

CITY HOLDING CO
Form 10-Q
May 08, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended March 31, 2009

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	25313
Charleston, West Virginia	(Zip Code)
(Address of principal executive offices)	

(304) 769-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting company []

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

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common stock, \$2.50 Par Value – 15,962,719 shares as of May 6, 2009.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Result of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such information involves risks and uncertainties that could result in the Company's actual results differing from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to: (1) the Company may incur additional loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company may experience increases in the default rates on previously securitized loans that would result in impairment losses or lower the yield on such loans; (4) the Company may not continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on these assets; (5) the Company could have adverse legal actions of a material nature; (6) the Company may face competitive loss of customers; (7) the Company may be unable to manage its expense levels; (8) the Company may have difficulty retaining key employees; (9) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (10) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (11) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (12) the Company may experience difficulties growing loan and deposit balances; (13) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (14) continued 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 resulting in either actual losses or other than temporary impairments on such investments; and (15) the United States government's plan to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions may not be effective and/or it may not be available to us. 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	Pages
Item 1.	<u>Financial Statements (Unaudited).</u> <u>Consolidated Balance Sheets – March 31, 2009 and December 31, 2008.</u> <u>Consolidated Statements of Income – Three months ended March 31, 2009 and 2008.</u> <u>Consolidated Statements of Changes in Shareholders' Equity – Three months ended March 31, 2009 and 2008.</u> <u>Consolidated Statements of Cash Flows – Three months ended March 31, 2009 and 2008.</u> <u>Notes to Consolidated Financial Statements – March 31, 2009.</u>	4-18
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	19-33
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	33
Item 4.	<u>Controls and Procedures.</u>	33
PART II	Other Information	
Item 1.	<u>Legal Proceedings.</u>	34
Item 1A.	<u>Risk Factors.</u>	34
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	34
Item 3.	<u>Defaults Upon Senior Securities.</u>	34
Item 4.	<u>Submission of Matters to a Vote of Security Holders.</u>	34
Item 5.	<u>Other Information.</u>	34
Item 6.	<u>Exhibits.</u>	34
	<u>Signatures</u>	35

Table of Contents

PART I, ITEM 1 – FINANCIAL STATEMENTS

Consolidated Balance Sheets

City Holding Company and Subsidiaries

(in thousands)

	March 31 2009 (Unaudited)	December 31 2008 (Note A)
Assets		
Cash and due from banks	\$ 43,757	\$ 55,511
Interest-bearing deposits in depository institutions	4,736	4,118
Cash and Cash Equivalents	48,493	59,629
Investment securities available for sale, at fair value	459,014	424,214
Investment securities held-to-maturity, at amortized cost (approximate fair value at March 31, 2009 and December 31, 2008 - \$20,634 and \$22,050, respectively)	29,049	29,067
Total Investment Securities	488,063	453,281
Gross loans	1,791,308	1,812,344
Allowance for loan losses	(21,980)	(22,254)
Net Loans	1,769,328	1,790,090
Bank owned life insurance	71,131	70,400
Premises and equipment	61,689	60,138
Accrued interest receivable	9,824	9,024
Net deferred tax asset	50,297	48,462
Intangible assets	57,362	57,479
Other assets	28,006	33,943
Total Assets	\$ 2,584,193	\$ 2,582,446
Liabilities		
Deposits:		
Noninterest-bearing	\$ 313,863	\$ 298,530
Interest-bearing:		
Demand deposits	428,539	420,554
Savings deposits	371,462	354,956
Time deposits	1,011,736	967,090
Total Deposits	2,125,600	2,041,130
Short-term borrowings	124,613	194,463
Long-term debt	19,023	19,047
Other liabilities	33,452	47,377
Total Liabilities	2,302,688	2,302,017
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; 18,499,282 shares issued at March 31, 2009 and December 31, 2008, less 2,582,838 and 2,548,538 shares in treasury, respectively	46,249	46,249

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Capital surplus	102,797	102,895
Retained earnings	236,127	230,613
Cost of common stock in treasury	(89,595)	(88,729)
Accumulated other comprehensive (loss):		
Unrealized loss on securities available-for-sale	(17,317)	(15,628)
Unrealized gain on derivative instruments	7,502	9,287
Underfunded pension liability	(4,258)	(4,258)
Total Accumulated Other Comprehensive (Loss)	(14,073)	(10,599)
Total Shareholders' Equity	281,505	280,429
Total Liabilities and Shareholders' Equity	\$ 2,584,193	\$ 2,582,446

See notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31	
	2009	2008
Interest Income		
Interest and fees on loans	\$ 28,058	\$ 30,992
Interest on investment securities:		
Taxable	6,062	6,064
Tax-exempt	409	399
Interest on deposits in depository institutions	5	65
Total Interest Income	34,534	37,520
Interest Expense		
Interest on deposits	9,373	12,015
Interest on short-term borrowings	153	1,145
Interest on long-term debt	254	441
Total Interest Expense	9,780	13,601
Net Interest Income	24,754	23,919
Provision for loan losses	1,650	1,883
Net Interest Income After Provision for Loan Losses	23,104	22,036
Non-interest Income		
Investment securities (losses) gains	(2,075)	2
Service charges	10,435	11,274
Insurance commissions	1,933	1,038
Trust and investment management fee income	707	632
Bank owned life insurance	732	676
VISA IPO Gain	-	3,289
Other income	701	407
Total Non-interest Income	12,433	17,318
Non-interest Expense		
Salaries and employee benefits	9,583	9,363
Occupancy and equipment	1,909	1,597
Depreciation	1,211	1,133
Professional fees	453	367
Postage, delivery, and statement mailings	718	654
Advertising	863	617
Telecommunications	420	418
Bankcard expenses	648	621
Insurance and regulatory	376	338
Office supplies	531	457
Reposessed asset losses, net of expenses	129	32
Loss on early extinguishment of debt	-	1,208
Other expenses	1,993	3,094

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Total Non-interest Expense	18,834	19,899
Income Before Income Taxes	16,703	19,455
Income tax expense	5,779	6,417
Net Income	10,924	13,038
Basic earnings per common share	\$ 0.69	\$ 0.81
Diluted earnings per common share	\$ 0.69	\$ 0.80
Dividends declared per common share	\$ 0.34	\$ 0.34
Average common shares outstanding:		
Basic	15,921	16,147
Diluted	15,933	16,205

See notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
City Holding Company and Subsidiaries
three Months Ended March 31, 2009 and 2008
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balances at December 31, 2007	\$ 46,249	\$ 103,390	\$ 224,386	\$ (80,664)	\$ 633	\$ 293,994
Comprehensive income:						
Net income			13,038			13,038
Other comprehensive gain, net of deferred income taxes of \$4,431:						
Unrealized gains on available-for-sale securities of \$2,911, net of taxes					1,748	1,748
Net unrealized gain on interest rate floors of \$8,165, net of taxes					4,899	4,899
Total comprehensive income						19,685
Cash dividends declared (\$0.34 per share)			(5,476)			(5,476)
Issuance of stock awards, net		(5)		278		273
Exercise of 5,700 stock options		(115)		191		76
Excess tax benefit on stock-based compensation		6				6
Purchase of 104,960 treasury shares				(3,717)		(3,717)
Balances at March 31, 2008	\$ 46,249	\$ 103,276	\$ 231,948	\$ (83,912)	\$ 7,280	\$ 304,841

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balances at December 31, 2008	\$ 46,249	\$ 102,895	\$ 230,613	\$ (88,729)	\$ (10,599)	\$ 280,429
Comprehensive income:						

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Net income		10,924		10,924
Other comprehensive loss, net of deferred income taxes of 5,728:				
Unrealized losses on available-for-sale securities of \$2,783, net of taxes			(1,688)	(1,688)
Net unrealized loss on interest rate floors of \$2,945, net of taxes			(1,786)	(1,786)
Total comprehensive income				7,450
Cash dividends declared (\$0.34 per share)		(5,410)		(5,410)
Issuance of stock awards, net	(94)		369	275
Exercise of 300 stock options	(4)		7	3
Purchase of 49,363 treasury shares			(1,242)	(1,242)
Balances at March 31, 2009	\$ 46,249	\$ 102,797	\$ 236,127	\$ (89,595) \$ (14,073) \$ 281,505

See notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31	
	2009	2008
Operating Activities		
Net income	\$ 10,924	\$ 13,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion	(61)	(439)
Provision for loan losses	1,650	1,883
Depreciation of premises and equipment	1,211	1,133
Deferred income tax (benefit) expense	(739)	183
Accretion of gain from sale of interest rate floors	(1,786)	-
Net periodic employee benefit cost	50	12
Loss on early extinguishment of debt	-	1,208
Loss on disposal of premises and equipment	-	111
Realized investment securities losses (gains)	2,075	(2)
Increase in value of bank-owned life insurance	(731)	(676)
(Increase) Decrease in accrued interest receivable	(800)	692
Decrease (Increase) in other assets	5,937	(19,159)
(Decrease) Increase in other liabilities	(13,688)	8,643
Net Cash Provided by Operating Activities	4,042	6,627
Investing Activities		
Proceeds from maturities and calls of securities held-to-maturity	-	1,145
Proceeds from sale of money market and mutual fund securities available-for-sale	72,034	314,400
Purchases of money market and mutual fund securities available-for-sale	(121,215)	(372,304)
Proceeds from sales of securities available-for-sale	86	2,065
Proceeds from maturities and calls of securities available-for-sale	20,167	15,122
Purchases of securities available-for-sale	(11,139)	(38,664)
Net decrease in loans	19,713	62,365
Sales of premises and equipment	-	340
Purchases of premises and equipment	(2,762)	(1,093)
Investment in bank-owned life insurance	-	(3,000)
Redemption of VISA stock	-	2,334
Net Cash Used in Investing Activities	(23,116)	(17,290)
Financing Activities		
Net increase (decrease) in noninterest-bearing deposits	15,333	(3,585)
Net increase in interest-bearing deposits	69,137	32,149
Net (decrease) in short-term borrowings	(69,850)	(5,702)
Proceeds from long-term debt	-	16,495
Repayment of long-term debt	(21)	(29)
Redemption of trust preferred securities	-	(17,569)
Purchases of treasury stock	(1,242)	(3,717)

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Proceeds from exercise of stock options	3	76
Excess tax benefits from stock-based compensation arrangements	-	6
Dividends paid	(5,422)	(5,022)
Net Cash Provided by Financing Activities	7,938	13,102
(Decrease) Increase in Cash and Cash Equivalents	(11,136)	2,439
Cash and cash equivalents at beginning of period	59,629	74,518
Cash and Cash Equivalents at End of Period	\$ 48,493	\$ 76,957

See notes to consolidated financial statements.

7

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2009

Note A – Basis of Presentation

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of City Holding Company (“the Parent Company”) 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 three months ended March 31, 2009 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2009. The Company’s accounting and reporting policies conform with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management’s estimates.

The consolidated balance sheet as of December 31, 2008 has been derived from audited financial statements included in the Company’s 2008 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 2008 Annual Report of the Company.

Note B –Previously Securitized Loans

Between 1997 and 1999, the Company completed six securitization transactions involving approximately \$760 million in 125% of fixed rate, junior-lien underlying mortgages. The Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to investors were evidenced by securities (“Notes”). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio. The table below summarizes information regarding delinquencies, net credit recoveries, and outstanding collateral balances of previously securitized loans for the dates presented:

(in thousands)	As of and for the Three Months Ended		As of and for the Year Ended
	March 31, 2009	2008	December 31, 2008
Previously Securitized Loans:			
Total principal amount of loans outstanding	\$ 18,251	\$ 22,532	\$ 18,955
Discount	(14,497)	(16,507)	(14,733)
Net book value	\$ 3,754	\$ 6,025	\$ 4,222
Principal amount of loans between 30 and 89 days past due			
	\$ 754	\$ 819	\$ 999
Principal amount of loans 90 days and above past due			
	64	78	10
Net credit recoveries during the period	264	228	351

Table of Contents

The Company accounts for the difference between the carrying value and the total expected cash flows from these loans as an adjustment of the yield earned on the loans over their remaining lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable. Additionally, the collectibility of previously securitized loans is evaluated over the remaining lives of the loans. An impairment charge on previously securitized loans would be provided through the Company's provision for loan losses if the discounted present value of estimated future cash flows declines below the recorded value of previously securitized loans. No such impairment charges were recorded for the three months ended March 31, 2009 and 2008, or for the year ending December 31, 2008.

As of March 31, 2009, the Company reported a book value of previously securitized loans of \$3.8 million whereas the actual contractual outstanding balance of previously securitized loans at March 31, 2009 was \$18.3 million. The difference ("the discount") between the book value and the expected total cash flows from previously securitized loans is being accreted into interest income over the estimated remaining life of the loans.

For the three months ended March 31, 2009 and 2008, the Company recognized \$1.1 million and \$1.6 million, respectively, of interest income from its previously securitized loans.

Note C – Short-term borrowings

The components of short-term borrowings are summarized below:

(in thousands)	March 31, 2009	December 31, 2008
Security repurchase agreements	\$ 122,364	\$ 122,904
Short-term advances	2,249	71,559
Total short-term borrowings	\$ 124,613	\$ 194,463

Securities sold under agreement to repurchase were sold to corporate and government customers as an alternative to available deposit products. The underlying securities included in repurchase agreements remain under the Company's control during the effective period of the agreements.

Note D – Long-Term Debt

The components of long-term debt are summarized below:

(dollars in thousands)	Maturity	March 31, 2009	Weighted Average Interest Rate
FHLB Advances	2010	\$ 2,000	6.30%
FHLB Advances	2011	528,160	