

CITY HOLDING CO
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended September 30, 2017

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)

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.

YesNo

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).

YesNo

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company []

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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 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 – 15,618,029 shares as of November 1, 2017.

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 Results 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 materially 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 could have adverse legal actions of a material nature; (4) the Company may face competitive loss of customers; (5) the Company may be unable to manage its expense levels; (6) the Company may have difficulty retaining key employees; (7) 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; (8) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (9) 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; (10) the Company may experience difficulties growing loan and deposit balances; (11) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (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 resulting in either actual losses or other than temporary impairments on such investments; (13) the effects of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the regulations promulgated and to be promulgated thereunder, which may subject the Company and its subsidiaries to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses; (14) the impact of new minimum capital thresholds established as a part of the implementation of Basel III; and (15) other risk factors relating to the banking industry or the Company as detailed from time to time in the Company's reports filed with the Securities and Exchange Commission, including those risk factors included in the disclosures under the heading "Item 1A Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

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City Holding Company and Subsidiaries

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Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets

City Holding Company and Subsidiaries

(in thousands)

	(Unaudited)	
	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	\$ 54,281	\$ 62,263
Interest-bearing deposits in depository institutions	28,884	25,876
Cash and Cash Equivalents	83,165	88,139
Investment securities available for sale, at fair value	525,633	450,083
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2017 and December 31, 2016 - \$68,478 and \$76,445, respectively)	66,989	75,169
Other securities	15,988	14,352
Total Investment Securities	608,610	539,604
Gross loans	3,105,912	3,046,226
Allowance for loan losses	(19,554)	(19,730)
Net Loans	3,086,358	3,026,496
Bank owned life insurance	102,706	100,732
Premises and equipment, net	72,334	75,165
Accrued interest receivable	9,236	8,408
Net deferred tax asset	22,355	28,043
Goodwill and other intangible assets, net	78,730	79,135
Other assets	36,060	38,681
Total Assets	\$ 4,099,554	\$ 3,984,403
Liabilities		
Deposits:		
Noninterest-bearing	\$ 669,876	\$ 672,286
Interest-bearing:		
Demand deposits	711,121	695,891
Savings deposits	799,592	822,057
Time deposits	1,075,945	1,041,419
Total Deposits	3,256,534	3,231,653
Short term borrowings:		
Federal funds purchased	79,800	64,100
Customer repurchase agreements	201,664	184,205
Long-term debt	16,495	16,495
Other liabilities	44,746	45,512
Total Liabilities	3,599,239	3,541,965

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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 and 18,606,944 shares issued at September 30, 2017 and December 31, 2017, less 3,429,519 and 3,478,511 shares in treasury, respectively	47,619	46,518
Capital surplus	140,381	112,873
Retained earnings	441,001	417,017
Cost of common stock in treasury	(124,909)	(126,958)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on securities available-for-sale	883	(2,352)
Underfunded pension liability	(4,660)	(4,660)
Total Accumulated Other Comprehensive Income (Loss)	(3,777)	(7,012)
Total Shareholders' Equity	500,315	442,438
Total Liabilities and Shareholders' Equity	\$4,099,554	\$3,984,403

See notes to consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Interest Income				
Interest and fees on loans	\$32,004	\$29,444	\$93,223	\$88,011
Interest and dividends on investment securities:				
Taxable	3,666	3,183	10,591	9,115
Tax-exempt	665	419	2,014	1,141
Interest on deposits in depository institutions	31	—	51	—
Total Interest Income	36,366	33,046	105,879	98,267
Interest Expense				
Interest on deposits	3,796	3,006	10,885	8,915
Interest on short-term borrowings	349	90	693	283
Interest on long-term debt	195	172	565	503
Total Interest Expense	4,340	3,268	12,143	9,701
Net Interest Income	32,026	29,778	93,736	88,566
Provision for loan losses	1,393	1,432	2,584	3,093
Net Interest Income After Provision for Loan Losses	30,633	28,346	91,152	85,473
Non-Interest Income				
Net gains on sale of investment securities	—	2,668	4,276	3,513
Service charges	7,415	6,842	21,219	19,709
Bankcard revenue	4,291	4,216	12,804	12,373
Trust and investment management fee income	1,471	1,329	4,469	3,976
Bank owned life insurance	774	846	2,972	2,374
Other income	660	846	2,303	2,510
Total Non-Interest Income	14,611	16,747	48,043	44,455
Non-Interest Expense				
Salaries and employee benefits	12,876	12,993	38,899	38,456
Occupancy and equipment	2,916	2,759	8,710	8,303
Depreciation	1,450	1,585	4,486	4,719
FDIC insurance expense	328	508	1,031	1,485
Advertising	689	667	2,203	2,161
Bankcard expenses	1,051	1,188	2,964	3,143
Postage, delivery, and statement mailings	517	517	1,576	1,588
Office supplies	377	325	1,082	1,044
Legal and professional fees	504	869	1,393	1,671
Telecommunications	494	459	1,470	1,318
Reposessed asset losses, net of expenses	107	305	589	646
Other expenses	3,000	3,109	8,683	9,173
Total Non-Interest Expense	24,309	25,284	73,086	73,707
Income Before Income Taxes	20,935	19,809	66,109	56,221
Income tax expense	7,003	6,577	21,463	18,745

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Net Income Available to Common Shareholders \$ 13,932 \$ 13,232 \$ 44,646 \$ 37,476

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Total Comprehensive Income	\$14,240	\$12,449	\$47,881	\$42,562
Average shares outstanding, basic	15,485	14,899	15,391	14,902
Effect of dilutive securities	20	11	24	11
Average shares outstanding, diluted	15,505	14,910	15,415	14,913
Basic earnings per common share	\$0.89	\$0.88	\$2.87	\$2.48
Diluted earnings per common share	\$0.89	\$0.88	\$2.86	\$2.48
Dividends declared per common share	\$0.44	\$0.43	\$1.32	\$1.29

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017		
	2016	2017	2016	2017	
Net income		\$13,932	\$13,232	\$44,646	\$37,476
Unrealized gains on available-for-sale securities arising during the period	488	1,427	9,404	11,575	
Reclassification adjustment for gains	—	(2,668)(4,276)(3,513)
Other comprehensive income before income taxes	488	(1,241)5,128	8,062	
Tax effect	(180)458	(1,893)(2,976)
Other comprehensive income (loss), net of tax	308	(783)3,235	5,086	
Comprehensive Income, Net of Tax		\$14,240	\$12,449	\$47,881	\$42,562

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
City Holding Company and Subsidiaries
Nine Months Ended September 30, 2017 and 2016
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2015	\$ 46,249	\$ 106,269	\$ 390,690	\$(120,104)	\$ (3,832)	\$ 419,272
Net income	—	—	37,476	—	—	37,476
Other comprehensive income	—	—	—	—	5,086	5,086
Cash dividends declared (\$1.29 per share)	—	—	(19,343)	—	—	(19,343)
Stock-based compensation expense	—	1,568	—	—	—	1,568
Restricted awards granted	—	(1,627)	—	1,665	—	38
Exercise of 21,000 stock options	—	(214)	—	919	—	705
Purchase of 231,132 treasury shares	—	—	—	(10,018)	—	(10,018)
Balance at September 30, 2016	\$ 46,249	\$ 105,996	\$ 408,823	\$(127,538)	\$ 1,254	\$ 434,784

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2016	\$ 46,518	\$ 112,873	\$ 417,017	\$(126,958)	\$ (7,012)	\$ 442,438
Net income	—	—	44,646	—	—	44,646
Other comprehensive income	—	—	—	—	3,235	3,235
Cash dividends declared (\$1.32 per share)	—	—	(20,662)	—	—	(20,662)
Stock-based compensation expense	—	1,653	—	—	—	1,653
Restricted awards granted	—	(1,351)	—	1,351	—	—
Issuance of 440,604 shares of common stock	1,101	27,307	—	—	—	28,408
Exercise of 16,639 stock options	—	(101)	—	698	—	597
Balance at September 30, 2017	\$ 47,619	\$ 140,381	\$ 441,001	\$(124,909)	\$ (3,777)	\$ 500,315

See notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2017	2016
Net income	\$44,646	\$37,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion and amortization	836	436
Provision for loan losses	2,584	3,093
Depreciation of premises and equipment	4,486	4,719
Deferred income tax expense	3,810	3,998
Net periodic employee benefit cost	337	386
Realized investment securities gains	(4,276)	(3,978)
Investment securities impairment losses	—	465
Stock-compensation expense	1,653	1,606
Excess tax benefit from stock-compensation expense	(550)	—
Proceeds from life insurance	1,717	—
Increase in value of bank-owned life insurance	(1,974)	(2,374)
Loans originated for sale	(13,858)	(11,537)
Proceeds from the sale of loans originated for sale	16,315	11,637
Gain on sale of loans	(437)	(268)
Change in accrued interest receivable	(828)	(554)
Asset write down	—	444
Change in other assets	1,562	(14,068)
Change in other liabilities	(1,505)	16,338
Net Cash Provided by Operating Activities	54,518	47,819
Proceeds from sales of securities available-for-sale	5,576	30,850
Proceeds from maturities and calls of securities available-for-sale	61,367	55,565
Proceeds from maturities and calls of securities held-to-maturity	8,072	9,194
Purchases of securities available-for-sale	(136,418)	(141,271)
Net increase in loans	(63,139)	(96,007)
Purchases of premises and equipment	(4,262)	(3,553)
Disposals of premises and equipment	2,500	408
Net Cash (Used in) Investing Activities	(126,304)	(144,814)
Net (decrease) increase in non-interest-bearing deposits	(2,410)	48,792
Net increase in interest-bearing deposits	27,307	46,963
Net increase in short-term borrowings	33,159	24,515
Proceeds from issuance of common stock	28,408	—
Purchases of treasury stock	—	(10,018)
Proceeds from exercise of stock options	597	705
Dividends paid	(20,249)	(19,266)
Net Cash Provided by Financing Activities	66,812	91,691
(Decrease) in Cash and Cash Equivalents	(4,974)	(5,304)
Cash and cash equivalents at beginning of period	88,139	70,113
Cash and Cash Equivalents at End of Period	\$83,165	\$64,809

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)
September 30, 2017

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 86 banking offices in West Virginia (57), Virginia (14), Kentucky (12) and Ohio (3). City National provides credit, deposit, and trust and investment management services to its customers. In addition to its branch network, City National's delivery channels include ATMs, 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 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 nine months ended September 30, 2017 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2017. 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, 2016 has been derived from audited financial statements included in the Company's 2016 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 2016 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

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This standard clarified the principles for recognizing revenue and developed a common revenue standard. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve that core principle, an entity should apply the following steps: (i) identify the contracts with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU will become effective for the Company on January 1, 2018. The Company's revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2014-09 may require the Company to change how it recognizes certain components of non-interest income, but the Company does not believe it will have a material impact on the Company's financial statements or disclosures. The Company anticipates

adopting this standard with a cumulative effect adjustment to opening retained earnings (the modified retrospective approach), if such adjustment is deemed to be material.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This standard makes several modifications to Subtopic 825-10 including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. This ASU will become effective for the Company for interim and annual periods on January 1, 2018. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This standard requires organizations to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing requirements for leases that were historically classified as operating leases under previous generally accepted accounting principals. This ASU will become

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effective for the Company for interim and annual periods on January 1, 2019. The Company's preliminary evaluation indicates that the adoption of ASU 2016-02 will have an immaterial impact on the Company's consolidated balance sheet. However, the Company continues to evaluate the extent of the potential impact the new guidance will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting." This standard makes several modifications to the accounting for share-based payment transactions, including the income tax consequences when awards are exercised or vest, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU became effective for the Company for interim and annual periods beginning on January 1, 2017. This ASU requires the Company to record all excess tax benefits and tax deficiencies in the income statement and treat excess tax benefits as discrete items in the calculation of income tax expense in the period in which they occur. Under this standard, the Company also elected to account for forfeitures of share-based payments as they occur. The adoption of ASU No. 2016-09 did not have a material impact on the Company's financial statements.

In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." The standard was issued to clarify Revenue from Contracts with Customers (Topic 606) related to: (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date is the same as the effective date of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," as discussed above. ASU 2016-10 is not expected to have a significant impact on the Company's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model (CECL) will apply to the allowance for loan losses, available-for-sale and held to maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures. This ASU will become effective for the Company for interim and annual periods on January 1, 2020. Management is currently evaluating the potential impact of ASU No. 2016-13 on the Company's financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This amendment addresses existing diversity in practice regarding how certain receipts and payments are presented in the statement of cash flows. Issues addressed in this amendment include debt prepayment and extinguishment costs, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance policies, and separately identifiable cash flows and application of the predominance principle and their classifications in the statement of cash flows. This ASU will become effective for the Company for interim and annual periods on January 1, 2018. The adoption of ASU No. 2016-15 is not expected to have a material impact on the Company's financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This amendment improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Issues addressed in this amendment include the recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU will become effective for the Company on January 1, 2018. The adoption of ASU No. 2016-16 is not expected to have a material impact on the Company's financial statements.

In December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." This amendment provides clarification for multiple aspects of Update 2014-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting", including the scope of guarantee fees, impairment testing of contract costs and the accrual of advertising costs. This ASU will become effective for the Company on January 1, 2018. The adoption of ASU No. 2016-20 is not expected to have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." This amendment clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU will become effective for the Company on January 1, 2018. The adoption of ASU No. 2017-01 is not expected to have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This amendment simplifies the measurement of goodwill by eliminating Step 2 from the goodwill

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impairment test. This ASU will become effective for the Company on January 1, 2020. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company's financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This amendment requires that an employer disaggregate the service cost component from the other components of net benefit cost and also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement. This ASU will become effective for the Company on January 1, 2018. The adoption of ASU No. 2017-07 is not expected to have a material impact on the Company's financial statements.

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

In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting." This amendment provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASU No. 2016-09. This ASU will become effective for the Company on January 1, 2018. The adoption of ASU No. 2017-09 is not expected to have a material impact on the Company's financial statements.

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

Note C –Investments

The amortized cost and estimated fair values of the Company's securities are shown in the following table (in thousands):

	September 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
U.S. Treasuries and U.S. government agencies	\$2	\$ —	\$ —	\$2	\$3	\$ —	\$ —	\$3
Obligations of states and political subdivisions	95,907	1,835	574	97,168	83,248	594	1,474	82,368
Mortgage-backed securities:								
U.S. government agencies	397,192	1,931	5,136	393,987	335,867	1,507	6,560	330,814
Private label	687	3	—	690	941	1	—	942
Trust preferred securities	4,761	183	—	4,944	6,052	1,164	554	6,662
Corporate securities	21,918	562	154	22,326	23,925	127	478	23,574
Total Debt Securities	520,467	4,514	5,864	519,117	450,036	3,393	9,066	444,363
Marketable equity securities	2,136	2,881	—	5,017	2,136	2,095	—	4,231
Investment funds	1,525	—	26	1,499	1,525	—	36	1,489

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Total Securities Available-for-Sale	\$524,128	\$ 7,395	\$ 5,890	\$525,633	\$453,697	\$ 5,488	\$ 9,102	\$450,083
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	September 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held-to-maturity:								
Mortgage-backed securities:								
U.S. government agencies	\$62,989	\$ 1,489	\$	-\$ 64,478	\$71,169	\$ 1,346	\$ 70	\$ 72,445
Trust preferred securities	4,000	—	—	4,000	4,000	—	—	4,000
Total Securities								
Held-to-Maturity	\$66,989	\$ 1,489	\$	-\$ 68,478	\$75,169	\$ 1,346	\$ 70	\$ 76,445
Other investment securities:								
Non-marketable equity securities	\$15,988	\$ —	\$	-\$ 15,988	\$14,352	\$ —	\$ —	\$ 14,352
Total Other Investment Securities	\$15,988	\$ —	\$	-\$ 15,988	\$14,352	\$ —	\$ —	\$ 14,352

Marketable equity securities consist of investments made by the Company in equity positions of various regional community banks. Included within this portfolio are ownership positions in the following community bank holding companies: First National Corporation (FXNC) (4%) and Eagle Financial Services, Inc. (EFSI) (1.5%). Securities with limited marketability, such as stock in the Federal Reserve Bank ("Federal Reserve") and the Federal Home Loan Bank ("FHLB"), are carried at cost and are reported as non-marketable equity securities in the table above.

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

	September 30, 2017							
	Less Than Twelve Months		Twelve Months or Greater		Total			
	Estimated Fair Value	Unrealized Loss	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	\$8,291	\$ 146	\$11,859	\$ 428	\$20,150	\$ 574		
Mortgage-backed securities:								
U.S. Government agencies	160,312	3,214	57,814	1,922	218,126	5,136		
Corporate securities	—	—	2,265	154	2,265	154		
Investment funds	1,500	26	—	—	1,500	26		
Total	\$170,103	\$ 3,386	\$71,938	\$ 2,504	\$242,041	\$ 5,890		

	December 31, 2016							
	Less Than Twelve Months		Twelve Months or Greater		Total			
	Estimated Fair Value	Unrealized Loss	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	\$35,108	\$ 1,474	\$—	\$ —	\$35,108	\$ 1,474		

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Mortgage-backed securities:						
U.S. Government agencies	225,530	6,099	8,527	461	234,057	6,560
Trust preferred securities	—	—	4,971	554	4,971	554
Corporate securities	14,306	478	—	—	14,306	478
Investment funds	1,500	36	—	—	1,500	36
Total	\$276,444	\$ 8,087	\$ 13,498	\$ 1,015	\$289,942	\$ 9,102

During the nine months ended September 30, 2017 and 2016, the Company had no investment impairment losses. During the year ended December 31, 2016, the Company had \$0.5 million in investment impairment losses. At September 30, 2017, the

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cumulative amount of credit-related investment impairment losses that have been recognized by the Company on investments that remain in the Company's investment portfolio as of that date was \$3.7 million (\$2.1 million related to the Company's debt securities and \$1.6 million related to the Company's equity securities).

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary would be reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition, capital strength, and near-term (within 12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; and (v) the intent to sell the investment security and if it's more likely than not that the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holdings. Although the regional community bank stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.4% of each respective company being traded on a daily basis. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2017, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread fluctuations on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions should not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of September 30, 2017, management believes the unrealized losses detailed in the table above are temporary and no additional impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

The amortized cost and estimated fair value of debt securities at September 30, 2017, by contractual maturity, are shown in the following table (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

	Amortized Cost	Estimated Fair Value
Securities Available-for-Sale		
Due in one year or less	\$ 2,939	\$ 2,951
Due after one year through five years	12,388	14,839
Due after five years through ten years	80,329	77,039
Due after ten years	424,811	424,288
Total	\$ 520,467	\$ 519,117

Securities Held-to-Maturity

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Due in one year or less	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	66,989	68,478
Total	\$ 66,989	\$ 68,478

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

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	Three months ended September 30, 2017	Nine months ended September 30, 2016	2016
Gross realized gains	\$ 2,722	\$ 4,276	\$ 3,978
Gross realized losses	—(54)	—(465)	
Net investment security gains	\$ 2,668	\$ 4,276	\$ 3,513

During the nine months ended September 30, 2017 the Company realized \$4.3 million of investment gains. These gains represented partial recoveries of impairment charges previously recognized on pooled trust preferred securities. As a result of these sales, the Company no longer holds any pooled trust preferred securities in its investment portfolio.

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$364 million and \$337 million at September 30, 2017 and December 31, 2016, respectively.

Note D –Loans

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

	September 30, 2017	December 31, 2016
Residential real estate	\$ 1,465,942	\$ 1,451,462
Home equity	139,702	141,965
Commercial and industrial	204,722	185,667
Commercial real estate	1,260,906	1,229,516
Consumer	30,323	32,545
DDA overdrafts	4,317	5,071
Gross loans	3,105,912	3,046,226
Allowance for loan losses	(19,554)	(19,730)
Net loans	\$ 3,086,358	\$ 3,026,496

Construction loans of \$19.8 million and \$14.2 million are included within residential real estate loans at September 30, 2017 and December 31, 2016, respectively. Construction loans of \$24.3 million and \$12.8 million are included within commercial real estate loans at September 30, 2017 and December 31, 2016, respectively. 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 policy, which is focused on the risk characteristics of residential and commercial real estate lending, including specific risks related to construction lending. Adequate consideration has been given to these loans in establishing the Company's allowance for loan losses.

Note E – Allowance For Loan Losses

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

and other relevant factors.

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

The following table summarizes the activity in the allowance for loan loss, by portfolio segment, for the nine months ended September 30, 2017 and 2016 (in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments. The following table also presents the balance in the allowance for loan loss disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment, as of September 30, 2017 and December 31, 2016 (in thousands).

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	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	DDA Overdrafts	Total
Nine months ended September 30, 2017							
Allowance for loan loss							
Beginning balance	\$ 4,206	\$ 6,573	\$ 6,680	\$ 1,417	\$ 82	\$ 772	\$ 19,730
Charge-offs	(150)	(564)	(1,295)	(256)	(47)	(1,989)	(4,301)
Recoveries	57	92	286	45	46	1,015	1,541
Provision for acquired loans	—	39	—	—	—	—	39
Provision	946	166	218	68	(25)	1,172	2,545
Ending balance	\$ 5,059	\$ 6,306	\$ 5,889	\$ 1,274	\$ 56	\$ 970	\$ 19,554
Nine months ended September 30, 2016							
Allowance for loan loss							
Beginning balance	\$ 3,271	\$ 6,985	\$ 6,778	\$ 1,463	\$ 97	\$ 657	\$ 19,251
Charge-offs	(148)	(1,213)	(1,281)	(300)	(102)	(1,017)	(4,061)
Recoveries	13	447	113	—	109	585	1,267
Provision for acquired loans	—	164	—	—	—	—	164
Provision	918	(112)	1,414	284	(29)	454	2,929
Ending balance	\$ 4,054	\$ 6,271	\$ 7,024	\$ 1,447	\$ 75	\$ 679	\$ 19,550
As of September 30, 2017							
Allowance for loan loss							
Evaluated for impairment:							
Individually	\$ —	\$ 705	\$ —	\$ —	\$ —	\$ —	\$ 705
Collectively	5,057	5,424	5,861	1,274	54	970	18,640
Acquired with deteriorated credit quality	2	177	28	—	2	—	209
Total	\$ 5,059	\$ 6,306	\$ 5,889	\$ 1,274	\$ 56	\$ 970	\$ 19,554
Loans							
Evaluated for impairment:							
Individually	\$ 1,095	\$ 8,866	\$ —	\$ —	\$ —	\$ —	\$ 9,961
Collectively	203,588	1,245,347	1,463,344	139,702	30,206	4,317	3,086,504
Acquired with deteriorated credit quality	39	6,693	2,598	—	117	—	9,447
Total	\$ 204,722	\$ 1,260,906	\$ 1,465,942	\$ 139,702	\$ 30,323	\$ 4,317	\$ 3,105,912
As of December 31, 2016							
Allowance for loan loss							
Evaluated for impairment:							
Individually	\$ —	\$ 665	\$ —	\$ —	\$ —	\$ —	\$ 665
Collectively	4,200	5,788	6,589	1,417	82	772	18,848
Acquired with deteriorated credit quality	6	120	91	—	—	—	217
Total	\$ 4,206	\$ 6,573	\$ 6,680	\$ 1,417	\$ 82	\$ 772	\$ 19,730

Loans

Evaluated for impairment:

Individually	\$ 1,611	\$ 5,970	\$—	\$—	\$—	\$—	\$7,581
Collectively	183,741	1,216,050	1,448,830	141,965	32,545	5,071	3,028,202
Acquired with deteriorated							

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credit quality 315	7,496	2,632	—	—	—	10,443
Total	\$185,667	\$1,229,516	\$1,451,462	\$141,965	\$32,545	\$5,071 \$3,046,226

Credit Quality Indicators

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

The Company categorizes loans into risk categories based on relevant information regarding the customer's debt service ability, capacity, overall collateral position along with other economic trends, and historical payment performance. The risk grades for each credit are 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.

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

	Commercial and Industrial	Commercial Real Estate	Total
September 30, 2017			
Pass	\$ 166,408	\$ 1,214,526	\$ 1,380,934
Special mention	26,228	12,680	38,908
Substandard	12,086	33,700	45,786
Doubtful	—	—	—
Total	\$ 204,722	\$ 1,260,906	\$ 1,465,628
December 31, 2016			
Pass	\$ 176,823	\$ 1,178,288	\$ 1,355,111
Special mention	2,427	16,031	18,458
Substandard	6,417	35,197	41,614
Doubtful	—	—	—
Total	\$ 185,667	\$ 1,229,516	\$ 1,415,183

The Company's special mention balance for its commercial and industrial loan portfolio as of September 30, 2017 is primarily composed of a shared national credit ("SNC"), in which the Company is a participant, with a balance of \$25.8 million. SNCs are credit facilities greater than \$20 million that are shared by three or more federally supervised financial institutions and are reviewed annually by regulatory authorities at the agent bank level. This special mention loan balance reflects the rating assigned to this SNC as a result of the current year review by the Office of the Comptroller of the Currency ("OCC"). As of September 30, 2017, the SNC is performing in accordance to terms and debt service coverage ratios are acceptable.

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

	Performing	Non-Performing	Total
September 30, 2017			
Residential real estate	\$ 1,463,386	\$ 2,556	\$ 1,465,942
Home equity	139,610	92	139,702
Consumer	30,323	—	30,323
DDA overdrafts	4,317	—	4,317
Total	\$ 1,637,636	\$ 2,648	\$ 1,640,284
December 31, 2016			
Residential real estate	\$ 1,447,087	\$ 4,375	\$ 1,451,462
Home equity	141,834	131	141,965
Consumer	32,545	—	32,545
DDA overdrafts	5,071	—	5,071
Total	\$ 1,626,537	\$ 4,506	\$ 1,631,043

Aging Analysis of Accruing and Non-Accruing Loans

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding, using methods that generally result in level rates of return. Loan origination fees, and certain direct costs, are deferred and amortized as an adjustment to the yield over the term of the loan. The accrual of interest generally is discontinued

when a loan becomes 90 days past due as to principal or interest for all loan types. However, any loan may be placed on non-accrual if the Company receives information that indicates a borrower is unable to meet the contractual terms of its respective loan agreement. Other indicators considered for placing a loan on non-accrual status include the borrower's involvement in bankruptcies, foreclosures, repossessions, litigation and any other situation resulting in doubt as to whether full collection of contractual principal and interest is attainable. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest

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when the net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in the process of collection.

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

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

The following table presents an aging analysis of the Company's accruing and non-accruing loans, by class (in thousands):

	September 30, 2017						
	Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	\$1,458,091	\$4,684	\$611	\$—	\$ —	\$ 2,556	\$1,465,942
Home equity	138,737	797	57	19	—	92	139,702
Commercial and industrial	203,093	304	—	—	—	1,325	204,722
Commercial real estate	1,253,686	240	133	—	147	6,700	1,260,906
Consumer	30,298	23	2	—	—	—	30,323
DDA overdrafts	3,765	542	7	3	—	—	4,317
Total	\$3,087,670	\$6,590	\$810	\$22	\$ 147	\$ 10,673	\$3,105,912

	December 31, 2016						
	Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	\$1,441,086	\$5,364	\$637	\$73	\$ —	\$ 4,302	\$1,451,462
Home equity	141,192	423	219	31	—	100	141,965
Commercial and industrial	183,615	94	—	—	—	1,958	185,667
Commercial real estate	1,221,344	553	—	278	—	7,341	1,229,516
Consumer	32,506	38	1	—	—	—	32,545
DDA overdrafts	4,472	595	4	—	—	—	5,071
Total	\$3,024,215	\$7,067	\$861	\$382	\$ —	\$ 13,701	\$3,046,226

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

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	September 30, 2017			December 31, 2016		
	Unpaid			Unpaid		
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
With no related allowance recorded:						
Commercial and industrial	\$ 1,095	\$ 3,259	\$ —	\$ 1,611	\$ 3,775	\$ —
Commercial real estate	3,062	4,887	—	3,138	4,963	—
Total	\$ 4,157	\$ 8,146	\$ —	\$ 4,749	\$ 8,738	\$ —
With an allowance recorded:						
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial real estate	5,804	5,804	705	2,832	2,832	665
Total	\$ 5,804	\$ 5,804	\$ 705	\$ 2,832	\$ 2,832	\$ 665

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

	Nine months ended September 30, 2017		2016	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
With no related allowance recorded:				
Commercial and industrial	\$ 1,165	—	\$ 2,234	\$ —
Commercial real estate	5,035	64	4,286	9
Total	\$ 6,200	\$ 64	\$ 6,520	\$ 9
With an allowance recorded:				
Commercial and industrial	\$ —	\$ —	\$ —	\$ —
Commercial real estate	3,821	83	—	—
Total	\$ 3,821	\$ 83	\$ —	\$ —

Less than \$0.2 million of interest income would have been recognized during the nine months ended September 30, 2017 and 2016, respectively, if such loans had been current in accordance with their original terms. There were no commitments to provide additional funds on non-accrual, impaired or other potential problem loans at September 30, 2017.

Loan Modifications

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

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

The following tables set forth the Company's TDRs (in thousands):

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	September 30, 2017			December 31, 2016		
	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial and industrial	\$31	\$ —	\$31	\$42	\$ —	\$42
Commercial real estate	8,427	—	8,427	5,525	—	5,525
Residential real estate	20,741	47	20,788	20,424	391	20,815
Home equity	2,947	—	2,947	3,105	30	3,135
Consumer	—	—	—	—	—	—
Total	\$32,146	\$ 47	\$32,193	\$29,096	\$ 421	\$29,517

New TDRs

Nine months ended September 30,
2017

	2017		2016	
	Pre Modification Outstanding	Post Modification Outstanding	Pre Modification Outstanding	Post Modification Outstanding
	Number of Contracts	Investment	Number of Contracts	Investment
Commercial and industrial	—	\$ —	—	\$ —
Commercial real estate	—	—	1	2,207
Residential real estate	273,009	3,009	302,924	2,924
Home equity	7	145	7	190
Consumer	—	—	—	—
Total	34	\$ 3,154	38	\$ 5,321

Note F – Long-Term Debt

The components of long-term debt are summarized below (in thousands):

	September 30, 2017	December 31, 2016
Junior subordinated debentures owed to City Holding Capital Trust III, due 2038, interest at a rate of 4.82% and 4.35%, respectively	\$ 16,495	\$ 16,495

The Company formed a statutory business trust, City Holding Capital Trust III (“Capital Trust III”), under the laws of Delaware. Capital Trust III was created for the exclusive purpose of (i) issuing trust-preferred capital securities (“Capital Securities”), which represent preferred undivided beneficial interests in the assets of the trust, (ii) using the proceeds from the sale of the Capital Securities to acquire junior subordinated debentures (“Debentures”) issued by the Company, and (iii) engaging in only those activities necessary or incidental thereto. The trust is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, the accounts of the trust are not included in the Company’s consolidated financial statements.

Distributions on the Debentures are cumulative and will be payable quarterly at an interest rate of 3.50% over the three month LIBOR rate, reset quarterly. Interest payments are due in March, June, September and December. The Debentures are redeemable prior to maturity at the option of the Company (i) in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of certain predefined events.

Payments of distributions on the Capital Securities and payments on redemption of the Capital Securities are guaranteed by the Company. The Company also entered into an agreement as to expenses and liabilities with the trust pursuant to which it agreed, on a subordinated basis, to pay any cost, expenses or liabilities of the trust other than those arising under the Capital Securities. The obligations of the Company under the Debentures, the related indentures, the trust agreement establishing the trust, the guarantees and the agreements as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the Capital Securities. The Capital Securities issued by the statutory business trust qualify as Tier 1 capital for the Company under current Federal Reserve Board guidelines.

Note G – Derivative Instruments

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The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities on future cash flows. As of September 30, 2017 and December 31, 2016, the Company has derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps and floors used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. For the majority of these instruments the Company acts as an intermediary for its customers. Changes in the fair value of the underlying derivative contracts for the most part offset each other and do not significantly impact the Company's results of operations. The Company also has an interest rate swap that serves as a fair value hedge for changes in long term fixed interest rates related to commercial real estate loans. Hedge ineffectiveness is assessed quarterly and any ineffectiveness is recorded as non-interest expense. For the three and nine months ended September 30, 2017 and 2016, hedge ineffectiveness was less than \$0.1 million for each respective period.

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

	September 30, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Non-hedging interest rate derivatives:				
Customer counterparties:				
Loan interest rate swap - assets	\$318,072	\$7,570	\$234,806	\$7,352
Loan interest rate swap - liabilities	225,990	6,881	207,201	8,111
Non-hedging interest rate derivatives:				
Financial institution counterparties:				
Loan interest rate swap - assets	232,665	6,903	207,201	8,111
Loan interest rate swap - liabilities	311,484	7,575	241,995	7,360
Derivatives designated as hedges of fair value:				
Financial institution counterparties:				
Loan interest rate swap - liabilities	4,326	2	4,626	12

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

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Change in fair value non-hedging interest rate derivatives:				
Other (income) expense - derivative asset	\$(1,897)	\$2,244	\$(3,315)	\$(15,846)
Other expense (income) - derivative liability	1,897	(2,317)	3,315	16,181
Other expense (income) - derivative asset	6	—	30	—
Change in fair value hedging interest rate derivatives:				
Hedged item - derivative asset	—	(45)	3	119
Other income (expense) - derivative liability with financial institution counterparties	—	6	—	10
Other income (expense) - derivative asset with financial institution counterparties	(3)	—	6	—

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. Information about financial instruments that are eligible for offset in the consolidated balance sheet as of September 30, 2017 is presented in the following tables (in thousands):

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Description	Gross Amounts of Recognized Assets (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets Presented in the Statement of Financial Position (c)	Netting Adjustment per Applicable Master Agreement of Financial Collateral (d)	Total of Gross Amounts Not Offset in the Statement of Financial Position Including Applicable Netting Agreement and Fair Value of Collateral (e)	Net Amount (c)-(d) *
Non-hedging derivative assets:						
Interest rate swap agreements - customer counterparties	\$ 7,570	\$	-\$ 7,570	\$ -7,570	\$ 7,570	\$ —
Interest rate swap agreements - financial institution counterparties	\$ 6,903	\$	-\$ 6,903	\$ —	\$ —	\$ 6,903

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Description	Gross Amounts of Financial Liabilities Recognized in the Statement of Financial Position	Gross Amounts of Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Liabilities Presented in the Statement of Financial Position	Gross Amounts of Financial Collateral Meets or Exceeds the Amounts Presented in the Statement of Financial Position	Netting Adjustment per Applicable Master Netting Agreement	Gross Amounts Not Offset in the Balance Sheet	Total of Gross Amounts Not Offset in the Statement of Financial Position Including Applicable Netting Agreement
Non-hedging derivative liabilities:							
Interest rate swap agreements - customer counterparties	\$6,881	\$	-\$ 6,881	\$ \$-6,881	\$ 6,881	\$	—
Interest rate swap agreements - financial institution counterparties	\$7,575	\$	-\$ 7,575	\$ \$-16,459	\$ 16,459	\$	—
Hedging derivative liabilities:							
Interest rate swap agreements- financial institution counterparties	\$2	\$	-\$ 2	\$ \$-3	\$ 3	\$	—

* For instances where the fair value of financial collateral meets or exceeds the amounts presented in the Statement of Financial Position, no value is displayed to represent full collateralization.

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Note H – Employee Benefit Plans

Pursuant to the terms of the City Holding Company 2003 Incentive Plan and the City Holding Company 2013 Incentive Plan (the "2003 Plan" and "2013 Plan", respectively), the Compensation Committee of the Board of Directors, or its delegate, may, from time to time, grant stock options, stock appreciation rights ("SARs"), or restricted stock awards to employees, directors and individuals who provide service to the Company (collectively, "Plan Participants"). The 2003 Plan expired in April of 2013 and the 2013 Plan was approved by the Company's shareholders in April 2013. A maximum of 750,000 shares of the Company's common stock may be issued upon the exercise of stock options, SARs and stock awards under the 2013 Plan. These limitations may be adjusted in the event of a change in the number of outstanding shares of common stock by reason of a stock dividend, stock split or other similar event. Specific terms of options and SARs awarded, including vesting periods, exercise prices (stock price at date of grant) and expiration dates are determined at the date of grant and are evidenced by agreements between the Company and the awardee. The exercise price of the option grants equals the market price of the Company's common stock on the date of grant. All incentive stock options and SARs will be exercisable up to 10 years from the date granted and all options and SARs are exercisable for the period specified in the individual agreement. As of September 30, 2017, approximately 560,000 shares were still available to be issued under the 2013 Plan.

Each award from the 2003 Plan and 2013 Plan is evidenced by an award agreement that specifies the option price, the duration of the option, the number of shares to which the option pertains, and such other provisions as the Compensation Committee, or its delegate, determines. The option price for each grant is equal to the fair market value of a share of the Company's common stock on the date of the grant. Options granted expire at such time as the Compensation Committee, or its delegate, determines at the date of the grant and in no event does the exercise period exceed a maximum of ten years. Upon a change-in-control of the Company, as defined in the 2003 Plan and 2013 Plan, all outstanding options and awards shall immediately vest.

Certain stock options and restricted stock awards granted pursuant to the 2013 Plan have performance-based vesting requirements. These shares will vest in three separate annual installments of approximately 33.33% per installment on the third, fourth and fifth anniversaries of the grant date, subject further to performance-based vesting requirements. The performance-based vesting requirements are as follows:

* First Installment – the mean return on average assets of the Company (excluding merger and acquisition expenses and other nonrecurring items as determined by the Board of Directors of the Company) of the three years immediately prior to the vesting date is equal to or exceeds the median return on average assets over the 20 year period immediately preceding the vesting date of all FDIC insured depository institutions.

* Second Installment – the mean return on average assets of the Company (excluding merger and acquisition expenses and other nonrecurring items as determined by the Board of Directors of the Company) of the four years immediately prior to the vesting date is equal to or exceeds the median return on average assets over the 20 year period immediately preceding the vesting date of all FDIC insured depository institutions.

* Third Installment – the mean return on average assets of the Company (excluding merger and acquisition expenses and other nonrecurring items as determined by the Board of Directors of the Company) of the five years immediately prior to the vesting date is equal to or exceeds the median return on average assets over the 20 year period immediately preceding the vesting date of all FDIC insured depository institutions.

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Stock Options

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

	Nine months ended September 30, 2017		2016	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at January 1	86,613	\$ 41.08	95,015	\$ 38.38
Granted	17,631	66.32	24,348	43.73
Exercised	(16,639)	35.91	(21,000)	33.57
Outstanding at September 30	87,605	\$ 47.15	98,363	\$ 40.76
Exercisable at September 30	7,887	\$ 37.37	14,750	\$ 36.53

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

	Nine months ended September 30, 2017		2016	
Proceeds from stock option exercises	\$ 597	\$ 705		
Intrinsic value of stock options exercised	481	317		
Stock-based compensation expense associated with stock options	\$ 186	\$ 180		
At period-end:	September 30, 2017			
Unrecognized stock-based compensation expense associated with stock options	\$ 442			
Weighted average period (in years) in which the above amount is expected to be recognized	2.7			

Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares would be issued from available authorized shares. During the nine months ended September 30, 2017 and 2016, all shares issued in connection with stock option exercises were issued from available treasury stock. For the stock options that have performance-based criteria, management has evaluated those criteria and has determined that, as of September 30, 2017, the criteria were probable of being met.

Additional information regarding stock options outstanding and exercisable at September 30, 2017, is provided in the following table:

Ranges of Exercise Prices	No. of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)	No. of Options Currently Exercisable	Weighted-Average Exercise Price of Options Currently Exercisable	Aggregate Intrinsic Value of Options Currently Exercisable (in thousands)
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\$30.00 - \$34.99	500	\$ 30.38	1.1	21	500	\$ 30.38	1.1	\$ 21
35.00 - 39.99	20,854	37.13	5.2	725	5,379	35.39	4.5	196
40.00 - 44.99	35,659	43.95	7.8	997	2,008	44.43	6.5	55
45.00 - 49.99	12,961	46.61	7.4	328	—	—	—	—
50.00 - 70.00	17,631	66.32	9.4	\$ 99	—	—	—	\$ —
	87,605			\$ 2,170	7,887			\$ 272

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The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following weighted average assumptions were used to estimate the fair value of options granted:

	Nine months ended		
	September 30,		
	2017	2016	
Risk-free interest rate	2.12	% 1.43	%
Expected dividend yield	2.60	% 3.86	%
Volatility factor	25.80	% 30.76	%
Expected life of option	7.0 years	7.0 years	

Restricted Shares

The Company records compensation expense with respect to restricted shares in an amount equal to the fair value of the common stock covered by each award on the date of grant. The restricted shares awarded 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 have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. For restricted shares that have performance-based criteria, management has evaluated those criteria and has determined that, as of September 30, 2017, the criteria were probable of being met.

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

	Nine months ended September 30,			
	2017		2016	
	Restricted Awards	Average Market Price at Grant	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	182,122	\$ 39.40	172,921	\$ 37.83
Granted	27,339	64.42	28,801	46.16
Forfeited	(1,850)	42.25	(500)	46.54
Vested	(37,278)	35.02	(22,200)	33.81
Outstanding at September 30	170,333	\$ 44.35	179,022	\$ 39.21

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

	Nine months ended	
	September 30, 2017	2016
Stock-based compensation expense associated with restricted shares	\$ 1,107	\$ 1,010

At period-end:	September 30, 2017
Unrecognized stock-based compensation expense associated with restricted shares	\$3,606
Weighted average period (in years) in which the above amount is expected to be recognized	3.4

Shares issued in connection with restricted stock awards are issued from available treasury shares. If no treasury shares are available, new shares would be issued from available authorized shares. During the nine months ended September 30, 2017 and 2016, all shares issued in connection with restricted stock awards were issued from available treasury stock.

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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 two frozen defined benefit pension plans (the “Defined Benefit Plans”), which were inherited from the Company's acquisition of the plan sponsors (Horizon Bancorp, Inc. and Community Financial Corporation).

The following table presents details of the Company's activities pursuant to these plans (in thousands):

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Components of net periodic cost:				
Interest cost	\$ 193	\$ 205	\$ 579	\$ 615
Expected return on plan assets	(294)	(288)	(883)	(865)
Net amortization and deferral	212	212	641	636
Net Periodic Pension Cost	\$ 111	\$ 129	\$ 337	\$ 386
401(k) Plan expense	\$ 207	\$ 197	\$ 654	\$ 615
Defined Benefit Plan contributions	\$—	\$—	\$—	\$—

Note I – Commitments and Contingencies

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

	September 30, 2017	December 31, 2016
Commitments to extend credit:		
Home equity lines	\$ 194,818	\$ 185,553
Commercial real estate	65,071	98,883
Other commitments	195,157	203,103

Standby letters of credit	7,240	5,014
Commercial letters of credit	966	1,859

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.

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.

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Note J – Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss is presented in the tables below (in thousands). All amounts are shown net of tax, which is calculated using a combined federal and state income tax rate approximating 37%.

	Accumulated Other Comprehensive Income (Loss)			
	Unrealized Gains (Losses) on			
	Defined Benefit Pension Plans	Securities Available-for-Sale	Total	
Balance at December 31, 2015	\$ (4,759)	\$ 927	\$ (3,832)	
Other comprehensive income before reclassifications	—	7,301	7,301	
Amounts reclassified from other comprehensive loss	—	(2,215)	(2,215)	
	—	5,086	5,086	
Balance at September 30, 2016	\$ (4,759)	\$ 6,013	\$ 1,254	
Balance at December 31, 2016	\$ (4,660)	\$ (2,352)	\$ (7,012)	
Other comprehensive income before reclassifications	—	5,933	5,933	
Amounts reclassified from other comprehensive loss	—	(2,698)	(2,698)	
	—	3,235	3,235	
Balance at September 30, 2017	\$ (4,660)	\$ 883	\$ (3,777)	
	Amount reclassified from Other Comprehensive Loss			
	Three months ended September 30, 2016	Nine months ended September 30, 2017	Affected line item in the Statements of Income	
Securities available-for-sale:				
Net securities gains reclassified into earnings	\$ (2,668)	\$ (4,276)	\$ (3,513)	Security gains (losses)
Related income tax expense	—985	1,578	1,298	Income tax expense
Net effect on accumulated other comprehensive loss	\$ (1,683)	\$ (2,698)	\$ (2,215)	

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Note K – Earnings per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Distributed earnings allocated to common stock	\$6,797	\$6,376	\$20,391	\$19,128
Undistributed earnings allocated to common stock	6,981	6,699	23,767	17,901
Net earnings allocated to common shareholders	\$13,778	\$13,075	\$44,158	\$37,029
Average shares outstanding	15,485	14,899	15,391	14,902
Effect of dilutive securities:				
Employee stock awards	20	11	24	11
Shares for diluted earnings per share	15,505	14,910	15,415	14,913
Basic earnings per share	\$0.89	\$0.88	\$2.87	\$2.48
Diluted earnings per share	\$0.89	\$0.88	\$2.86	\$2.48

Note L – Fair Value Measurements

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

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

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

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

The Company bases fair value of assets and liabilities on quoted market prices, prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. If such information is not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a

different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amount presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Liabilities

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

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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. Although no control deficiencies were noted, the report did contain caveats and disclaimers regarding the pricing information, such as the Company should review fair values for reasonableness. On a quarterly basis, the Company selects a sample of its debt securities and reprices those securities with a third party that is independent of the primary pricing service provider to verify the reasonableness of the fair values. In addition, the Company selects a sample of securities and reviews the underlying support from the primary pricing service provider.

In prior years, the Company determined that its pooled trust preferred securities should be priced using Level 3 inputs in accordance with ASC Topic 820 and guidance issued by the SEC. The Company determined that there were few observable transactions and market quotations available for pooled trust preferred securities and that they were not reliable for purposes of determining fair value. Due to these circumstances, the Company elected to utilize an income valuation approach produced by a third party pricing source. This third party model utilized deferral and default probabilities for the underlying issuers, estimated prepayment rates and assumed no future recoveries of any defaults or deferrals. The Company then compared the values provided by the third party model with other external sources. As of September 30, 2017, the Company no longer has any pooled trust preferred securities.

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 its Other Assets and Other Liabilities in the accompanying consolidated balance sheets. Derivative assets are typically secured through securities with financial counterparties or cross collateralization with a borrowing customer. Derivative liabilities are typically secured through the Company pledging securities to financial counterparties or, in the case of a borrowing customer, by the right of setoff. The Company considers factors such as the likelihood of default by itself and its counterparties, right of setoff, and remaining maturities in determining the appropriate fair value adjustments. All derivative counterparties approved by the Company's Asset and Liability Committee ("ALCO") are regularly reviewed, and appropriate business action is taken to adjust the exposure to certain counterparties, if necessary. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of marketable collateral securing the position. This approach used to estimate impacted exposures to counterparties is also used by the Company to estimate its own credit risk in derivative liability positions. To date, no material losses have been incurred due to a counterparty's inability to pay any undercollateralized position. There was no significant change in the value of derivative assets and liabilities attributed to credit risk that would have resulted in a derivative credit risk valuation adjustment at September 30, 2017.

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data for real estate collateral or Level 3 inputs for non-real estate collateral. The following table presents assets and liabilities measured at fair value (in thousands):

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	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
September 30, 2017					
Recurring fair value measurements					
Financial Assets					
U.S. Government agencies	\$ 2	\$	—	\$ 2	\$—
Obligations of states and political subdivisions	97,168	—	97,168	—	
Mortgage-backed securities:					
U.S. Government agencies	393,987	—	393,987	—	
Private label	690	—	690	—	
Trust preferred securities	4,944	—	4,683	261	
Corporate securities	22,326	—	22,326	—	
Marketable equity securities	5,017	5,017	—	—	
Investment funds	1,499	1,499	—	—	
Derivative assets	14,473	—	14,473	—	
Financial Liabilities					
Derivative liabilities	14,458	—	14,458	—	
Nonrecurring fair value measurements					
Financial Assets					
Impaired loans	\$ 9,256	\$	—	\$ 9,256	\$(705)
Non-Financial Assets					
Other real estate owned	3,995	—	—	3,995	(312)
Other assets	—	—	—	—	(170)
December 31, 2016					
Recurring fair value measurements					
Financial Assets					
U.S. Government agencies	\$ 3	\$	—	\$ 3	\$—
Obligations of states and political subdivisions	82,368	—	82,368	—	
Mortgage-backed securities:					
U.S. Government agencies	330,814	—	330,814	—	
Private label	942	—	942	—	
Trust preferred securities	6,662	—	4,127	2,535	
Corporate securities	23,574	—	23,574	—	
Marketable equity securities	4,231	4,231	—	—	
Investment funds	1,489	1,489	—	—	
Derivative assets	15,463	—	15,463	—	
Financial Liabilities					
Derivative liabilities	15,483	—	15,483	—	
Nonrecurring fair value measurements					
Financial Assets					
Impaired loans	\$ 6,916	\$	—	\$ 6,916	\$(665)
Non-Financial Assets					
Other real estate owned	4,588	—	—	4,588	(665)
Other assets	625	—	—	625	(444)

The table below presents a reconciliation of the Company's financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which consist solely of trust preferred securities (in thousands):

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	Nine months ended September 30,	
	2017	2016
Beginning balance	\$2,535	\$2,096
Impairment losses on investment securities	—	(465)
Gains on sale of investment securities	—	3,978
Included in other comprehensive income	(974)	(2,985)
Dispositions	(1,300)	—
Transfers into Level 3	—	—
Ending balance	\$261	\$2,624

The Company utilizes a third party model to compute the present value of expected cash flows which considers the structure and term of pooled trust preferred securities and the financial condition of the underlying issuers. Specifically, the third party model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. For issuing banks that have defaulted, management generally assumes no recovery. For issuing banks that have deferred interest payments, management excludes the collateral balance associated with these banks and assumes no recoveries of such collateral balance in the future. The exclusion of such issuing banks in a current deferral position is based on such bank experiencing a certain level of financial difficulty that raises doubt about its ability to satisfy its contractual debt obligation, and accordingly, the Company excludes the associated collateral balance from its estimate of expected cash flows. Other assumptions used in the estimate of expected cash flows include expected future default rates and prepayments.

The table below presents a reconciliation of the Company's financial assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3), which solely relates to impaired loans that were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral (in thousands). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to discounts applied to the customers' reported amount of collateral. The amount of collateral discount depends upon the marketability of the underlying collateral. During the nine months ended September 30, 2017 and 2016, collateral discounts ranged from 20% to 30%. During the nine months ended September 30, 2017 and 2016, the Company had no Level 2 financial assets and liabilities that were measured on a nonrecurring basis.

	Nine months ended September 30,	
	2017	2016
Beginning balance	\$ 6,916	\$ 8,482
Loans classified as impaired during the period	2,995	—
Specific valuation allowance allocations	(86)	—
Loans classified as impaired during the	2,909	—

period, net of specific
valuation allowances

(Additional) reduction
in specific valuation 40
allowance allocations

Paydowns, payoffs,
other activity (609) (3,115)

Ending balance \$ 9,256 \$ 5,367

Non-Financial Assets and Liabilities

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

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table below presents OREO that was remeasured and reported at fair value based on significant unobservable inputs (Level 3) (in thousands):

	Nine months ended September 30, 2017 2016	
Beginning balance	\$4,588	\$6,518
OREO remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	2,743	2,528
Charge-offs recognized in the allowance for loan losses	(954)	—
Fair value	1,789	2,528
OREO remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	1,464	1,228
Fair value	1,152	829
Write-downs included in other non-interest expense	(312)	(399)
Disposed	(2,070)	(3,156)
Ending balance	\$3,995	\$5,491

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 rate 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 methods and assumptions were used in estimating fair value for financial instruments:

Cash and cash equivalents: Due to their short-term nature, the carrying amounts reported in the consolidated balance sheets approximate fair value.

Securities: The fair value of securities, both available-for-sale and held-to-maturity, are generally based on quoted market prices 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.

Net loans: The fair value of the loan portfolio is estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers for the same remaining maturities. Loans were first segregated by type such as commercial, real estate and consumer, and were then further segmented into fixed, adjustable and variable rate categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Deposits: The fair values of demand deposits (i.e., interest and noninterest-bearing deposits, regular savings and other money market demand accounts) are, by definition, equal to their carrying values. The fair values of time deposits were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits with similar remaining maturities. The fair values of the time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Short-term debt: Securities sold under agreements to repurchase represent borrowings with original maturities of less than 90 days. The carrying amount of borrowings under purchase agreements approximate their fair value.

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Long-term debt: The fair value of long-term borrowings is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and market conditions of similar debt instruments.

Commitments and letters of credit: The fair values of commitments are estimated based on fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the counterparties' credit standing. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The amounts of fees currently charged on commitments and letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values have not been reflected in the table below.

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2017					
Assets:					
Cash and cash equivalents	\$ 83,165	\$ 83,165	\$ 83,165	\$ —	—
Securities available-for-sale	525,633	525,633	6,516	518,856	261
Securities held-to-maturity	66,989	68,478	—	68,478	—
Other securities	15,988	15,988	—	15,988	—
Net loans	3,086,358	3,076,108	—	—	3,076,108
Accrued interest receivable	9,236	9,236	9,236	—	—
Derivative assets	14,473	14,473	—	14,473	—
Liabilities:					
Deposits	3,256,534	3,255,343	2,180,589	1,074,754	—
Short-term debt	281,464	281,464	—	281,464	—
Long-term debt	16,495	16,452	—	16,452	—
Derivative liabilities	14,458	14,458	—	14,458	—
December 31, 2016					
Assets:					
Cash and cash equivalents	88,139	88,139	88,139	—	—
Securities available-for-sale	450,083	450,083	5,720	441,828	2,535
Securities held-to-maturity	75,169	76,445	—	76,445	—
Other securities	14,352	14,352	—	14,352	—
Net loans	3,026,496	3,014,425	—	—	3,014,425
Accrued interest receivable	8,408	8,408	8,408	—	—
Derivative assets	15,463	15,463	—	15,463	—
Liabilities:					
Deposits	3,231,653	3,232,970	2,190,234	1,042,736	—
Short-term debt	248,305	248,305	—	248,305	—
Long-term debt	16,495	16,455	—	16,455	—

Derivative liabilities	15,483	15,483	—	15,483	—
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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The accounting policies of the Company conform with U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management's estimates. As this information changes, management's estimates and assumptions used to prepare the Company's financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One to the audited financial statements included in the Company's 2016 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 2016 Annual Report of the Company. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

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

The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2013 through 2015 and various state taxing authorities.

Financial Summary

Nine months ended September 30, 2017 vs. 2016

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

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Nine months ended
September 30,
2017 2016

Net income available to common shareholders (in thousands)	\$44,646	\$37,476	
Earnings per common share, basic	\$2.87	\$2.48	
Earnings per common share, diluted	\$2.86	\$2.48	
Dividend payout ratio	45.7	% 51.0	%
ROA*	1.46	% 1.31	%
ROE*	12.2	% 11.7	%
ROATCE*	14.6	% 14.4	%
Average equity to average assets ratio	12.0	% 11.2	%

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

The Company's net interest income for the nine months ended September 30, 2017 increased \$5.2 million compared to the nine months ended September 30, 2016 (see Net Interest Income). The Company recorded a provision for loan losses of \$2.6 million for the nine months ended September 30, 2017 compared to \$3.1 million for the nine months ended September 30, 2016 (see Allowance and Provision for Loan Losses). As further discussed under the caption Non-Interest Income and Non-Interest Expense, non-interest income increased \$3.6 million and non-interest expense decreased \$0.6 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016.

Three months ended September 30, 2017 vs. 2016

The Company's financial performance for the three months ended September 30, 2017 and 2016 is summarized in the following table:

	Three months ended September 30,		
	2017	2016	
Net income available to common shareholders (in thousands)	\$13,932	\$13,232	
Earnings per common share, basic	\$0.89	\$0.88	
Earnings per common share, diluted	\$0.89	\$0.88	
Dividend payout ratio	48.8	% 48.2	%
ROA	1.37	% 1.38	%
ROE	11.1	% 12.2	%
ROATCE	13.2	% 14.9	%
Average equity to average assets ratio	12.3	% 11.4	%

The Company's net interest income for the three months ended September 30, 2017 increased \$2.2 million compared to the three months ended September 30, 2016 (see Net Interest Income). The Company recorded a provision for loan losses of \$1.4 million for the three months ended September 30, 2017 and for the three months ended September 30, 2016 (see Allowance and Provision for Loan Losses). As further discussed under the caption Non-Interest Income and Non-Interest Expense, non-interest income decreased \$2.1 million and non-interest expense decreased \$1.0 million from the three months ended September 30, 2016.

Balance Sheet Analysis

Selected balance sheet fluctuations from the year ended December 31, 2016 are summarized in the following table (in millions):

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	September 30, 2017	December 31, 2016	\$ Change	% Change
Cash and cash equivalents	\$ 83.2	\$ 88.1	\$ (4.9)	(5.6)%
Investment securities	608.6	539.6	69.0	12.8 %
Gross loans	3,105.9	3,046.2	59.7	2.0 %
Total deposits	3,256.5	3,231.7	24.8	0.8 %
Federal Funds purchased	79.8	64.1	15.7	24.5 %
Shareholders' Equity	500.3	442.4	57.9	13.1 %

Cash and cash equivalents decreased \$4.9 million from December 31, 2016 to \$83.2 million at September 30, 2017 primarily due to a decrease in cash on-hand.

Investment securities increased \$69.0 million from December 31, 2016 to \$608.6 million at September 30, 2017 primarily due to additional investment purchases made during the nine months ended September 30, 2017.

Gross loans increased \$59.7 million (2.0%) from December 31, 2016 to \$3.11 billion at September 30, 2017. Commercial real estate loans increased \$31.4 million (2.6%), commercial and industrial loans increased \$19.1 million (10.3%), and residential real estate loans increased \$14.5 million (1.0%). These increases were partially offset by decreases in home equity loans of \$2.3 million and consumer loans of \$2.2 million.

Total deposits increased \$24.8 million from December 31, 2016 to \$3.26 billion at September 30, 2017 due to growth in time deposits of \$34.5 million and interest-bearing demand deposits of \$15.2 million. These increases were partially offset by decreases in savings deposits of \$22.5 million and non-interest bearing demand deposits of \$2.4 million.

Federal Funds purchased increased \$15.7 million from December 31, 2016, as the Company's loan and investment securities growth exceeded its deposit growth.

Shareholders' equity increased \$57.9 million primarily due to net income of \$44.6 million and the fact that the Company sold approximately 441,000 shares of common stock at a weighted average price of \$64.48 per share, net of broker fees during the nine months ended September 30, 2017. These increases were partially offset by cash dividends declared of \$20.7 million.

Net Interest Income

Nine months ended September 30, 2017 vs. 2016

The Company's tax equivalent net interest income increased \$5.6 million, or 6.3%, from \$89.2 million for the nine months ended September 30, 2016 to \$94.8 million for the nine months ended September 30, 2017. The increase was primarily due to higher average balances on commercial loans which increased income by \$4.1 million, and residential real estate loans which increased income \$1.2 million as compared to the nine months ended September 30, 2016. In addition, higher average investment balances increased investment income by \$2.6 million. These increases were partially offset by increased interest expense on interest bearing accounts (\$2.0 million), primarily due to an increase in the cost of funds, and lower accretion from fair value adjustments on recent acquisitions (\$1.1 million). The Company's reported net interest margin decreased from 3.52% for the nine months ended September 30, 2016 to

3.46% for the nine months ended September 30, 2017. Excluding the favorable impact of accretion, the net interest margin for the nine months ended September 30, 2017 and 2016 would have been 3.41% and 3.43%, respectively.

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

Assets	Nine months ended September 30,					
	2017			2016		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Loan portfolio ⁽¹⁾ :						
Residential real estate ⁽²⁾	\$1,591,403	\$47,329	3.98%	\$1,549,465	\$45,267	3.90%
Commercial, financial, and agriculture ⁽²⁾	1,446,849	42,974	3.97	1,304,467	39,294	4.02
Installment loans to individuals ^{(2),(3)}	34,881	1,835	7.03	38,166	2,220	7.77
Previously securitized loans ⁽⁴⁾	***	1,086	***	***	1,230	***
Total loans	3,073,133	93,224	4.06	2,892,098	88,011	4.06
Securities:						
Taxable	481,372	10,591	2.94	432,303	9,115	2.82
Tax-exempt ⁽⁵⁾	88,484	3,099	4.68	46,646	1,754	5.02
Total securities	569,856	13,690	3.21	478,949	10,869	3.03
Deposits in depository institutions	25,822	51	0.26	9,779	—	—
Total interest-earning assets	3,668,811	106,965	3.90	3,380,826	98,880	3.91
Cash and due from banks	92,159			104,287		
Bank premises and equipment	73,686			76,161		
Other assets	249,700			260,297		
Less: allowance for loan losses	(19,999)			(19,930)		
Total assets	\$4,064,357			\$3,801,641		
Liabilities						
Interest-bearing demand deposits	\$706,355	\$476	0.09%	\$683,926	\$458	0.09%
Savings deposits	844,375	998	0.16	765,222	699	0.12
Time deposits ⁽²⁾	1,063,137	9,411	1.18	1,026,845	7,757	1.01
Short-term borrowings	208,419	693	0.44	156,884	283	0.24
Long-term debt	16,495	565	4.58	16,495	504	4.08
Total interest-bearing liabilities	2,838,781	12,143	0.57	2,649,372	9,701	0.49
Noninterest-bearing demand deposits	697,231			679,730		
Other liabilities	41,159			45,452		
Stockholders' equity	487,186			427,087		
Total liabilities and stockholders' equity	\$4,064,357			\$3,801,641		
Net interest income		\$94,822			\$89,179	
Net yield on earning assets			3.46%			3.52%

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- For purposes of this table, non-accruing loans have
 (1) been included in average balances and loan fees,
 which are immaterial, have been included in interest
 income.
 Included in the above table are the following amounts
 for the accretion of the fair value adjustments related
 (2) to the acquisitions of Virginia Savings Bancorp, Inc.,
 Community Financial Corporation and American
 Founders Bank, Inc.:

	Nine months ended September 30, 2017 2016	
Residential real estate	\$404	\$538
Commercial, financial and agriculture	907	1,360
Installment loans to individuals	17	98
Time deposits	16	444
	\$1,344	\$2,440

- (3) Includes the Company's consumer and DDA overdrafts
 loan categories.
 Effective January 1, 2012, the carrying value of the
 (4) Company's previously securitized loans was reduced to
 \$0.
 (5) Computed on a fully federal tax-equivalent basis
 assuming a tax rate of approximately 35%.

Table Two

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

	Nine months ended September 30, 2017 vs. 2016 Increase (Decrease) Due to Change In:		
Interest-earning assets:	Volume	Rate	Net
Loan portfolio			
Residential real estate	\$1,224	\$838	\$2,062
Commercial, financial, and agriculture	4,285	(605)	3,680
Installment loans to individuals	(191)	(194)	(385)
Previously securitized loans	—	(144)	(144)
Total loans	5,318	(105)	5,213
Securities:			
Taxable	1,034	442	1,476
Tax-exempt ⁽¹⁾	1,572	(227)	1,345
Total securities	2,606	215	2,821
Deposits in depository institutions	—	51	51

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Total interest-earning assets	\$7,924	\$161	\$8,085
Interest-bearing liabilities:			
Interest-bearing demand deposits	\$15	\$3	\$18
Savings deposits	72	227	299
Time deposits	274	1,380	1,654
Short-term borrowings	93	317	410
Long-term debt	—	61	61
Total interest-bearing liabilities	\$454	\$1,988	\$2,442
Net Interest Income	\$7,470	\$(1,827)	\$5,643

(1) Fully federal taxable equivalent using a tax rate of approximately 35%.

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Three months ended September 30, 2017 vs. 2016

The Company's tax equivalent net interest income increased \$2.4 million or 7.9%, from \$30.0 million for the three months ended September 30, 2016 to \$32.4 million for the three months ended September 30, 2017. Higher average balances of commercial and residential real estate loans (\$173.3 million) increased net interest income by \$1.7 million while higher average investment balances (\$94.1 million) increased net interest income by \$0.8 million. In addition, higher yields on commercial and residential real estate loans increased net interest income by \$1.1 million. These increases were partially offset by increased interest expense on interest bearing accounts (\$0.7 million) and lower accretion from fair value adjustments (\$0.3 million). The Company's reported net interest margin decreased from 3.48% for the three months ended September 30, 2016 to 3.45% for the three months ended September 30, 2017. Excluding the favorable impact of accretion, the net interest margin for the three months ended September 30, 2017 and 2016 would have been 3.42% and 3.40%, respectively.

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

Assets	Three months ended September 30,					
	2017			2016		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Loan portfolio ⁽¹⁾ :						
Residential real estate ⁽²⁾	\$1,598,037	\$16,117	4.00%	\$1,570,787	\$15,309	3.88%
Commercial, financial, and agriculture ⁽²⁾	1,457,821	14,903	4.06	1,311,819	13,066	3.96
Installment loans to individuals ^{(2),(3)}	33,935	630	7.37	37,150	690	7.39
Previously securitized loans ⁽⁴⁾	***	353	***	***	378	***
Total loans	3,089,793	32,003	4.11	2,919,756	29,443	4.01
Securities:						
Taxable	507,106	3,666	2.87	449,977	3,183	2.81
Tax-exempt ⁽⁵⁾	91,276	1,024	4.45	54,317	644	4.72
Total securities	598,382	4,690	3.11	504,294	3,827	3.02
Deposits in depository institutions	31,517	31	0.39	9,623	—	—
Total interest-earning assets	3,719,692	36,724	3.92	3,433,673	33,270	3.85
Cash and due from banks	62,723			87,219		
Bank premises and equipment	72,756			75,743		
Other assets	247,076			263,258		
Less: allowance for loan losses	(20,038)			(19,517)		
Total assets	\$4,082,209			\$3,840,376		
Liabilities						
Interest-bearing demand deposits	\$700,625	\$159	0.09%	\$687,487	\$138	0.08%
Savings deposits	821,949	321	0.15	761,734	234	0.12
Time deposits ⁽²⁾	1,070,941	3,316	1.23	1,030,731	2,634	1.02
Short-term borrowings	230,030	349	0.60	154,585	90	0.23
Long-term debt	16,495	195	4.69	16,495	172	4.15
Total interest-bearing liabilities	2,840,040	4,340	0.61	2,651,032	3,268	0.49
Noninterest-bearing demand deposits	698,106			700,932		
Other liabilities	42,202			52,641		
Stockholders' equity	501,861			435,771		
Total liabilities and stockholders' equity	\$4,082,209			\$3,840,376		

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Net interest income	\$32,384	\$30,002
Net yield on earning assets	3.45%	3.48%

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For purposes of this table, non-accruing loans have
 (1) been included in average balances and loan fees,
 which are immaterial, have been included in
 interest income.

Included in the above table are the following
 amounts for the accretion of the fair value
 (2) adjustments related to the acquisitions of Virginia
 Savings Bancorp, Inc., Community Financial
 Corporation and American Founders Bank, Inc.:

	Three months ended September 30, 2017 2016	
Residential real estate	\$122	\$166
Commercial, financial and agriculture	235	311
Installment loans to individuals	3	16
Time deposits	—	148
	\$360	\$641

- (3) Includes the Company's consumer and DDA
 overdrafts loan categories.
 Effective January 1, 2012, the carrying value of the
 (4) Company's previously securitized loans was
 reduced to \$0.
 (5) Computed on a fully federal tax-equivalent basis
 assuming a tax rate of approximately 35%.

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

	Three months ended September 30, 2017 vs. 2016 Increase (Decrease)		
Interest-earning assets:	Due to Change In:		
	Volume	Rate	Net
Loan portfolio			
Residential real estate	\$266	\$542	\$808
Commercial, financial, and agriculture	1,458	379	1,837
Installment loans to individuals	(60)	—	(60)
Previously securitized loans	—	(25)	(25)
Total loans	1,664	896	2,560
Securities:			
Taxable	405	78	483

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Tax-exempt ⁽¹⁾	439	(59)380
Total securities	844	19	863
Deposits in depository institutions	—	31	31
Total interest-earning assets	\$2,508	\$946	\$3,454
Interest-bearing liabilities:			
Interest-bearing demand deposits	\$3	\$18	\$21
Savings deposits	19	68	87
Time deposits	103	579	682
Short-term borrowings	44	215	259
Long-term debt	—	23	23
Total interest-bearing liabilities	\$169	\$903	\$1,072
Net Interest Income	\$2,339	\$43	\$2,382

(1) Fully federal taxable equivalent using a tax rate of approximately 35%.

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Table Five

Non-GAAP Financial Measures

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

	Three months ended September 30,		Nine months ended September 30,		
	2017	2016	2017	2016	
Net interest income (GAAP)	\$32,026	\$29,778	\$93,736	\$88,566	
Taxable equivalent adjustment	358	224	1,086	613	
Net interest income, fully taxable equivalent	\$32,384	\$30,002	\$94,822	\$89,179	
Average interest earning assets	\$3,719,692	\$3,433,673	\$3,668,811	\$3,380,826	
Net interest margin	3.45	% 3.48	% 3.46	% 3.52	%
Net interest income (GAAP)	\$32,026	\$29,778	\$93,736	\$88,566	
Taxable equivalent adjustment	358	224	1,086	613	
Accretion related to fair value adjustments	(360)	(641)	(1,344)	(2,441)	
Net interest income, fully taxable equivalent, excluding accretion	\$32,024	\$29,361	\$93,478	\$86,738	
Net interest margin (excluding accretion)	3.42	% 3.40	% 3.41	% 3.43	%

Loans

Table Six

Loan Portfolio

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

	September 30, 2017	December 31, 2016	September 30, 2016
Residential real estate	\$1,465,942	\$1,451,462	\$1,445,242
Home equity	139,702	141,965	141,616
Commercial and industrial	204,722	185,667	176,387
Commercial real estate	1,260,906	1,229,516	1,158,088
Consumer	30,323	32,545	33,614

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DDA overdrafts	4,317	5,071	2,965
Total loans	\$3,105,912	\$3,046,226	\$2,957,912

Loan balances increased \$59.7 million from December 31, 2016 to September 30, 2017.

Residential real estate loans increased \$14.5 million from December 31, 2016 to September 30, 2017. Residential real estate loans represent loans to consumers that are secured by a first lien on residential property. Residential real estate loans provide for the purchase or refinance of a residence and first-lien home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family 3 and 5 year adjustable rate mortgages with terms that amortize up to 30

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years. The Company also offers fixed-rate residential real estate loans that are sold in the secondary market that are not included on the Company's balance sheet; the Company does not retain the servicing rights to these loans. Residential mortgage loans are generally underwritten to comply with Fannie Mae guidelines, while the home equity loans are underwritten with typically less documentation, but with lower loan-to-value ratios and shorter maturities. At September 30, 2017, \$19.8 million of the residential real estate loans were for properties under construction.

Home equity loans decreased \$2.3 million during the first nine months of 2017. 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. The amount of credit extended is directly related to the value of the real estate at the time the loan is made.

The commercial and industrial ("C&I") loan portfolio consists of loans to corporate borrowers that are primarily in small to mid-size industrial and commercial companies. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. C&I loans are considered to contain a higher level of risk than other loan types, although care is taken to minimize these risks. Numerous risk factors impact this portfolio, including industry specific risks such as the economy, new technology, labor rates and cyclicity, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. C&I loans increased \$19.1 million from December 31, 2016 to September 30, 2017.

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as C&I loans. Commercial real estate loans increased \$31.4 million from December 31, 2016 to September 30, 2017. At September 30, 2017, \$24.3 million of the commercial real estate loans were for commercial properties under construction.

Consumer loans may be secured by automobiles, boats, recreational vehicles and other personal property. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. Consumer loans decreased \$2.2 million during the first nine months of 2017.

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Allowance and Provision for Loan Losses

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

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

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

As a result of the Company’s quarterly analysis of the adequacy of the ALLL, the Company recorded a provision for loan losses of \$2.6 million in the first nine months of 2017 as compared to \$3.1 million in the first nine months of 2016. The provision for loan losses recorded in the first nine months of 2017 reflects revisions to the regulatory rating of a shared national credit (“SNC”) in which the Company is a participant, changes in the quality of the portfolio and general improvement in the Company’s historical loss rates used to compute the allowance not specifically allocated to individual credits. SNCs are credit facilities greater than \$20 million that are shared by three or more federally supervised financial institutions and are reviewed annually by regulatory authorities at the agent bank level. The SNC that the Company is a participant is for a local customer that outgrew the lending limit of the Company and involves three banks. The reserve recorded in the quarter ended September 30, 2017 related to this SNC reflects the loss factors associated with the rating assigned to this SNC as a result of the current year review by the Office of the Comptroller of the Currency (“OCC”). The Company’s balance outstanding at September 30, 2017 associated with this SNC is \$25.8 million, with an additional commitment of \$6.4 million related to a line of credit to the borrower. As of September 30, 2017, the SNC is performing in accordance to terms and debt service coverage ratios are acceptable. Changes in the amount of the provision and related allowance are based on the Company’s detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company’s loan portfolio. The Company believes its methodology for determining the adequacy of its ALLL adequately provides for probable losses inherent in the loan portfolio and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

The Company had net charge-offs of \$2.8 million for the first nine months of 2017 and \$2.8 million for the first nine months of 2016. Net charge-offs in the first nine months of 2017 consisted primarily of net charge-offs on residential real estate loans (\$1.0 million), commercial real estate loans (\$0.5 million), and DDA overdrafts (\$1.0 million).

Based on the Company's analysis of the adequacy of the allowance for loan losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for loan losses as of September 30, 2017 is adequate to provide for probable losses inherent in the Company's loan portfolio. Future provisions for loan losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

Table Seven
Analysis of the Allowance for Loan Losses

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

	Nine months ended		Year	
	September 30,		ended	
	2017	2016	December	
			31,	
			2016	
Balance at beginning of period	\$19,730	\$19,251	\$19,251	
Charge-offs:				
Commercial and industrial	(150)	(148)	(148)	
Commercial real estate	(564)	(1,213)	(1,676)	
Residential real estate	(1,295)	(1,281)	(1,734)	
Home equity	(256)	(300)	(390)	
Consumer	(47)	(102)	(126)	
DDA overdrafts	(1,989)	(1,017)	(1,412)	
Total charge-offs	(4,301)	(4,061)	(5,486)	
Recoveries:				
Commercial and industrial	57	13	14	
Commercial real estate	92	447	487	
Residential real estate	286	113	187	
Home equity	45	—	—	
Consumer	46	109	118	
DDA overdrafts	1,015	585	764	
Total recoveries	1,541	1,267	1,570	
Net charge-offs	(2,760)	(2,794)	(3,916)	
Provision for purchased credit impaired loans	39	164	163	
Provision for loan losses	2,545	2,929	4,232	
Balance at end of period	\$19,554	\$19,550	\$19,730	
As a Percent of Average Total Loans:				
Net charge-offs (annualized)	0.12	%0.13	%0.13	%
Provision for loan losses (annualized)	0.11	%0.14	%0.15	%
As a Percent of Non-Performing Loans:				
Allowance for loan losses	182.83	%128.96	%140.10	%
As a Percent of Total Loans:				
Allowance for loan losses	0.63	%0.66	%0.65	%

Table Eight

Allocation of the Allowance for Loan Losses

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

	As of September		As of
	30,		December
	2017	2016	31,
			2016
Commercial and industrial	\$5,059	\$4,054	\$4,206
Commercial real estate	6,306	6,271	6,573

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Residential real estate	5,889	7,024	6,680
Home equity	1,274	1,447	1,417
Consumer	56	75	82
DDA overdrafts	970	679	772
Allowance for Loan Losses	\$ 19,554	\$ 19,550	\$ 19,730

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The ALLL decreased from \$19.7 million at December 31, 2016 to \$19.6 million at September 30, 2017. Below is a summary of the changes in the components of the ALLL from December 31, 2016 to September 30, 2017.

The allowance related to the commercial and industrial loan portfolio increased from \$4.2 million at December 31, 2016 to \$5.1 million at September 30, 2017, primarily due to revisions to the regulatory rating of a shared national credit ("SNC") in which the Company is a participant, changes in the quality of the portfolio and general improvement in the Company's historical loss rates used to compute the allowance not specifically allocated to individual credits. SNCs are credit facilities greater than \$20 million that are shared by three or more federally supervised financial institutions and are reviewed annually by regulatory authorities at the agent bank level. The SNC that the Company is a participant is for a local customer that outgrew the lending limit of the Company and involves three banks. The reserve recorded in the quarter ended September 30, 2017 related to this SNC reflects the loss factors associated with the rating assigned to this SNC as a result of the current year review by the Office of the Comptroller of the Currency ("OCC"). The Company's balance outstanding at September 30, 2017 associated with this SNC is \$25.8 million, with an additional commitment of \$6.4 million related to a line of credit to the borrower. As of September 30, 2017, the SNC is performing in accordance to terms and debt service coverage ratios are acceptable.

The allowance allocated to the commercial real estate portfolio decreased \$0.3 million from \$6.6 million at December 31, 2016 to \$6.3 million at September 30, 2017, primarily due to an improvement in the historical loss rate of the portfolio which was partially offset by growth in the loan portfolio.

The allowance allocated to the residential real estate portfolio decreased from \$6.7 million at December 31, 2016 to \$5.9 million at September 30, 2017, primarily due to a decrease in risk-rated loans and improvement in historical loss rates, offset by growth in the loan portfolio.

The allowance allocated to the home equity loan portfolio decreased slightly from \$1.4 million at December 31, 2016 to \$1.3 million at September 30, 2017.

The allowance allocated to the consumer loan portfolio remained flat at \$0.1 million at December 31, 2016 and September 30, 2017.

The allowance allocated to overdraft deposit accounts increased slightly from \$0.8 million at December 31, 2016 to \$1.0 million at September 30, 2017.

Table Nine

Non-Accrual and Past-Due Loans

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

	As of September 30,		December
	2017	2016	31, 2016
Non-accrual loans	\$10,673	\$14,591	\$13,701
Accruing loans past due 90 days or more	22	569	382
Total non-performing loans	10,695	15,160	14,083
Other real estate owned ("OREO")	3,995	5,435	4,588
Total non-performing assets	\$14,690	\$20,595	\$18,671

As a Percent of Loans and Other Real Estate Owned:

Non-performing loans	0.47	%0.69	%0.61	%
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Past-due loans	\$7,569	\$8,970	\$8,594
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As a Percentage of Total Loans

Past-due loans	0.24	%0.30	%0.28	%
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The Company's ratio of non-performing assets to total loans and other real estate owned improved from 0.61% at December 31, 2016 to 0.47% at September 30, 2017. Excluded from this ratio are purchased credit-impaired loans in which the Company estimated cash flows and estimated a credit mark. These loans are considered performing loans provided that the loan

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is performing in accordance with the estimated expectations. Such loans would be considered non-performing loans if the loan's performance deteriorates below the initial expectations. Total past due loans decreased from \$8.6 million, or 0.28% of total loans outstanding, at December 31, 2016 to \$7.6 million, or 0.24% of total loans outstanding, at September 30, 2017.

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

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Impaired Loans

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

	As of September 30, 2017	As of September 30, 2016	As of December 31, 2016
Impaired loans with a valuation allowance	\$5,804	\$—	\$ 2,832
Impaired loans with no valuation allowance	4,157	5,367	4,749
Total impaired loans	\$9,961	\$5,367	\$ 7,581
Allowance for loan losses allocated to impaired loans	\$705	\$—	\$ 665

The average recorded investment in impaired loans during the nine months ended September 30, 2017 and September 30, 2016 was \$10.0 million and \$6.5 million, respectively. There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at September 30, 2017.

The Company recognized less than \$0.2 million of interest income received in cash on non-accrual and impaired loans for both the nine months ended September 30, 2017 and September 30, 2016. Less than \$0.2 million of interest income would have been recognized during the nine months ended September 30, 2017 and September 30, 2016, if such loans had been current in accordance with their original terms.

Table Eleven
Troubled Debt Restructurings ("TDRs")

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

	As of		
	September 30, 2017	September 30, 2016	December 31, 2016
Accruing:			
Residential real estate	\$20,741	\$19,944	\$20,424
Home equity	2,947	3,159	3,105
Commercial and industrial	31	46	42
Commercial real estate	8,427	2,718	5,525
Total accruing TDRs	32,146	25,867	29,096
Non-Accruing:			
Residential real estate	47	452	391
Home equity	—	85	30
Total non-accruing TDRs	47	537	421
Total TDRs	\$32,193	\$26,404	\$29,517

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

The Company's troubled debt restructurings ("TDRs") related to its borrowers who had filed for Chapter 7 bankruptcy protection make up 71% of the Company's total TDRs as of September 30, 2017. The average age of these TDRs was 12.0 years; the average current balance as a percentage of the original balance was 68.2%; and the average loan-to-value ratio was 65.6% as of September 30, 2017. Of the total 461 Chapter 7 related TDRs, 26 had an estimated loss exposure based on the current balance

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and appraised value at September 30, 2017. The increase in commercial real estate TDRs from September 30, 2016 to September 30, 2017 primarily resulted from an addition of 2 loans with a total balance of \$5.8 million.

Non-Interest Income and Non-Interest Expense

Nine months ended September 30, 2017 vs. 2016
(in millions)

	Nine months ended September 30,		\$	%
	2017	2016	Change	Change
Gains on sale of investment securities	\$ 4.3	\$ 3.5	\$ 0.8	22.9 %
Non-interest income (excluding above gains)	43.8	40.9	2.9	7.1 %
Non-interest expense	73.1	73.7	(0.6)	(0.8)%

Non-Interest Income: The Company realized \$4.3 million and \$3.5 million of investment gains during the nine months ended September 30, 2017 and nine months ended September 30, 2016, respectively. These gains represented partial recoveries of impairment charges previously recognized on pools of trust preferred securities. As a result of the sale of these securities, the Company no longer holds any pooled trust preferred securities in its investment portfolio. Exclusive of these gains, non-interest income increased from \$40.9 million for the first nine months of 2016 to \$43.8 million for the first nine months of 2017. This increase was mainly due to an increase of \$1.5 million (7.7%) in service charges, an increase of \$0.6 million (25.2%) in bank owned life insurance revenues due to death benefit proceeds, an increase of \$0.5 million (12.4%) in trust and investment management fee income, and an increase of \$0.4 million (3.5%) in bankcard revenues.

Non-Interest Expense: Non-interest expenses decreased \$0.6 million, from \$73.7 million in the first nine months of 2016 to \$73.1 million in the first nine months of 2017. This decrease was largely due to a decrease in other expenses of \$0.5 million, FDIC insurance expense of \$0.5 million, and legal and professional fees of \$0.3 million. These decreases were partially offset by an increase in salaries and employee benefits of \$0.4 million and occupancy and equipment of \$0.4 million.

Income Tax Expense: The Company's effective income tax rate for the nine months ended September 30, 2017 was 32.5% compared to 33.3% for the nine months ended September 30, 2016.

Three months ended September 30, 2017 vs. 2016
(in millions)

Three
months
ended
September
30,

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	2017	2016	\$	%
			Change	Change
Gains on sale of investment securities	\$—	\$2.7	\$(2.7)	(100.0)%
Non-interest income (excluding investment gains)	\$14.6	\$14.1	\$0.5	3.5%
Non-interest expense	24.3	25.3	\$(1.0)	(4.0)%

Non-Interest Income: The Company realized \$2.7 million of realized investment gains during the third quarter of 2016. These gains represented partial recoveries of impairment charges previously recognized on pools of trust preferred securities. Exclusive of these gains, non-interest income increased from \$14.1 million for the third quarter of 2016 to \$14.6 million for the third quarter of 2017. This increase was mainly due to an increase in service charge revenues of \$0.6 million (8.4%), an increase in trust and investment management fee income of \$0.1 million (10.7%), and an increase in bankcard revenue of \$0.1 million (1.8%). These increases were partially offset by a decrease in other income of \$0.2 million.

Non-Interest Expense: Non-interest expenses decreased \$1.0 million, from \$25.3 million in the third quarter of 2016 to \$24.3 million in the third quarter of 2017. This was due to a decrease from the third quarter of 2016 in legal and professional fees of \$0.4 million (42.0%), repossessed asset losses of \$0.2 million (64.9%), and FDIC insurance expense of \$0.2 million (35.4%).

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Income Tax Expense: The Company's effective income tax rate for the three months ended September 30, 2017 was 33.5% compared to 32.5% for the year ended December 31, 2016, and 33.2% for the three months ended September 30, 2016. The effective income tax rate is based upon the Company's expected tax rate for the year ended December 31, 2017.

Risk Management

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

The Company's Asset and Liability Committee ("ALCO") has been delegated the responsibility of managing the Company's interest-sensitive balance sheet accounts to maximize earnings while managing interest rate risk. ALCO, comprised of various members of executive and senior management, is also responsible for establishing policies to monitor and limit the Company's exposure to interest rate risk and to manage the Company's liquidity position. ALCO satisfies its responsibilities through quarterly meetings during which product pricing issues, liquidity measures, and interest sensitivity positions are monitored.

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

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase or decrease of 400 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 to be possible while considering the level of risk it is willing to assume in "worst-case" scenarios such as shown by the following:

Implied Immediate Federal Basis Point Change in Interest Rates	with Change in Interest Rates	Estimated Increase (Decrease) in Net Income Over 12 Months
--	--	--

September
30,
2017

+4005.25	%	+8.2	%
+3004.25		+9.4	
+2003.25		+8.7	
+1002.25		+5.9	
-50 0.75		-5.9	
-100 0.25		-12.4	

December
31,
2016

+4004.75	%	+8.0	%
+3003.75		+9.9	
+2002.75		+9.7	
+1001.75		+6.2	
-50 0.25		-6.1	
-100 (0.25)		-9.5	

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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 saving 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 during 2017 and beyond. The estimates above do not necessarily imply that the Company will experience increases in net income if market interest rates rise. The table above indicates how the Company's net income behaves relative to an increase or decrease in rates compared to what would otherwise occur if rates remain stable.

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

Liquidity

The Company evaluates the adequacy of liquidity at both the City Holding Company ("City Holding") level and at the banking subsidiary level. At the City Holding level, the principal source of cash is dividends from its banking subsidiary, City National Bank ("City National"). Dividends paid by City National to City Holding are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At September 30, 2017, City National could pay dividends up to \$95.3 million plus net profits for the remainder of 2017, as defined by statute, up to the dividend declaration date without prior regulatory permission.

On December 19, 2016, the Company announced that it had filed a prospectus supplement to its existing shelf registration statement on Form S-3 for the sale of its common stock having an aggregate value of up to \$55 million through an "at-the-market" equity offering program. The Company intends to use the net proceeds from the offering to support loan growth, bolster regulatory capital, and provide cash for possible future acquisitions. Pending this use, the proceeds will be invested by the Company in various investment securities. During the quarter ended March 31, 2017, the Company sold approximately 441,000 common shares at a weighted average price of \$64.48, net of broker fees. Through November 1, 2017, the Company has sold approximately 548,000 common shares at a weighted average price of \$64.82, net of broker fees. The Company has sold no shares since the first quarter of 2017.

City Holding used cash obtained from the dividends received from its banking subsidiary primarily to: (i) pay common dividends to shareholders and (ii) remit interest payments on the Company's junior subordinated debentures.

Over the next 12 months, City Holding has an obligation to remit interest payments approximating \$0.8 million on the debentures held by City Holding Capital Trust III. Interest payments on the debentures can be deferred for up to five years under certain circumstances and dividends to shareholders can, if necessary, be suspended. City Holding anticipates continuing the payment of dividends on its common stock, which are expected to approximate \$27.5 million on an annualized basis over the next 12 months based on common shareholders outstanding at September 30, 2017. In addition to these anticipated cash needs, City Holding has operating expenses and other contractual obligations, which are estimated to require \$1.6 million of additional cash over the next 12 months. As of September 30, 2017, City Holding reported a cash balance of \$35.9 million and management believes that City Holding's available cash balance, together with cash dividends from City National, will be adequate to satisfy its funding and cash needs over the next 12 months.

Excluding the interest and dividend payments discussed above, City Holding has no significant commitments or obligations in years after 2017 other than the repayment of its \$16.5 million obligation under the debentures held by City Holding Capital Trust III. However, this obligation does not mature until June 2038, or earlier at the option of

City Holding. It is expected that City Holding will be able to obtain the necessary cash, either through dividends obtained from City National or the issuance of other debt, to fully repay the debentures at their maturity.

City National manages its liquidity position in an effort to effectively and economically satisfy the funding needs of its customers and to accommodate the scheduled repayment of borrowings. Funds are available to City National from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the Federal Home Loan Bank ("FHLB") and other financial institutions. As of September 30, 2017, City National's assets are significantly funded by deposits and capital. Additionally, City National maintains borrowing facilities with the FHLB and other financial institutions that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of September 30, 2017, City National has the capacity to borrow an additional \$1.6 billion from the FHLB and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing

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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 75.3% as of September 30, 2017 and deposit balances fund 79.4% 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 \$608.6 million at September 30, 2017, and that greatly exceeded the Company's non-deposit sources of borrowing, which totaled \$298.0 million. Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 53.2% of the Company's total assets.

As illustrated in the Consolidated Statements of Cash Flows, the Company generated \$54.5 million of cash from operating activities during the first nine months of 2017, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings. The Company used \$126.3 million of cash in investing activities during the first nine months of 2017, primarily due an increase in loans of \$63.1 million and net purchases of investment securities of \$136.4 million. These increases were partially offset by a decrease in maturities and calls of securities available-for-sale of \$61.4 million. The Company generated \$66.8 million of cash in financing activities during the first nine months of 2017, principally as a result of an increase in other short-term borrowings of \$33.2 million, proceeds from the issuance of common stock of \$28.4 million, and an increase in interest-bearing deposits of \$27.3 million. These increases were partially offset by dividends paid of \$20.2 million to the Company's common stockholders and a decrease in non-interest bearing deposits of \$2.4 million.

Capital Resources

During the first nine months of 2017, shareholders' equity increased \$57.9 million, or 13.1%, from \$442.4 million at December 31, 2016 to \$500.3 million at September 30, 2017. This increase was primarily due to net income of \$44.6 million and the issuance of common stock of \$28.4 million, that was partially offset by dividends declared of \$20.7 million.

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

Regulatory guidelines require the Company to maintain a minimum common equity tier I ("CET1") capital ratio of 5.75% and a total capital to risk-adjusted assets ratio of 9.25%, with at least one-half of capital consisting of tangible common stockholders' equity and a minimum Tier I leverage ratio of 7.25%. Similarly, City National is also required to maintain minimum capital levels as set forth by various regulatory agencies. Under capital adequacy guidelines, City National is required to maintain minimum CET1, total capital, Tier I capital, and leverage ratios of 5.75%, 9.25%, 7.25%, and 4.0%, respectively. To be classified as "well capitalized," City National must maintain CET1, total capital, Tier I capital, and leverage ratios of 6.5%, 10.0%, 8.0%, and 5.0%, respectively.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require City Holding and City National to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3.0% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

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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 aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 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 Company’s regulatory capital ratios for both City Holding and City National are illustrated in the following tables (dollars in thousands):

September 30, 2017	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET I Capital								
City Holding Company	\$426,057	15.1 %	\$162,423	5.750 %	\$197,733	7.0 %	\$183,609	6.5 %
City National Bank	356,765	12.7	161,076	5.750	196,092	7.0	182,086	6.5
Tier I Capital								
City Holding Company	442,057	15.7	204,794	7.250	240,104	8.5	225,980	8.0
City National Bank	356,765	12.7	203,096	7.250	238,112	8.5	224,106	8.0
Total Capital								
City Holding Company	463,198	16.4	261,289	9.250	296,599	10.5	282,475	10.0
City National Bank	376,622	13.4	259,122	9.250	294,139	10.5	280,132	10.0
Tier I Leverage Ratio								
City Holding Company	442,057	11.1	160,012	4.0	160,012	4.0	200,015	5.0
City National Bank	356,765	9.0	157,814	4.0	157,814	4.0	197,268	5.0

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

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December 31, 2016	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET I Capital								
City Holding Company	\$371,677	13.3%	\$142,845	5.125%	\$195,105	7.0%	\$181,169	6.5%
City National Bank	310,912	11.2	141,860	5.125	193,761	7.0	179,921	6.5
Tier I Capital								
City Holding Company	387,677	13.9	184,653	6.625	236,913	8.5	222,977	8.0
City National Bank	318,872	11.5	183,381	6.625	235,281	8.5	221,441	8.0
Total Capital								
City Holding Company	408,406	14.7	240,397	8.625	292,658	10.5	278,722	10.0
City National Bank	338,675	12.2	238,741	8.625	290,641	10.5	276,801	10.0
Tier I Leverage Ratio								
City Holding Company	387,677	10.1	153,864	4.000	153,864	4.0	192,330	5.0
City National Bank	318,872	8.3	153,088	4.000	153,088	4.0	191,359	5.0

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

As of September 30, 2017, management believes that City Holding Company, and its banking subsidiary, City National, were “well capitalized.” City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”). Regulatory agencies can initiate certain mandatory actions if either City Holding or City National fails to meet the minimum capital requirements, as shown above. As of September 30, 2017, management believes that City Holding and City National have met all capital adequacy requirements.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

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

Item 4 - Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company’s periodic SEC filings. There has been no change in the Company’s internal control over financial reporting during the quarter ended September 30, 2017 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.

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Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

At-The-Market Common Stock Offering

On December 19, 2016, the Company announced that it had filed a prospectus supplement to its existing shelf registration statement on Form S-3 for the sale of its common stock having an aggregate value of up to \$55 million through an "at-the-market" equity offering program. During the first quarter of 2017, the Company issued 440,604 shares of common stock at an average price received of \$64.48, net of commissions and excluding one-time offering costs of \$265,000. Based on the average sales price of \$66.48 as of September 30, 2017, approximately 279,000 remaining shares may be issued under the "at-the-market" equity offering program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

The exhibits required to be filed or furnished with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see "Exhibit Index."

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
Senior Vice President,
Chief Financial Officer
and Principal Accounting
Officer
(Principal Financial
Officer)

Date: November 3, 2017

Exhibit Index

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

- 2(a) Agreement and Plan of Merger, dated November 14, 2011, by and among Virginia Savings Bancorp, Inc., Virginia Savings Bank, F.S.B., City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated November 14, 2011, and filed with the Securities and Exchange Commission on November 14, 2011).
- 2(b) Agreement and Plan of Merger, dated August 2, 2012, by and among Community Financial Corporation, Community Bank, City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated August 7, 2012, and filed with the Securities and Exchange Commission on August 7, 2012).
- 3(a) Articles of Incorporation of City Holding Company (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission).
- 3(b) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7,

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1984, and filed with the Securities and Exchange Commission on March 22, 1984).

Articles of Amendment to the Articles of Incorporation of City Holding Company, dated March 4, 1986

3(c) (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1986, filed March 31, 1987 with the Securities and Exchange Commission).

Articles of Amendment to the Articles of Incorporation of City Holding Company, dated September 29, 1987

3(d) (attached to and incorporated by reference from, City Holding Company's Registration Statement on Form S-4, Registration No. 33-23295, filed with the Securities and Exchange Commission on August 3, 1988).

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- 3(e) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 6, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
- 3(f) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 7, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
- 3(g) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated August 1, 1994 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended September 30, 1994, filed November 14, 1994 with the Securities and Exchange Commission).
- 3(h) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated December 9, 1998 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1998, filed March 31, 1999 with the Securities and Exchange Commission).
- 3(i) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).
- 3(j) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated May 10, 2006 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q, Quarterly Report for the quarter ended June 30, 2006, filed August 9, 2006 with the Securities and Exchange Commission).
- 3(k) Articles of Amendment to the Articles of Incorporation of City Holding Company, dated April 19, 2017 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended March 31, 2017, filed May 5, 2017 with the Securities and Exchange Commission).
- 3(l) Amended and Restated Bylaws of City Holding Company, revised February 24, 2010 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2010 with the Securities and Exchange Commission).
- 4(a) Rights Agreement dated as of June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Form 8-A, filed June 22, 2001, with the Securities and Exchange Commission).
- 4(b) Amendment No. 1 to the Rights Agreement dated as of November 30, 2005 (attached to, and incorporated by reference from, City Holding Company's Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).
- 31(a) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck
- 31(b) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner
- 32(a) Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Charles R. Hageboeck
- 32(b) Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for David L. Bumgarner

101.INS XBRL Instance Document*

101.SCH XBRL Taxonomy Extension Schema*

101.CAL XBRL Taxonomy Extension Calculation Linkbase*

101.DEF XBRL Taxonomy Extension Definition Linkbase*

101.LAB XBRL Taxonomy Extension Label Linkbase*

101.PRE XBRL Taxonomy Extension Presentation Linkbase*

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