

CITY HOLDING CO
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended June 30, 2016

OR

TRANSITION REPORT PURSANT 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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes[]No[X]

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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 – 15,005,321 shares as of August 3, 2016.

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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, 2015. 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)	
	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$69,933	\$58,829
Interest-bearing deposits in depository institutions	8,643	11,284
Cash and Cash Equivalents	78,576	70,113
Investment securities available for sale, at fair value	409,039	369,466
Investment securities held-to-maturity, at amortized cost (approximate fair value at June 30, 2016 and December 31, 2015 - \$86,944 and \$90,810, respectively)	83,208	88,937
Other securities	10,203	12,915
Total Investment Securities	502,450	471,318
Gross loans	2,903,398	2,862,534
Allowance for loan losses	(19,139)	(19,251)
Net Loans	2,884,259	2,843,283
Bank owned life insurance	99,446	97,919
Premises and equipment, net	75,040	77,271
Accrued interest receivable	8,428	7,432
Net deferred tax asset	23,995	29,974
Goodwill and other intangible assets, net	79,433	79,792
Other assets	55,234	36,957
Total Assets	\$3,806,861	\$3,714,059
Liabilities		
Deposits:		
Noninterest-bearing	\$651,867	\$621,073
Interest-bearing:		
Demand deposits	701,248	679,735
Savings deposits	758,323	765,611
Time deposits	1,030,841	1,017,556
Total Deposits	3,142,279	3,083,975
Short term borrowings:		
Federal funds purchased	—	13,000
Customer repurchase agreements	153,674	141,869
Long-term debt	16,495	16,495
Other liabilities	66,054	39,448
Total Liabilities	3,378,502	3,294,787

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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; 18,499,282 shares issued at June 30, 2016 and December 31, 2015, less 3,493,961 and 3,319,067 shares in treasury, respectively	46,249	46,249
Capital surplus	105,648	106,269
Retained earnings	402,044	390,690
Cost of common stock in treasury	(127,619)	(120,104)
Accumulated other comprehensive income (loss):		
Unrealized gain on securities available-for-sale	6,796	927
Underfunded pension liability	(4,759)	(4,759)
Total Accumulated Other Comprehensive Income (Loss)	2,037	(3,832)
Total Shareholders' Equity	428,359	419,272
Total Liabilities and Shareholders' Equity	\$3,806,861	\$3,714,059

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	\$29,640	\$28,812	\$58,567	\$58,200
Interest and dividends on investment securities:				
Taxable	2,927	2,641	5,933	5,353
Tax-exempt	365	267	722	531
Total Interest Income	32,932	31,720	65,222	64,084
Interest Expense				
Interest on deposits	3,011	2,699	5,909	5,440
Interest on short-term borrowings	86	85	193	167
Interest on long-term debt	167	153	331	303
Total Interest Expense	3,264	2,937	6,433	5,910
Net Interest Income	29,668	28,783	58,789	58,174
Provision for loan losses	1,122	2,836	1,661	3,724
Net Interest Income After Provision for Loan Losses	28,546	25,947	57,128	54,450
Non-Interest Income				
Net gains on sale of investment securities	845	2,116	845	2,130
Service charges	6,564	6,589	12,867	12,516
Bankcard revenue	4,190	4,002	8,157	8,076
Trust and investment management fee income	1,371	1,201	2,647	2,401
Bank owned life insurance	768	783	1,528	1,547
Gain on sale of insurance division	—	—	—	11,084
Other income	843	714	1,664	1,672
Total Non-Interest Income	14,581	15,405	27,708	39,426
Non-Interest Expense				
Salaries and employee benefits	12,790	12,193	25,463	24,372
Occupancy and equipment	2,708	2,529	5,544	5,119
Depreciation	1,567	1,516	3,134	3,027
FDIC insurance expense	512	445	977	895
Advertising	778	701	1,494	1,405
Bankcard expenses	925	797	1,758	1,615
Postage, delivery, and statement mailings	506	507	1,071	1,068
Office supplies	366	347	719	693
Legal and professional fees	528	542	999	1,109
Telecommunications	431	463	859	938
Repossessed asset losses, net of expenses	53	335	341	555
Merger related expenses	—	108	—	108
Other expenses	3,119	2,761	6,064	5,505
Total Non-Interest Expense	24,283	23,244	48,423	46,409
Income Before Income Taxes	18,844	18,108	36,413	47,467
Income tax expense	6,303	6,125	12,169	17,492

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Net Income Available to Common Shareholders \$12,541 \$11,983 \$24,244 \$29,975

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Total Comprehensive Income	\$ 15,667	\$ 10,344	\$ 30,113	\$ 29,242
Average common shares outstanding	14,889	15,104	14,903	15,079
Effect of dilutive securities:				
Employee stock awards and warrant outstanding	13	23	12	77
Shares for diluted earnings per share	14,902	15,127	14,915	15,156
Basic earnings per common share	\$0.83	\$0.78	\$1.61	\$1.97
Diluted earnings per common share	\$0.83	\$0.78	\$1.61	\$1.96
Dividends declared per common share	\$0.43	\$0.42	\$0.86	\$0.84

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 June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
Net income	\$12,541	\$11,983	\$24,244	\$29,975
Unrealized gains (losses) on available-for-sale securities arising during the period	5,800	(482)10,148	968
Reclassification adjustment for gains	(845)(2,116		