should be read in conjunction with the full text of the Quinlan Agreement which is attached to this Quarterly Report on Form 10-Q as Exhibit 10(c) and is incorporated herein by reference.

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)	**Amended and Restated Articles of Incorporation of City Holding Company** (attached to, and incorporated by reference from City Holding Company's Form 10-Q Quarterly Report for the quarter ending September 30, 2021, filed November 4, 2021 with the Securities Exchange Commission).
3(b)	**Amended and Restated Bylaws of City Holding Company**, revised December 18, 2019 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed December 20, 2019 with the Securities and Exchange Commission).
4(a)	**Rights Agreement dated as of June 13, 2001** (attached to, and incorporated by reference from, City Holding Company's Form 8–A, filed June 22, 2001, with the Securities and Exchange Commission).
4(b)	**Amendment No. 1 to the Rights Agreement** dated as of November 30, 2005 (attached to, and incorporated by reference from, City Holding Company's Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).
10(a)	Change in Control Agreement for David L. Bumgarner, effective as of May 4, 2022.
10(b)	Change in Control Agreement for Jeffrey D. Legge, effective as of May 4, 2022.
10(c)	Change in Control Agreement for Michael T. Quinlan, Jr., effective as of May 4, 2022.
31(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
31(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
32(a)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck.
32(b)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner.
101	Interactive Data File - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*
104	Cover Page Interactive Data file (formatted as inline XBRL and contained in Exhibit 101).

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

SIGNATURES

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

City Holding Company

(Registrant)

/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 4, 2022

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, 2022 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 4, 2022

/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, 2022 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 4, 2022

/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, 2022 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 4, 2022

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, 2022 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 4, 2022

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.