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2008

ANNUAL REPORT

City*Holding
Company*

Filings Services

APR 06 2009

SNL Financial, LC
1-800-969-4121

Dear Shareholder;

The Economic Situation

I need not tell you that 2008 was a very difficult year for the banking industry and the entire U.S. economy. Housing prices continued to decline, leading to record levels of mortgage delinquencies and foreclosures. Large scale and wide-spread job layoffs occurred throughout the U.S., and the unemployment rate of 8.1% in February of 2009 has reached levels not seen in the past 25 years.

In the most severe economic downturn in decades, banks throughout the U.S. have struggled. Net income of all FDIC-insured institutions fell by 83.9% in 2008, following a decline of 27.4% in 2007. In fact, net income of FDIC-insured institutions was at the lowest level since 1990, with nearly one-quarter of all banks in the U.S. failing to show profit for 2008. Major commercial banks such as IndyMac, Washington Mutual, National City, and Wachovia either failed or were forced into mergers with stronger competitors. Major investment banks either converted to commercial bank charters (Goldman Sachs, Morgan Stanley), were acquired (Merrill Lynch), or failed (Lehman, Bear Stearns).

With deteriorating loan quality, banks have provided increasingly large amounts for loan losses. As a result, capital within the industry has been significantly depleted.

Virtually every major bank in the U.S. accepted an investment by the U.S. Government in preferred stock under the Troubled Asset Relief Program (TARP) – a program that you will be glad to know City Holding Company did NOT participate in.

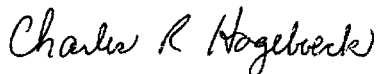
City Holding Company's Condition

The silver lining is that community banks such as City Holding Company have performed significantly better than most “big banks.” Against the back-drop of serious challenges facing our nation's largest banks, City Holding Company performed relatively well in 2008. We earned \$28 million, which represented a 1.12% return on assets – significantly better than industry averages for 2008. Net Interest Income was **up** nearly 5%, branch-related service charges were **up** 3.6%, trust and investment management fees were **up** 9.6%, and insurance

City's Growth

Because our Company has performed well compared to peers in this difficult environment, we have been able to focus on growing our Company rather than merely fixing problems. During 2008, we opened a new banking office in Hurricane, West Virginia, and completed renovations of several other branch banking facilities. We experienced commercial loan growth of over \$60 million, primarily as customers of other banks sought out a strong local bank and chose the stability of our franchise. We hired a leading advisor in the trust and investment management field and experienced our best year ever in generating new investment management business as we demonstrated strong customer service. We continued to experience significant growth in all aspects of our insurance business, culminating in the December acquisition of Patton Insurance Agency based in Nitro, West Virginia. We anticipate continued growth within our core markets during 2009 as we compete from a position of strength and solidify our position as the leading community bank in the markets that we serve.

Many banks have been cutting or eliminating their dividends altogether. City increased its dividend by 10% in April of 2008 – the 5th year of 10%+ increases in its dividend. At \$1.36 per share on an annualized basis, our current dividend provides a favorable yield for our stock. As we continue to navigate through the recessionary environment, we are confident City can remain a strong financial performer, grow within our markets, and emerge from the recession better positioned to compete in the years ahead.



Charles R. Hageboeck
President & CEO

The Financial Review

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SELECTED FINANCIAL DATA

TABLE ONE

FIVE-YEAR FINANCIAL SUMMARY

(in thousands, except per share data)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|--------------|--------------|--------------|--------------|--------------|
| Summary of Operations | | | | | |
| Total interest income | \$ 147,673 | \$ 157,315 | \$ 156,123 | \$ 135,518 | \$ 118,881 |
| Total interest expense | 45,918 | 60,726 | 53,724 | 38,438 | 31,871 |
| Net interest income | 101,755 | 97,039 | 102,399 | 97,080 | 87,010 |
| Provision for loan losses | 10,423 | 5,350 | 3,801 | 1,400 | — |
| Total other income | 21,936 | 56,136 | 54,203 | 50,091 | 50,036 |
| Total other expenses | 75,672 | 71,013 | 71,285 | 69,113 | 66,333 |
| Income before income taxes | 37,596 | 76,812 | 81,516 | 76,658 | 70,713 |
| Income tax expense | 9,487 | 25,786 | 28,329 | 26,370 | 24,369 |
| Net income | 28,109 | 51,026 | 53,187 | 50,288 | 46,344 |
| Per Share Data | | | | | |
| Net income basic | \$ 1.74 | \$ 3.02 | \$ 3.00 | \$ 2.87 | \$ 2.79 |
| Net income diluted | 1.74 | 3.01 | 2.99 | 2.84 | 2.75 |
| Cash dividends declared | 1.36 | 1.24 | 1.12 | 1.00 | 0.88 |
| Book value per share | 17.58 | 18.14 | 17.46 | 16.14 | 13.03 |
| Selected Average Balances | | | | | |
| Total loans | \$ 1,743,846 | \$ 1,717,756 | \$ 1,649,864 | \$ 1,514,367 | \$ 1,337,172 |
| Securities | 458,446 | 512,061 | 581,747 | 666,922 | 705,032 |
| Interest-earning assets | 2,210,236 | 2,257,447 | 2,268,173 | 2,186,003 | 2,051,044 |
| Deposits | 2,015,075 | 1,996,104 | 1,960,657 | 1,814,474 | 1,659,143 |
| Long-term debt | 21,506 | 24,476 | 85,893 | 137,340 | 201,218 |
| Shareholders' equity | 303,189 | 301,639 | 296,966 | 264,954 | 206,571 |
| Total assets | 2,502,411 | 2,511,992 | 2,517,061 | 2,402,058 | 2,211,853 |
| Selected Year-End Balances | | | | | |
| Net loans | \$ 1,790,090 | \$ 1,749,440 | \$ 1,662,064 | \$ 1,596,037 | \$ 1,336,959 |
| Securities | 453,281 | 417,016 | 519,898 | 605,363 | 679,774 |
| Interest-earning assets | 2,269,743 | 2,193,829 | 2,249,801 | 2,222,641 | 2,037,778 |
| Deposits | 2,041,130 | 1,990,081 | 1,985,217 | 1,928,420 | 1,672,723 |
| Long-term debt | 19,047 | 4,973 | 48,069 | 98,425 | 148,836 |
| Shareholders' equity | 280,429 | 293,994 | 305,307 | 292,141 | 216,080 |
| Total assets | 2,582,446 | 2,482,767 | 2,507,807 | 2,502,597 | 2,213,230 |
| Performance Ratios | | | | | |
| Return on average assets | 1.12% | 2.03% | 2.11% | 2.09% | 2.10% |
| Return on average equity | 9.27 | 16.92 | 17.91 | 18.98 | 22.43 |
| Return on average tangible equity | 11.44 | 20.99 | 22.37 | 22.34 | 23.15 |
| Net interest margin | 4.64 | 4.34 | 4.56 | 4.49 | 4.29 |
| Efficiency ratio | 46.33 | 45.91 | 44.49 | 46.66 | 48.67 |
| Dividend payout ratio | 78.16 | 41.06 | 37.33 | 34.84 | 31.54 |
| Asset Quality | | | | | |
| Net charge-offs to average loans | 0.33% | 0.18% | 0.23% | 0.38% | 0.27% |
| Provision for loan losses to average loans | 0.60 | 0.31 | 0.23 | 0.09 | — |
| Allowance for loan losses to nonperforming loans | 86.07 | 103.28 | 384.93 | 401.96 | 487.28 |
| Allowance for loan losses to total loans | 1.23 | 1.00 | 0.92 | 1.04 | 1.31 |
| Consolidated Capital Ratios | | | | | |
| Total | 13.43% | 15.11% | 16.19% | 16.38% | 16.64% |
| Tier I Risk-based | 12.25 | 14.12 | 15.30 | 15.41 | 15.47 |
| Tier I Leverage | 9.47 | 10.31 | 10.79 | 10.97 | 10.47 |
| Average equity to average assets | 12.12 | 12.01 | 11.80 | 11.03 | 9.34 |
| Average tangible equity to average tangible assets | 10.05 | 9.91 | 9.67 | 9.53 | 9.08 |
| Full-time equivalent employees | 827 | 811 | 779 | 770 | 691 |

TWO-YEAR SUMMARY OF COMMON STOCK PRICES AND DIVIDENDS

| | Cash Dividends Per Share* | Market Value | |
|-----------------------|---------------------------------|-----------------|-----------------|
| | | Low | High |
| 2008 | | | |
| Fourth Quarter | \$ 0.34 | \$ 29.08 | \$ 42.88 |
| Third Quarter | 0.34 | 35.74 | 47.28 |
| Second Quarter | 0.34 | 37.29 | 44.15 |
| First Quarter | 0.34 | 32.51 | 41.37 |
| 2007 | | | |
| Fourth Quarter | \$ 0.31 | \$ 33.41 | \$ 39.15 |
| Third Quarter | 0.31 | 31.16 | 39.59 |
| Second Quarter | 0.31 | 37.67 | 40.93 |
| First Quarter | 0.31 | 38.04 | 41.54 |

*As more fully discussed under the caption *Liquidity* in Management's Discussion and Analysis and in Note Eighteen of Notes to Consolidated Financial Statements, the Company's ability to pay dividends to its shareholders is dependent upon the ability of City National to pay dividends to City Holding ("Parent Company").

The Company's common stock trades on the NASDAQ stock market under the symbol CHCO. This table sets forth the cash dividends paid per share and information regarding the market prices per share of the Company's common stock for the periods indicated. The price ranges are based on transactions as reported on the NASDAQ stock market. At December 31, 2008, there were 3,043 shareholders of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CITY HOLDING COMPANY

City Holding Company (the "Company"), a West Virginia corporation headquartered in Charleston, West Virginia, is a bank holding company that provides diversified financial products and services to consumers and local businesses. Through its network of 69 banking offices in West Virginia (58), Kentucky (8), and Ohio (3), the Company provides credit, deposit, trust and investment management, and insurance products and services to its customers. In addition to its branch network, the Company's delivery channels include ATMs, check 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 Company has approximately 7% of the deposit market in West Virginia and is the third largest bank headquartered in West Virginia based on deposit share. In the Company's key markets, the Company's primary subsidiary, City National Bank of West Virginia ("City National"), generally ranks in the top three relative to deposit market share.

CRITICAL ACCOUNTING POLICIES

The accounting policies of the Company conform to 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 of Notes to Consolidated Financial Statements included herein. 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, income taxes, previously securitized loans and other than temporary impairment on investment securities 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.

Pages 15-18 of this Annual Report to Shareholders provide 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(CONTINUED)*

Pages 9-10 of this Annual Report to Shareholders provide management's analysis of the Company's income taxes. The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48") effective January 1, 2007. FIN 48 clarifies the accounting and disclosure for uncertain tax positions by requiring that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of a current or deferred tax asset or receivable, or recording a current or deferred tax liability. FIN 48 also provides guidance on measurement, derecognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions. The cumulative effect of adopting FIN 48 was an increase in tax reserves and a decrease of \$0.1 million to the January 1, 2007 retained earnings balance. The Company includes interest and penalties related to income tax liabilities in income tax expense. 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, 2005 through 2007. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the year ended December 31, 2007. A tax examination by the State of West Virginia for the years 2004 through 2006 was completed during the third quarter of 2008. The final results of this examination decreased income tax expense by \$1.1 million for the year ending December 31, 2008.

Note Six of Notes to Consolidated Financial Statements, on pages 39-40 of this Annual Report to Shareholders, and pages 18-19 provide management's analysis of the Company's previously securitized loans. The carrying value of previously securitized loans is determined using assumptions with regard to loan prepayment and default rates. Using cash flow modeling techniques that incorporate these assumptions, the Company estimates total future cash collections expected to be received from these loans and determines the yield at which the resulting discount will be accreted into income. If, upon periodic evaluation, the estimate of the total probable collections is increased or decreased, but is still greater than the sum of the original carrying amount less subsequent collections plus the discount accreted to date, and it is probable that collection will occur, the amount of the discount to be accreted is adjusted accordingly and the amount of periodic accretion is adjusted over the remaining lives of the loans. If, upon periodic evaluation, the discounted present value of estimated future cash flows declines below the recorded value of previously securitized loans, an impairment charge would be provided through the Company's provision for loan losses. Please refer to Note One of Notes to Consolidated Financial Statements, on page 32 for further discussion.

On a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are other than temporarily impaired. Management considers the following, amongst other things, in its determination of the nature of the unrealized losses, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company continues to actively monitor the market values of these investments along with the financial strength of the issuers behind these securities, as well as our entire investment portfolio. Based on the market information available the Company believes that the recent declines in market value are temporary and that the Company has the ability and intent to hold these securities until the temporary losses recover or the securities are called or mature. The Company cannot guarantee that such securities will recover and if additional information becomes available in the future to suggest that the losses are other than temporary, the Company may need to record impairment charges in future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL SUMMARY

The Company's financial performance over the previous three years is summarized in the following table:

| | 2008 | 2007 | 2006 |
|------------------------------------|-----------|-----------|-----------|
| Net income (<i>in thousands</i>) | \$ 28,109 | \$ 51,026 | \$ 53,187 |
| Earnings per share, basic | \$ 1.74 | \$ 3.02 | \$ 3.00 |
| Earnings per share, diluted | \$ 1.74 | \$ 3.01 | \$ 2.99 |
| ROA* | 1.12% | 2.03% | 2.11% |
| ROE* | 9.27% | 16.92% | 17.91% |
| ROTE* | 11.44% | 20.99% | 22.37% |

* 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. ROTE (Return on Average Tangible Equity) is a measure of the return on shareholders' equity less intangible assets.

The Company's net income declined \$22.9 million from 2007 primarily as a result of other than temporary impairments of investments and an increase of \$5.1 million in our provision for loan losses. Due to the actions by the federal government to place Fannie Mae and Freddie Mac, two of our nation's largest Companies, into conservatorship, we recognized a \$21.1 million other than temporary impairment charge on our investments in the preferred stock of these entities. As the recession deepened during 2008, City's investments in pools of debt issued by banks throughout the U.S. also deteriorated in value on fears that some of the banks that have issued debt into these pools will not survive. Based on management's assessment of the securities that the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments within the pools, and a review of the financial strength of the banks within the respective pools, management concluded that other than temporary impairment charges of \$16.2 million on the pooled bank trust preferred securities and the income notes were necessary for the year ended December 31, 2008. In addition, the Company recognized a \$1.0 million other than temporary impairment charge on a corporate debt security due to Lehman Brothers Holdings bankruptcy filing.

Additionally, while we have experienced some increase in losses on loans, our losses have not been to the extent that most other markets throughout the U.S. have suffered. As a result, our provision for loan losses was \$10.4 million for the year (see *Allowance and Provision for Loan Losses*). The Company's tax equivalent net interest income increased \$4.6 million, or 4.7%, from \$97.9 million in 2007 to \$102.6 million in 2008, as interest expense on deposits and other interest bearing liabilities decreased more quickly than interest income from loans and investments. The Company's reported net interest margin expanded to 4.64% for the year ended December 31, 2008 as compared to 4.34% for the year ended December 31, 2007 (see *Net Interest Income*). During 2008, the Company recognized a gain of \$3.3 million in connection

with Visa's successful initial public offering ("IPO"). Exclusive of investment impairment losses, investment gains, the gain from the Visa IPO, and the gain from the sale of the Company's merchant credit card portfolio, noninterest income increased \$2.3 million, or 4.3%, from 2007 due to higher service charges and bank-owned life insurance revenues. Excluding \$1.2 million of recognized losses from the redemption of \$16.0 million of trust preferred securities during 2007, noninterest expenses increased \$3.5 million, or 4.9%, from 2007. These fluctuations are more fully discussed under the caption *Noninterest Income and Expense*.

BALANCE SHEET ANALYSIS

Total loans increased \$45.3 million, or 2.6%, from December 31, 2007, as growth in commercial, home equity, and residential real estate loans was partially offset by declines in loans to depository institutions, consumer loans, and previously securitized loans. Commercial loan balances increased \$60.3 million, or 8.5%, from 2007; home equity loans increased \$42.5, or 12.4%, from 2007; and the outstanding balance of residential real estate loans increased \$9.9 million, or 1.7%, from 2007. Loans to depository institutions decreased \$60.0 million, or 100.0%, from 2007, while consumer loans decreased \$4.7 million, or 9.7%, from 2007.

Between 1997 and 1999, the Company originated and securitized \$760 million in 125% loan-to-value junior-lien mortgages in six separate pools. The Company had a retained interest in the residual cash flows associated with these underlying mortgages after satisfying priority claims. When the notes were redeemed during 2003 and 2004, the Company became the beneficial owner of the mortgage loans and recorded the loans as "Previously Securitized Loans" within the loan portfolio. At December 31, 2008, the Company reported "Previously Securitized Loans" of \$4.2 million compared to \$6.9 million at December 31, 2007, a decrease of 38.7%.

Total investment securities increased \$36.3 million, or 8.7%, from \$417.0 million at December 31, 2007, to \$453.3 million at December 31, 2008. The increase in the securities portfolio in 2008 was related primarily to the purchase of mortgage backed and other debt securities.

Total deposits increased \$51.0 million, or 2.6% from \$1.99 billion at December 31, 2007 to \$2.04 billion at December 31, 2008. Increases in interest bearing demand deposits of \$23.0 million and time deposits of \$39.4 million were partially offset by decreases in noninterest bearing demand deposits of \$15.7 million.

Short-term debt balances increased \$32.5 million, or 20.1%, from December 31, 2007 to December 31, 2008. This increase was primarily attributable to an increase of \$36.0 million in short-term borrowings from the Federal Home Loan

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Bank of Pittsburgh ("FHLB"). The Company does not depend on security repurchase agreements, which are subject to significant fluctuations for funding or liquidity.

Long-term debt balances increased \$14.1 million, or 283.0%, from 2007 to 2008. During the first quarter of 2008, the Company completed a private placement of \$16.0 million trust preferred securities through its City Holding Capital Trust

III subsidiary. The securities mature in 30 years and are redeemable at par by the Company after five years. The proceeds of the capital securities were used to fund the redemption of all the Company's outstanding 9.15% trust preferred securities in the amount of \$16.0 million, which were considered as short-term debt at December 31, 2007, due to the Company's previously announced plan to redeem these Debentures on April 1, 2008.

TABLE TWO
AVERAGE BALANCE SHEETS AND NET INTEREST INCOME
(in thousands)

| | 2008 | | | 2007 | | | 2006 | | |
|--|--------------------|-----------|----------------|--------------------|-----------|----------------|--------------------|-----------|----------------|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| ASSETS | | | | | | | | | |
| Loan portfolio (1): | | | | | | | | | |
| Residential real estate | \$ 607,851 | \$ 37,495 | 6.17% | \$ 597,216 | \$ 36,574 | 6.12% | \$ 598,017 | \$ 34,483 | 5.77% |
| Home equity | 364,325 | 26,266 | 7.21 | 330,997 | 25,524 | 7.71 | 311,854 | 24,384 | 7.82 |
| Commercial, financial, and agriculture | 713,767 | 47,445 | 6.65 | 675,598 | 50,771 | 7.51 | 661,871 | 49,716 | 7.51 |
| Loans to Depository Institutions | 1,161 | 35 | 3.01 | 57,315 | 3,048 | 5.32 | 8,372 | 449 | 5.36 |
| Installment loans to individuals | 51,542 | 5,264 | 10.21 | 46,112 | 5,426 | 11.77 | 47,477 | 5,507 | 11.60 |
| Previously securitized loans | 5,200 | 5,622 | 108.12 | 10,518 | 7,266 | 69.08 | 22,273 | 9,406 | 42.23 |
| Total loans | 1,743,846 | 122,127 | 7.00 | 1,717,756 | 128,609 | 7.49 | 1,649,864 | 123,945 | 7.51 |
| Securities: | | | | | | | | | |
| Taxable | 422,708 | 23,852 | 5.64 | 472,438 | 25,677 | 5.43 | 539,634 | 28,418 | 5.27 |
| Tax-exempt (2) | 35,738 | 2,344 | 6.56 | 39,623 | 2,599 | 6.56 | 42,113 | 2,741 | 6.51 |
| Total securities | 458,446 | 26,196 | 5.71 | 512,061 | 28,276 | 5.52 | 581,747 | 31,159 | 5.36 |
| Loans held for sale | - | - | - | - | - | - | 2,496 | 322 | 12.90 |
| Deposits in depository institutions | 7,944 | 171 | 2.15 | 11,940 | 521 | 4.36 | 30,633 | 1,478 | 4.82 |
| Federal funds sold | - | - | - | 15,690 | 819 | 5.22 | 3,433 | 179 | 5.21 |
| Total interest-earning assets | 2,210,236 | 148,494 | 6.72 | 2,257,447 | 158,225 | 7.01 | 2,268,173 | 157,083 | 6.93 |
| Cash and due from banks | 57,624 | | | 50,675 | | | 50,571 | | |
| Premises and equipment | 57,183 | | | 48,929 | | | 43,111 | | |
| Other assets | 195,820 | | | 171,347 | | | 171,214 | | |
| Less: Allowance for loan losses | (18,452) | | | (16,406) | | | (16,008) | | |
| Total assets | \$2,502,411 | | | \$2,511,992 | | | \$2,517,061 | | |
| LIABILITIES | | | | | | | | | |
| Interest-bearing demand deposits | \$ 409,799 | \$ 2,576 | 0.63% | \$ 418,532 | \$ 4,766 | 1.14% | \$ 433,244 | \$ 5,284 | 1.22% |
| Savings deposits | 359,754 | 3,640 | 1.01 | 342,119 | 5,705 | 1.67 | 314,732 | 3,983 | 1.27 |
| Time deposits | 921,971 | 35,691 | 3.87 | 922,886 | 41,355 | 4.48 | 877,592 | 34,779 | 3.96 |
| Short-term borrowings | 136,867 | 2,629 | 1.92 | 160,338 | 6,642 | 4.14 | 143,705 | 5,099 | 3.55 |
| Long-term debt | 21,506 | 1,383 | 6.43 | 24,476 | 1,808 | 7.39 | 85,893 | 4,579 | 5.33 |
| Total interest-bearing liabilities | 1,849,897 | 45,919 | 2.48 | 1,868,351 | 60,276 | 3.23 | 1,855,166 | 53,724 | 2.90 |
| Noninterest-bearing demand deposits | 323,551 | | | 312,567 | | | 335,089 | | |
| Other liabilities | 25,774 | | | 29,435 | | | 29,840 | | |
| Shareholders' equity | 303,189 | | | 301,639 | | | 296,966 | | |
| Total liabilities and shareholders' equity | \$ 2,502,411 | | | \$ 2,511,992 | | | \$2,517,061 | | |
| Net interest income | | \$102,575 | | | \$97,949 | | | \$103,359 | |
| Net yield on earning assets | | | 4.64% | | | 4.34% | | | 4.56% |

(1) For purposes of this table, loans on nonaccrual status have been included in average balances.

(2) Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 35%.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

NET INTEREST INCOME

2008 vs. 2007

The Company's tax equivalent net interest income increased \$4.6 million, or 4.7%, from \$97.9 million in 2007 to \$102.6 million in 2008, as interest expense on deposits and other interest bearing liabilities decreased more quickly than interest income from loans and investments. The Company's reported net interest margin expanded to 4.64% for the year ended December 31, 2008 as compared to 4.34% for the year ended December 31, 2007.

The Company benefited from a portfolio of interest rate floors with a total notional value of \$600 million which minimized the impact of falling rates on the Company's interest income from variable rate loans during 2008. During 2008, interest rate floors with total notional values of \$150 million matured and the Company sold the remaining interest rate floors with notional amounts totaling \$450 million. The gain of \$16.8 million from the sale of these interest rate floors will be recognized over the remaining lives of the various hedged loans. Partially offsetting the reduction in interest expense from falling market rates was a decrease of \$1.6 million in interest income from Previously Securitized Loans from the year ended December 31, 2007 as the average balances of these loans have decreased 50.6%. The decrease in average balances of Previously Securitized Loans was partially mitigated by an increase in the yield on these loans from 69.1% for the year ended December 31, 2007 to 108.1% for the year ended December 31, 2008.

Average earning assets decreased \$47.2 million from 2007 to 2008 as decreases attributable to loans to depository institutions, investments, and federal funds sold were partially offset by increases in commercial and home equity loans. Average loans to depository institutions decreased \$56.2 million, average investments decreased \$53.6 million, and federal funds sold decreased \$15.7 million. Average securities decreased primarily as a result of other than temporary impairment charges and unrealized losses. Average liabilities decreased \$11.1 million from 2007 as decreases in short-term borrowings (\$23.5 million) and interest-bearing demand deposits (\$8.7 million) were partially offset by increases in savings (\$17.6 million) and noninterest-bearing demand deposits (\$11.0 million).

2007 vs. 2006

The Company's tax equivalent net interest income decreased \$5.4 million, or 5.2%, from \$103.4 million in 2006 to \$97.9 million in 2007. This decrease is attributable to two factors. First, the Company experienced a decrease of \$2.1 million in interest income from previously securitized loans for the year ended December 31, 2007 as compared to the year ended December 31, 2006 as the average balance of these loans decreased 52.8%. The decrease in average balances was partially mitigated by an increase in the yield on these loans from 42.2% for the year ended December 31, 2006 to 69.1% for the year ended December 31, 2007 (see *Previously Securitized Loans*).

Secondly, the Company's reported net interest margin experienced compression to 4.34% for the year ended December 31, 2007 as compared to 4.56% for the year ended December 31, 2006. Excluding Previously Securitized Loans and the sale of Company's retail credit card portfolio during the third quarter of 2006, the Company's net interest margin, decreased from 4.22% for the year ended December 31, 2006 to 4.08% for the year ended December 31, 2007 resulting in the reduction of approximately \$2.9 million in net interest income. While the average yield on the Company's loans (net of Previously Securitized Loans) increased from 6.99% for the year ended December 31, 2006 to 7.11% for the year ended December 31, 2007, the average cost of interest bearing liabilities increased from 2.84% for the year ended December 31, 2006 to 3.19% for the year ended December 31, 2007. The increase in the average cost of interest bearing liabilities can in turn be linked to an increase in the cost of time deposits of 52 basis points between the years ended December 31, 2006 and 2007.

Exclusive of interest income from previously securitized loans and credit cards, interest income increased \$4.4 million from 2006 as the yield on loans exclusive of previously securitized loans and credit cards increased 12 basis points. The average balances of these loans increased \$85.6 million during 2007 due to growth of loans to depository institutions, home equity and commercial loans. Interest income attributable to this growth totaled \$3.0 million, while the improvement in yield increased interest income by \$5.0 million. Interest income on investment securities decreased \$2.9 million from 2006 primarily as a result of lower balances that was partially offset by improved yields on the securities portfolio.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Increases in interest income were more than offset by an increase of \$7.0 million in interest expense. This increase was primarily related to an increase in the average rate paid on interest bearing liabilities of 33 basis points during 2007. This increase was predominately attributable to an increase in the cost of time deposits of 52 basis points between the years ended December 31, 2007 and 2006.

Excluding the impact of previously securitized loans and the sale of the credit card portfolio, average earning assets increased \$7.0 million from 2006 to 2007 as increases attributable to loans to depository institutions, home equity loans, commercial loans, and federal funds sold were partially

offset by declines in investments and deposits in depository institutions. Average loans to depository institutions increased \$48.9 million, average home equity loans grew \$19.1 million, average commercial loans increased \$13.7 million, and federal funds sold increased \$12.3 million. Average securities decreased due to repayment of long-term borrowings and funding of commercial loans. The net increase in average earning assets was accompanied by an increase in average interest-bearing deposits of \$58.0 million primarily as a result of increased balances of time deposits. Average long-term debt decreased by \$61.4 million and average noninterest-bearing liabilities decreased by \$22.5 million while average short-term borrowings increased \$16.6 million.

TABLE THREE
RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE
(in thousands)

| | 2008 vs. 2007 Increase (Decrease) Due to Change In: | | | 2007 vs. 2006 Increase (Decrease) Due to Change In: | | |
|--|---|-------------|-------------|---|----------|------------|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest-Earning Assets | | | | | | |
| Loan portfolio: | | | | | | |
| Residential real estate | \$ 651 | \$ 270 | \$ 921 | \$ (46) | \$ 2,137 | \$ 2,091 |
| Home equity | 2,570 | (1,828) | 742 | 1,497 | (357) | 1,140 |
| Commercial, financial, and agriculture | 2,868 | (6,194) | (3,326) | 1,031 | 24 | 1,055 |
| Loans to depository institutions | (2,986) | (27) | (3,013) | - | 2,599 | 2,599 |
| Installment loans to individuals | 639 | (801) | (162) | (158) | 77 | (81) |
| Previously securitized loans | (3,674) | 2,030 | (1,644) | (4,964) | 2,824 | (2,140) |
| Total loans | 68 | (6,550) | (6,482) | (2,640) | 7,304 | 4,664 |
| Securities: | | | | | | |
| Taxable | (2,703) | 878 | (1,825) | (3,539) | 798 | (2,741) |
| Tax-exempt (1) | (255) | - | (255) | (162) | 20 | (142) |
| Total securities | (2,958) | 878 | (2,080) | (3,701) | 818 | (2,883) |
| Loans held for sale | - | - | - | (322) | - | (322) |
| Deposits in depository institutions | (174) | (176) | (350) | (902) | (55) | (957) |
| Federal funds sold | (819) | - | (819) | 639 | 1 | 640 |
| Total interest-earning assets | \$ (3,883) | \$ (5,848) | \$ (9,731) | \$ (6,926) | \$ 8,068 | \$ 1,142 |
| Interest-Bearing Liabilities | | | | | | |
| Interest-bearing demand deposits | \$ (99) | \$ (2,091) | \$ (2,190) | \$ (179) | \$ (339) | \$ (518) |
| Savings deposits | 294 | (2,359) | (2,065) | 347 | 1,375 | 1,722 |
| Time deposits | (41) | (5,623) | (5,664) | 1,795 | 4,781 | 6,576 |
| Short-term borrowings | (972) | (3,041) | (4,013) | 590 | 953 | 1,543 |
| Long-term debt | (219) | (206) | (425) | (3,274) | 503 | (2,771) |
| Total interest-bearing liabilities | \$ (1,037) | \$ (13,320) | \$ (14,357) | \$ (721) | \$ 7,273 | \$ 6,552 |
| Net interest income | \$ (2,846) | \$ 7,472 | \$ 4,626 | \$ (6,205) | \$ 795 | \$ (5,410) |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

NONINTEREST INCOME AND EXPENSE

2008 vs. 2007

During 2008, the Company recorded \$38.3 million of investment impairment losses. The charges deemed to be other than temporary were related to agency preferreds (\$21.1 million) with remaining book value of \$1.6 million at December 31, 2008; pooled bank trust preferreds (\$14.2 million) with remaining book value of \$10.9 million at December 31, 2008; income notes (\$2.0 million) with no remaining book value at December 31, 2008; and corporate debt securities (\$1.0 million) with remaining book value of \$24.6 million at December 31, 2008. The impairment charges for the agency preferred securities were due to the actions of the federal government to place Freddie Mac and Fannie Mae into conservatorship and the suspension of dividends on such preferred securities. The impairment charges related to the pooled bank trust preferred securities and income notes were based on the Company's quarterly reviews of its investment securities for indications of losses considered to be other than temporary. Based on management's assessment of the securities the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments within the pools, and a review of the financial strength of the banks within the respective pools, management concluded that impairment charges of \$14.3 million and \$2.0 million on the pooled bank trust preferred securities and the income notes, respectively, were necessary for the year ended December 31, 2008. The \$1.0 million impairment charge for corporate debt securities was due to Lehman Brothers Holdings bankruptcy filing. The Company had acquired this security as the result of an acquisition of a bank in 2005.

In addition, the Company recognized a \$3.3 million gain in connection with Visa's successful initial public offering ("IPO") completed in March 2008. The Company received approximately \$2.3 million on the partial redemption of its equity interest in Visa. The Company's remaining Class B shares will be converted to Class A shares on the third anniversary of Visa's IPO or upon Visa's settlement of certain litigation matters, whichever is later. The unconverted Class B shares are not reflected in the Company's balance sheet at December 31, 2008 as the Company has no historical basis in these shares. Visa also escrowed a portion of the proceeds from the IPO to satisfy approximately \$1.0 million of liabilities that represented the Company's proportionate share of legal judgments and settlements related to Visa litigation with American Express and Discover Financial Services.

The Company focuses much of its efforts on retail banking and enhancing its retail deposit franchise within its markets. As a result of its strong retail banking operation, service charge revenues provide significant revenues for the Company. During 2008, noninterest income (excluding security transactions (including impairment charges), the gain from the

VISA IPO, and the gain from the sale of the Company's retail credit card portfolio and merchant processing agreements) increased approximately \$2.3 million, or 4.3%, from 2007. The largest source of non-interest income is service charges from depository accounts, which increased \$1.6 million, or 3.6%, from \$44.4 million in 2007 to \$46.0 million in 2008. Bank owned life insurance revenues increased \$0.5 million, or 18.4%, to \$2.9 million for the year ended December 31, 2008 as a result of the Company modifying this portfolio during 2008. In addition, trust and investment management fees increased \$0.2 million, or 9.7%, and insurance commissions increased \$0.1 million, or 3.0%, from the year ending December 31, 2007.

During 2008, the Company fully redeemed \$16.0 million of 9.15% trust preferred securities that had been issued in 1998. As a result of this redemption, the Company incurred charges of \$1.2 million to fully amortize issuance costs incurred in 1998 and for the early redemption premium. Excluding the loss on the early redemption of the trust preferred securities, non-interest expenses increased \$3.5 million from \$71.0 million in 2007 to \$74.5 million in 2008. Salaries and employee benefits increased \$1.2 million, or 3.3%, from \$36.0 million in 2007 to \$37.2 million in 2008 due in part to additional staffing for new retail locations. Other expenses increased due to additional charitable contributions of \$0.75 million during 2008. Repossessed asset losses increased \$0.7 million primarily due to losses and expenses incurred on the sale of repossessed properties associated with lending activities at the Greenbrier Resort in White Sulphur Springs, WV. Additionally, increased occupancy and equipment expenses of \$0.5 million were primarily attributable to the upgrading of the Company's core computer system.

2007 vs. 2006

The Company focuses much of its efforts on retail banking and enhancing its retail deposit franchise within its markets. As a result of its strong retail banking operation, service charge revenues provide significant revenues for the Company. During 2007, noninterest income (excluding security transactions and the gain from the sale of the Company's retail credit card portfolio and merchant processing agreements) increased approximately \$2.0 million, or 3.7%, from 2006. This increase was primarily attributable to the Company's continued increase in service charge revenues of \$1.8 million, or 4.4%, from \$42.6 million during 2006 to \$44.4 million during 2007. Insurance commission revenue increased \$1.8 million, or 75.2%, from \$2.3 million during 2006 to \$4.1 million during 2007 due to the hiring of additional staff by the Company's insurance subsidiary, City Insurance, to provide workers compensation insurance to West Virginia businesses and to bolster the number of agents focused on selling directly to retail customers. This increase was partially mitigated by a \$1.7 million decrease in other income due primarily to lower

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

credit card fee income as a result of the sale of the retail credit card portfolio during the third quarter of 2006 and the sale of the merchant processing agreements during the first quarter of 2007.

Noninterest expenses increased \$1.1 million, or 1.6%, from \$69.9 million in 2006 to \$71.0 million in 2007 excluding \$1.4 million of recognized losses from the redemption of \$12.0 million of trust preferred securities during 2006. Salaries and employee benefits increased \$1.5 million, or 4.5%, from 2006 due in part to additional staffing for new retail locations and insurance personnel to support the introduction of worker's compensation insurance. Bankcard expenses increased \$0.4 million, or 19.9%, due to increased usage by customers. These increases were partially offset by a \$0.5 million decrease in other expenses. The decrease in other expenses was due to a \$1.4 million decrease as a result of the sales of the retail and merchant card portfolios. That decrease was partially offset by a \$1.0 million charge related to the Company's proportionate share of certain losses incurred by Visa U.S.A. Inc.

As a result of the Company's membership interest in Visa U.S.A. Inc. ("Visa"), the Company was allocated expense of approximately \$1.0 million in connection with pending and settled antitrust litigation against Visa during the fourth quarter of 2007. The litigation relates to an antitrust lawsuit brought by American Express against Visa that originated in 2004 and settled as of November 9, 2007, and litigation brought by Discover Financial Services ("Discover") against Visa. Visa has described the aforementioned litigation matters and settlement with American Express in filings with the Securities and Exchange Commission. City is not a named defendant in either of the aforementioned lawsuits and, therefore, will not be directly liable for any amount of the settlement. However, in accordance with Visa's by-laws, City may be required to share in certain losses incurred by Visa above and beyond the amounts described above.

On October 3, 2007, Visa announced that it had completed restructuring transactions in preparation for its initial public offering ("IPO"). The IPO actually was completed in March 2008. As part of this restructuring, the Company received approximately 150,000 Class USA shares of Visa common stock. Some of these shares were redeemed as part of the IPO and the remaining shares are to be converted to Class A shares on the third anniversary of the IPO or upon Visa's settlement of certain litigation matters, whichever is later. Visa applied a portion of the proceeds from the IPO to fund an escrow account to cover certain litigation judgments and settlements. The Company anticipates that Visa's escrow account will be sufficient to settle such litigation judgments and settlements with American Express and Discover. As a result of the IPO, the Company realized a recovery in 2008 of the \$1.0 million expense previously recorded by the Company prior to the IPO.

INCOME TAXES

The Company recorded income tax expense of \$9.5 million, \$25.8 million, and \$28.3 million in 2008, 2007, and 2006, respectively. The Company's effective tax rates for 2008, 2007, and 2006 were 25.2%, 33.6%, and 34.8%, respectively. The decrease in the effective tax rate for 2008 was largely due to the reduction in pre-tax income from higher loan loss provision and other than temporary impairment losses on investments without a corresponding decrease from tax-exempt sources. A reconciliation of the effective tax rate to the statutory rate is included in Note Thirteen of Notes to Consolidated Financial Statements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's net deferred tax assets increased from \$20.6 million at December 31, 2007 to \$48.5 million at December 31, 2008. The components of the Company's net deferred tax assets are disclosed in Note Thirteen of Notes to Consolidated Financial Statements. Realization of the most significant net deferred tax assets is primarily dependent on future events taking place that will reverse the current deferred tax assets. For example, realization of the deferred tax asset attributable to other than temporary impairment losses on securities, which have already been recognized in the Company's financial statements, would be realized if the impaired securities were deemed to be "worthless" by the Internal Revenue Service or if the securities were sold and recognized for tax purposes. During the year ended December 31, 2008, the Company recognized a \$15.1 million deferred tax asset associated with other than temporary impairment losses on securities. The deferred tax asset associated with unrealized securities losses is the tax impact of the unrealized losses on the Company's available for sale security portfolio. At December 31, 2008, the Company had a deferred tax asset of \$10.1 million associated with unrealized securities losses as compared to a deferred tax asset of \$1.2 million associated with unrealized securities losses at December 31, 2007. The impact of the Company's unrealized losses is noted in the Company's Consolidated Statements of Changes in Shareholder Equity as an adjustment to Accumulated Other Comprehensive Income (Loss). The deferred tax asset at December 31, 2008, would be realized if the unrealized losses on the Company's securities were realized from sales or maturities of the related securities. The deferred tax asset associated with the allowance for loan losses increased from \$6.9 million at December 31, 2007 to \$8.6 million at December 31, 2008. The deferred tax asset associated with the allowance for loan losses is expected to be realized as additional loan charge-offs, which have already been provided for within the Company's financial statements, are recognized for tax purposes. The deferred tax asset associated with the Company's previously securitized loans is

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

expected to be realized as the Company recognizes income for financial statement purposes from these loans in future periods. The deferred tax asset associated with these loans declined from \$10.0 million at December 31, 2007 to \$8.8 million at December 31, 2008. As discussed in Note Six of Notes to Consolidated Financial Statements, the Company had net recoveries on previously securitized loans of \$1.0 million during 2008 that were taxable for income tax purposes, but will be recognized in future periods for financial reporting purposes. The Company believes that it is more likely than not that each of the net deferred tax assets will be realized and that no valuation allowance is necessary as of December 31, 2008 or 2007.

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 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, in turn, 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 monthly 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 300 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity. Due to the current Federal Funds target rate of 25 basis points, the Company has chosen not to reflect a decrease of 25 basis points from current rates in its analysis.

During 2005 and 2006, the Company entered into interest rate floors with a total notional value of \$600 million, with maturities between May 2008 and June 2011. These derivative instruments provided the Company protection against the impact of declining interest rates on future income streams from certain variable rate loans. During 2008, interest rate floors with a total notional value of \$150 million matured. The remaining interest rate floors with a total notional value of \$450 million were sold during 2008. The gains from the sales of these interest rate floors will be recognized over the remaining lives of the various hedged loans. At December 31, 2008, the unrecognized gain was approximately \$15.3 million. Please refer to Notes One and Twelve of Notes to Consolidated Financial Statements for further discussion of the use and accounting for such derivative instruments.

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:

| Immediate Basis Point Change in Interest Rates | Implied Federal Funds Rate Associated with Change in Interest Rates | Estimated Increase in Net Income Over 12 Months | Estimated Increase in Economic Value of Equity |
|---|---|--|---|
| 2008: | | | |
| +300 | 3.25% | +9.2% | +7.0% |
| +200 | 2.25 | +6.3 | +4.4 |
| +100 | 1.25 | +3.2 | +1.1 |
| 2007: | | | |
| +300 | 6.50% | +6.2% | +14.4% |
| +200 | 5.50 | +3.4 | +10.2 |
| +100 | 4.50 | +0.9 | +6.1 |
| -100 | 2.50 | +0.5 | +2.8 |
| -200 | 1.50 | +1.0 | +3.2 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

These results 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, 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 results above will be achieved in the event that interest rates increase during 2009 and beyond. The results 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 and the economic value of equity behave *relative* to an increase or decrease in rates compared to what would otherwise occur if rates remain stable.

Based upon the results 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 Parent Company level and at City National. At the Parent Company level, the principal source of cash is dividends from City National. Dividends paid by City National to the Parent Company 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. During 2007 and 2008, City National received regulatory approval and paid \$88.6 million of cash dividends to the Parent Company, while generating net profits of \$78.1 million. Therefore, City National will be required to obtain regulatory approval prior to declaring any cash dividends to the Parent Company during 2009. Although regulatory authorities have approved prior cash dividends, there can be no assurance that future dividend requests will be approved.

During 2008, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders, (2) remit interest payments on the Company's junior subordinated debentures, and (3) fund repurchases of the Company's common shares. Additional information concerning sources and uses of cash by the Parent Company is reflected in Note Twenty of Notes to Consolidated Financial Statements, on page 52.

The Parent Company anticipates continuing the payment of dividends, which would approximate \$21.7 million on an annualized basis for 2009 based on common shareholders on record at December 31, 2008 and a dividend rate of \$1.36 for 2009. In addition to these anticipated cash needs for 2009, the Parent Company has operating expenses and other contractual obligations, which are estimated to require \$0.9 million of additional cash over the next 12 months. As of December 31, 2008, the Parent Company reported a cash balance of approximately \$1.4 million.

Excluding the interest and dividend payments discussed above, the Parent Company has no significant commitments or obligations in years after 2009. Table Ten on page 20 of this Annual Report to Shareholders summarizes the contractual obligations of the Parent Company and City National, combined.

City National manages its liquidity position in an effort to effectively and economically satisfy the funding needs of its customers and to accommodate the scheduled repayment of borrowings. Funds are available to City National from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the FHLB of Pittsburgh and other financial institutions. As of December 31, 2008, deposits and capital significantly fund City National's assets. However, City National maintains borrowing facilities with the FHLB of Pittsburgh and other financial institutions that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of December 31, 2008, City National has the capacity to borrow an additional \$631.5 million from the FHLB of Pittsburgh and other financial institutions under existing borrowing facilities. During January 2009, the Company reduced its maximum borrowing capacity from its line of credit with the FHLB of Pittsburgh from \$635.6 million to \$350.0 million. The reduction in our maximum borrowing capacity was due to two factors. First, based on an internal review, management determined that the likelihood that City National would require \$630 million of borrowing capacity was remote. In addition, during December 2008, the FHLB of Pittsburgh announced the suspension of stock dividends. As additional FHLB of Pittsburgh stock purchases (which are required as additional borrowings are made) would be non-earning assets, management elected to lower its borrowing capacity with FHLB of Pittsburgh. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systematic financial industry crisis. Additionally, City National maintains a significant percentage (93.6%, or \$424.2 million, at December 31, 2008) of its investment securities portfolio in the highly liquid available-for-sale classification. As such, these securities could be liquidated, if necessary, to provide an additional funding source. City National also manages certain mortgage loans,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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. As illustrated in the Consolidated Statements of Cash Flows, the Company generated \$54.6 million of cash from operating activities during 2008, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings.

The Company's net loan to asset ratio is 69.3% at December 31, 2008 as compared to its peers (defined as U.S. banks with total assets between \$1 billion and \$3 billion as published by the Federal Financial Institution Examination Council) of 73.2% as of September 30, 2008. 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 significant investment security balances with carrying values that totaled \$453.3 million at December 31, 2008, and that greatly exceeded the Company's non-deposit sources of borrowing which totaled \$260.9 million.

The Company primarily funds its assets with deposits, which fund 79.0% of total assets as compared to 56.3% for its peers. Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 41.6% of the Company's total assets. And, the Company uses fewer time deposits over \$100,000 than its peers, funding just 10.1% of total assets as compared to peers, which fund 13.6% of total assets with such deposits. And, as described under the caption *Certificates of Deposit*, the Company's large CDs are primarily small retail depositors rather than public and institutional deposits.

INVESTMENTS

The Company's investment portfolio increased from \$417.0 million at December 31, 2007 to \$453.3 million at December 31, 2008. This increase was primarily related to the purchase of mortgage backed and other debt securities.

The investment portfolio remains highly liquid at December 31, 2008, with 93.6% of the portfolio classified as available-for-sale. The investment portfolio is structured to provide flexibility in managing liquidity needs and interest rate risk, while providing acceptable rates of return.

The majority of the Company's investment securities continue to be mortgage-backed securities. The mortgage-backed securities in which the Company has invested are predominantly underwritten to the standards of, and guaranteed by government-sponsored agencies such as FNMA and FHLMC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

TABLE FOUR
INVESTMENT PORTFOLIO

| (in thousands) | Carrying Values as of December 31 | | |
|---|-----------------------------------|-------------------|-------------------|
| | 2008 | 2007 | 2006 |
| Securities Available-for-Sale: | | | |
| U.S. Treasury and other U.S. government corporations and agencies | \$ - | \$ 250 | \$ 244 |
| States and political subdivisions | 41,421 | 39,484 | 40,448 |
| Mortgage-backed securities | 288,333 | 259,336 | 320,806 |
| Other debt securities | 73,634 | 69,341 | 52,317 |
| Total debt securities available-for-sale | 403,388 | 368,411 | 413,815 |
| Equity securities and investment funds | 20,826 | 13,687 | 58,583 |
| Total Securities Available-for-Sale | 424,214 | 382,098 | 472,398 |
| Securities Held-to-Maturity: | | | |
| States and political subdivisions | 2,834 | 4,300 | 5,708 |
| Other debt securities | 26,233 | 30,618 | 41,792 |
| Total Securities Held-to-Maturity | 29,067 | 34,918 | 47,500 |
| Total Securities | \$ 453,281 | \$ 417,016 | \$ 519,898 |

Included in equity securities and investment funds in the table above at December 31, 2008 are \$6.3 million of Federal Home Loan Bank stock and \$6.7 million of Federal Reserve

Bank stock. At December 31, 2008, there were no securities of any non-governmental issuers whose aggregate carrying or market value exceeded 10% of shareholders' equity.

| (dollars in thousands) | Maturing | | | | | | | |
|---|-----------------|--------------|---------------------------------|--------------|---------------------------------|--------------|-------------------|--------------|
| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Securities Available-for-Sale: | | | | | | | | |
| States and political subdivisions | \$ 650 | 5.74 % | \$ 12,312 | 6.79% | \$ 14,228 | 6.86 % | \$ 14,232 | 6.86 % |
| Mortgage-backed securities | 100 | 5.50 | 892 | 6.00 | 54,410 | 4.30 | 232,930 | 4.55 |
| Other debt securities | - | - | 1,480 | 6.88 | 12,123 | 6.36 | 60,031 | 8.07 |
| Total debt securities available-for-sale | 750 | 5.71 | 14,684 | 6.75 | 80,761 | 5.06 | 307,193 | 5.34 |
| Securities Held-to-Maturity: | | | | | | | | |
| States and political subdivisions | 120 | 7.50 | 2,714 | 7.37 | - | - | - | - |
| Other debt securities | - | - | - | - | - | - | 26,233 | 9.78 |
| Total debt securities held-to-maturity | 120 | 7.50 | 2,714 | 7.37 | - | - | 26,233 | 9.78 |
| Total debt securities | \$ 870 | 5.96% | \$ 17,398 | 6.85% | \$ 80,761 | 5.06% | \$ 333,426 | 5.69% |

Weighted-average yields on tax-exempt obligations of states and political subdivisions have been computed on a fully federal tax-equivalent basis using a tax rate of 39.35%. Average yields on investments available-for-sale are computed

based on amortized cost. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LOANS

TABLE FIVE
LOAN PORTFOLIO

The composition of the Company's loan portfolio at December 31 follows:

| (in thousands) | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Residential real estate – mortgage | \$ 611,962 | \$ 602,057 | \$ 598,502 | \$ 592,521 | \$ 469,458 |
| Home equity | 384,320 | 341,818 | 321,708 | 301,728 | 308,173 |
| Commercial, financial, and agriculture | 768,255 | 707,987 | 673,719 | 629,670 | 472,112 |
| Loans to Depository Institutions | - | 60,000 | 25,000 | - | - |
| Installment loans to individuals | 43,585 | 48,267 | 42,943 | 58,652 | 46,595 |
| Previously securitized loans | 4,222 | 6,892 | 15,597 | 30,256 | 58,436 |
| Gross loans | \$ 1,812,344 | \$ 1,767,021 | \$ 1,677,469 | \$ 1,612,827 | \$ 1,354,774 |

During 2008, commercial loans increased \$60.3 million, or 8.5%, from \$708.0 million at December 31, 2007, to \$768.3 million at December 31, 2008. The Company's ability to successfully attract new commercial relationships contributed significantly to this increase. At December 31, 2008, \$55.8 million of the commercial loans were for commercial properties under construction. Home equity loans increased \$42.5 million, or 12.4%, from \$341.8 million at December 31, 2007, to \$384.3 million at December 31, 2008. Residential real estate loans increased \$9.9 million, or 1.6%, from \$602.1 million at December 31, 2007 to \$612.0 million at December 31, 2008. Residential real estate loans are primarily for single-family 1, 3, 5 and 10 year adjustable rate mortgages with terms that amortize the loans over periods from 15-30 years. Our mortgage products do not include sub-prime, interest only, or option adjustable rate mortgage products. At December 31, 2008, \$5.0 million of the residential real estate loans were for properties under construction.

The Company's loans to depository institutions decreased \$60.0 million, or 100.0%, from December 31, 2007. Installment loans decreased \$4.7 million, or 9.7%, from \$48.3 million at December 31, 2007 to \$43.6 million at December 31, 2008.

As of December 31, 2008, the Company reported \$4.2 million of loans classified as "previously securitized loans." These loans were recorded as a result of the Company's early redemption of the outstanding notes attributable to the Company's six loan securitization trusts (see *Retained Interests and Previously Securitized Loans*). As the outstanding notes were redeemed during 2004 and 2003, the

Company became the beneficial owner of the remaining mortgage loans and recorded the carrying amount of those loans within the loan portfolio, classified as "previously securitized loans." These loans are junior lien mortgage loans on one- to four-family residential properties located throughout the United States. The loans generally have contractual terms of 25 or 30 years and have fixed interest rates. The Company expects this balance to continue to decline as borrowers remit principal payments on the loans.

The following table shows the scheduled maturity of loans outstanding as of December 31, 2008:

| (in thousands) | Within One Year | After One But Within Five Years | After Five Years | Total |
|--|-------------------|---------------------------------|-------------------|---------------------|
| Residential real estate – mortgage | \$ 236,423 | \$ 338,076 | \$ 37,463 | \$ 611,962 |
| Home equity | 80,462 | 149,956 | 153,902 | 384,320 |
| Commercial, financial, and agriculture | 304,890 | 362,596 | 100,769 | 768,255 |
| Installment loans to individuals | 23,189 | 20,291 | 105 | 43,585 |
| Previously securitized loans | 1,027 | 1,833 | 1,362 | 4,222 |
| Total loans | \$ 645,991 | \$ 872,752 | \$ 293,601 | \$ 1,812,344 |

Loans maturing after one year with interest rates that are:

| | |
|------------------------|---------------------|
| Fixed until maturity | \$ 255,983 |
| Variable or adjustable | 910,370 |
| Total | \$ 1,166,353 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(CONTINUED)*

ALLOWANCE AND PROVISION 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 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.

In evaluating the adequacy of the allowance for loan losses, management considers both quantitative and qualitative factors. Quantitative factors include actual repayment characteristics and loan performance, cash flow analyses, and estimated fair values of underlying collateral. Qualitative factors generally include overall trends within the portfolio, composition of the portfolio, changes in pricing or underwriting, seasoning of the portfolio, and general economic conditions.

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

Based on management's analysis of the adequacy of the allowance for loan losses during 2008, management determined it was appropriate to record a provision for loan

losses of \$10.4 million. The provision for loan losses recorded during 2008 reflects the difficulties encountered by certain commercial borrowers of the Company (as discussed below), the downgrade of their related credits, and management's assessment of the impact of these difficulties on the ultimate collectability of the loans. Additionally, the provision reflects an increase in the balance of commercial loans during the year. Changes in the amount of the provision and related allowance are based on the Company's detailed methodology and are directionally consistent with changes in the growth, composition, and the quality of the Company's loan portfolio. The Company believes that its methodology for determining its allowance for loan losses adequately provides for probable losses inherent in the loan portfolio at December 31, 2008.

The Company had net charge-offs of \$5.8 million for the year ended December 31, 2008. Net charge-offs on commercial and residential loans were \$3.0 and \$1.4 million, respectively, for the year ended December 31, 2008. Charge-offs for commercial and residential loans were primarily related to loans that had been appropriately considered in establishing the allowance for loan losses in prior periods. In addition, overdrawn depository accounts experienced net charge-offs of \$1.4 million during 2008. While charge-offs on depository accounts are appropriately taken against the ALLL, the revenue associated with depository accounts is reflected in service charges.

The Company's ratio of non-performing assets to total loans and other real estate owned increased from 1.20% at December 31, 2007 to 1.64% at December 31, 2008. This increase is attributable primarily to the difficulties encountered by certain commercial customers described below during 2008 and their related borrowings have been classified as substandard.

Approximately 48% of the Company's nonperforming loans at December 31, 2008, or approximately \$12 million, were associated with a \$17 million portfolio of loans to builders of speculative homes at the Greenbrier Resort in White Sulphur Springs, West Virginia. These loans are considered to be commercial loans due to the dollar amount of the borrowings, although the loans were used to purchase lots and to construct upper-scale single-family residences at the Greenbrier Resort. Construction loan terms were originally interest only for 12 months. All loans are collateralized by completed homes and eight residential lots. Through December 31, 2008, the Company has specifically reserved \$3.6 million of the allowance for loan losses and had additionally charged-off \$0.9 million associated with this portfolio of speculative properties. During the first quarter of 2009, two of the completed residences were foreclosed and taken into the Company's Other Real Estate Owned. The Greenbrier Resort has a long history and tradition as a top resort destination and is owned by CSX Corporation. However, the current economic scenario has been challenging

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

for the Greenbrier, which lost \$35 million in 2008 according to CSX Corporation. Additionally, CSX Corporation has reported hiring Goldman Sachs, an investment banking firm, to apprise them of their strategic options regarding the Greenbrier. The Company has considered the uncertainty of the situation at the Greenbrier, arising in the fourth quarter of 2008, and has increased the provision for loan losses relative to this portfolio of speculative builders by \$1.15 million during the fourth quarter of 2008. Based on our analysis, the Company believes that the allowance allocated to the nonperforming and substandard loans, after considering the value of the collateral securing such loans, is adequate to cover losses that may result from these loans at December 31, 2008. While the Company's non-performing assets have increased, our ratio of non-performing assets to total loans and other real estate owned is 136 basis points lower than that of our peer group (bank holding companies with total assets between \$1 and \$5 billion), which reported average non-performing assets as a percentage of loans and other real estate owned of 3.00% for the most recently reported quarter ended September 30, 2008. The Company's non-performing assets are disproportionately tied to two sub-sectors within the loan portfolio.

In addition to the 48% of the Company's non-performing loans associated with speculative builders at the Greenbrier, slightly more than 25% of the Company's non-performing assets are associated with real estate in what is known as the "Eastern Panhandle" of West Virginia – the counties of Jefferson, Berkeley, and Morgan. These three counties are all considered distant suburbs of the Washington D.C. MSA and have experienced explosive growth in the last 10 years. While this is a relatively small part of the Company's entire franchise (representing approximately 16% of the Company's total loans outstanding at December 31, 2008), the downturn that has gripped the nation's mortgage and construction industry has had disproportionately more impact upon the Company's asset quality and provision in this region than in the remainder of the Company. Exclusive of loans to speculative builders at the Greenbrier or loans in the Eastern Panhandle, other loans throughout the Company account for only 27% of the Company's non-performing loans. The Company believes its methodology for determining the adequacy of its allowance adequately provides for probable losses inherent in the loan portfolio and produces a provision for loan losses that is directionally consistent with changes in asset quality and loss experience.

The allowance allocated to the commercial loan portfolio increased \$4.0 million, or 36.0%, from \$11.1 million at December 31, 2007 to \$15.1 million at December 31, 2008. This increase was due to recent trends in the commercial portfolio and increases in commercial balances. As discussed previously, borrowers involved in speculative building at the Greenbrier and real estate lending in the "Eastern Panhandle"

of West Virginia, encountered difficulties during 2008 that resulted in their loans being classified as substandard and allowances being allocated as necessary for potential losses. These loans are considered commercial real estate due to the intent of the borrowers to sell the properties and the amount of the loans. As of December 31, 2008, commercial balances totaled \$768.3 million, a \$60.3 million (8.5%) increase from December 31, 2007.

The allowance allocated to the real estate portfolio increased from \$3.6 million at December 31, 2007 to \$4.6 million at December 31, 2008. Increases in balances in this portfolio of 1.6% from December 31, 2007 have been partially offset by improvements in the asset quality of this portfolio. The majority of our market areas have experienced only modest increases and decreases in price over the last 5 years. An area that the Company serves that has experienced some declines in the market values of residential real estate properties has been the "Eastern Panhandle" of West Virginia. The estimated impact of potential decreases has been appropriately considered in our quarterly evaluation of the adequacy of the allowance for loan losses.

The allowance allocated to the consumer loan portfolio decreased \$0.1 million, or 45.2%, from \$0.3 million at December 31, 2007 to \$0.2 million at December 31, 2008. The decrease was attributable to changes in loss experience which decreased 46% from December 31, 2006 to December 31, 2007. This decrease was partially offset by an increase of \$4.7 million, or 9.7%, in consumer loans from December 31, 2007 to December 31, 2008.

Certain products offered by the Company permit customers to overdraft their depository accounts. While the Company generates service charge revenues for providing this service to the customer, certain deposit account overdrafts are not fully repaid by the customer resulting in losses incurred. The Company has provided for probable losses resulting from overdraft deposit account borrowings through its allowance for loan losses. As reflected in Table Six, the Company reported net charge-offs on depository accounts of \$1.4 and \$2.0 million during 2008 and 2007, respectively. As of December 31, 2008, the balance of overdraft deposit accounts was \$2.6 million and is included in installment loans to individuals in Note Four of Notes to Consolidated Financial Statements. The Company allocated \$2.4 million (see Table Eight) of its allowance for loan losses as of December 31, 2008, to provide for probable losses resulting from overdraft deposit accounts.

As previously discussed, the carrying value of the previously securitized loans incorporates an assumption for expected cash flows to be received over the life of these loans. To the extent that the present value of expected cash flows is less than the carrying value of these loans, the Company would provide for such losses through the provision and allowance for loan losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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 December 31, 2008, 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 SIX
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

An analysis of changes in the allowance for loan losses follows:

| (in thousands) | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance at beginning of year | \$ 17,581 | \$ 15,405 | \$ 16,790 | \$ 17,815 | \$ 21,426 |
| Allowance from acquisition | — | — | — | 3,265 | — |
| Reduction of allowance for loans sold | — | — | (1,368)* | — | — |
| Charge-offs: | | | | | |
| Commercial, financial, and agricultural | (3,064) | (514) | (1,279) | (1,673) | (2,040) |
| Real estate-mortgage | (1,590) | (1,006) | (935) | (1,491) | (1,164) |
| Installment loans to individuals | (243) | (343) | (898) | (1,711) | (2,071) |
| Overdraft deposit accounts | (3,151) | (3,789) | (3,823) | (3,584) | (2,614) |
| Totals | (8,048) | (5,652) | (6,935) | (8,459) | (7,889) |
| Recoveries: | | | | | |
| Commercial, financial, and agricultural | 38 | 231 | 210 | 605 | 1,809 |
| Real estate-mortgage | 223 | 87 | 575 | 303 | 576 |
| Installment loans to individuals | 296 | 416 | 598 | 679 | 792 |
| Overdraft deposit accounts | 1,741 | 1,744 | 1,734 | 1,182 | 1,101 |
| Totals | 2,298 | 2,478 | 3,117 | 2,769 | 4,278 |
| Net charge-offs | (5,750) | (3,174) | (3,818) | (5,690) | (3,611) |
| Provision for loan losses | 10,423 | 5,350 | 3,801 | 1,400 | — |
| Balance at end of year | \$ 22,254 | \$ 17,581 | \$ 15,405 | \$ 16,790 | \$ 17,815 |
| As a Percent of Average Total Loans | | | | | |
| Net charge-offs | 0.33% | 0.18% | 0.23% | 0.38% | 0.27% |
| Provision for loan losses | 0.60 | 0.31 | 0.23 | 0.09 | — |
| As a Percent of Nonperforming and Potential Problem Loans | | | | | |
| Allowance for loan losses | 86.07% | 104.49% | 384.93% | 401.96% | 487.28% |

*- The Company is not under any commitment to repurchase any of the outstanding balances sold with respect to this sale.

TABLE SEVEN
NON-ACCRUAL, PAST-DUE AND RESTRUCTURED LOANS

Nonperforming assets at December 31 follows:

| (in thousands) | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|-----------|-----------|----------|----------|----------|
| Non-accrual loans | \$ 25,224 | \$ 16,437 | \$ 3,319 | \$ 2,785 | \$ 2,147 |
| Accruing loans past due 90 days or more | 623 | 314 | 635 | 1,124 | 677 |
| Previously securitized loans past due 90 days or more | 10 | 76 | 48 | 268 | 832 |
| | \$ 25,857 | \$ 16,827 | \$ 4,002 | \$ 4,177 | \$ 3,656 |

The increase in non-accrual loans is directly related to the difficulties encountered by borrowers involved in speculative building at the Greenbrier and in the "Eastern Panhandle" of

West Virginia as discussed previously. At December 31, 2008, management was not aware of any other potential problem loans other than those included in Table Seven.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The Company recognized approximately \$1.2 million, \$0.8 million, and \$0.1 million of interest income received in cash on non-accrual and impaired loans in 2008, 2007 and 2006, respectively. Approximately \$0.3 million, \$0.4 million, and \$0.2 million of interest income would have been recognized during 2008, 2007 and 2006, 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 December 31, 2008 and 2007.

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.

TABLE EIGHT
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

A summary of the allocation of the allowance for loan losses by loan type at December 31 follows:

| (dollars in thousands) | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
|--|--|-------------|--|-------------|--|-------------|--|-------------|--|-------------|
| | Percent of Loans in Each Category to Total | | Percent of Loans in Each Category to Total | | Percent of Loans in Each Category to Total | | Percent of Loans in Each Category to Total | | Percent of Loans in Each Category to Total | |
| | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans |
| Commercial, financial and agricultural | \$ 15,128 | 42% | \$ 11,097 | 43% | \$ 8,330 | 40% | \$ 7,613 | 39% | \$ 10,655 | 35% |
| Residential real estate-mortgage | 4,583 | 55 | 3,605 | 54 | 3,981 | 56 | 3,977 | 57 | 3,151 | 62 |
| Installment loans to individuals | 190 | 3 | 347 | 3 | 801 | 4 | 2,819 | 4 | 2,552 | 3 |
| Overdraft deposit accounts | 2,353 | — | 2,532 | — | 2,293 | — | 2,381 | — | 1,457 | — |
| | \$ 22,254 | 100% | \$ 17,581 | 100% | \$ 15,405 | 100% | \$ 16,790 | 100% | \$ 17,815 | 100% |

PREVIOUSLY SECURITIZED LOANS

Overview: Between 1997 and 1999, the Company originated and securitized approximately \$759.8 million in 125% loan to junior-lien underlying mortgages in six separate pools. The Company had a retained interest in the securitizations. Principal amounts owed to investors in the securitizations were evidenced by securities ("Notes"). During 2004 and 2003, the Company exercised its early redemption option on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the underlying mortgage loans and recorded the loans as assets of the Company within the loan portfolio.

As the Company redeemed the outstanding Notes, no gain or loss was recognized in the Company's financial statements and the remaining mortgage loans were recorded in the Company's loan portfolio as "previously securitized loans," at the lower of carrying value or fair value. Because the carrying value of the mortgage loans incorporated assumptions for

expected prepayment and default rates, the carrying value of the loans were generally less than the actual outstanding contractual balance of the loans. As of December 31, 2008 and 2007, the Company reported a carrying value of previously securitized loans of \$4.2 million and \$6.9 million, respectively, while the actual outstanding contractual balance of these loans was \$19.0 million and \$24.1 million, respectively. The Company accounts for the difference between the carrying value and the outstanding balance of previously securitized loans as an adjustment of the yield earned on these loans over their remaining lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable. If, upon periodic evaluation, the estimate of the total probable collections is reduced below the original value of the loans, an impairment charge would be provided through the Company's provision for loan losses. For a further discussion of the accounting policies for previously securitized loans, please see

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Note One to the Consolidated Financial Statements, on page 32 of this Annual Report to Shareholders.

During 2008, 2007, and 2006, the Company recognized \$5.6 million, \$7.3 million, and \$9.4 million, respectively, of interest income on its previously securitized loans. Cash receipts for 2008, 2007, and 2006 are summarized in the following table:

| (in thousands) | 2008 | 2007 | 2006 |
|---------------------|-----------------|------------------|------------------|
| Principal receipts | \$ 5,458 | \$ 12,207 | \$ 18,829 |
| Interest receipts | 2,965 | 3,855 | 5,374 |
| Total cash receipts | <u>\$ 8,423</u> | <u>\$ 16,062</u> | <u>\$ 24,203</u> |

Key assumptions used in estimating the cash flows and fair value of the Company's previously securitized loans as of December 31, 2008 and 2007, were as follows:

| | December 31 | |
|--------------------------------------|-------------|-------|
| | 2008 | 2007 |
| Prepayment speed (CPR): | | |
| From January 2008 – March 2008 | – | 16% |
| From April 2008 – December 2008 | – | 15% |
| From January 2009 – December 2009 | 9% | 13% |
| From January 2010 – December 2012 | 9% | 9% |
| Thereafter | 5% | 5% |
| Weighted-average cumulative defaults | 9.39% | 9.54% |

The balances of previously securitized loans are comprised of six different pools. The Company monitors prepayments by pool and as a result of updated information, the prepayment factors are updated accordingly.

The projected cumulative default rate is computed using actual loan defaults experienced life-to-date plus forecasted loan defaults projected over the remaining expected life of the loans.

Summary: The following table summarizes the activity with the reported balance of previously securitized loans during 2008 and 2007 and illustrates the impact on these balances of converting the retained interest asset to loans:

| (in thousands) | Previously Securitized Loans |
|--|------------------------------|
| Balance at December 31, 2006 | \$ 15,597 |
| Principal payments on mortgage loans received from borrowers | (12,207) |
| Discount accretion | 3,502 |
| Balance at December 31, 2007 | \$ 6,892 |
| Principal payments on mortgage loans received from borrowers | (5,458) |
| Discount accretion | 2,788 |
| Balance at December 31, 2008 | \$ 4,222 |

GOODWILL

The Company evaluates the recoverability of goodwill and indefinite lived intangible assets annually as of November 30, or more frequently if events or changes in circumstances warrant, such as a material adverse change in the business. Goodwill is considered to be impaired when the carrying value of a reporting unit exceeds its estimated fair value. Indefinite-lived intangible assets are considered impaired if their carrying value exceeds their estimated fair value. As described in Note One of the Company's Consolidated Financial Statements, the Company conducts its business activities through one reportable business segment – community banking. Fair values are estimated by reviewing the Company's stock price as it compares to book value and the Company's reported earnings. In addition, the impact of future earnings and activities are considered in the Company's analysis. The Company has \$54.9 million of goodwill at December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

CERTIFICATES OF DEPOSIT

Scheduled maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2008, are summarized in Table Nine. The Company has time certificates

of deposit of \$100,000 or more totaling \$262.0 million. These deposits are primarily small retail depositors of the bank as demonstrated by the average balance of time certificates of deposit of \$100,000 or more being less than \$150,000.

TABLE NINE
MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT OF \$100,000 OR MORE

| (in thousands) | Amounts | Percentage |
|---------------------------------------|------------|------------|
| Three months or less | \$ 51,723 | 20% |
| Over three months through six months | 52,036 | 20 |
| Over six months through twelve months | 55,980 | 21 |
| Over twelve months | 102,288 | 39 |
| Total | \$ 262,027 | 100% |

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations that may require future cash payments according to the terms of the obligations. Demand, both noninterest- and interest-bearing, and savings deposits are, generally, payable immediately upon demand at the request of the customer. Therefore, the contractual maturity of these obligations is presented in the following table as "less than one year." Time deposits, typically CDs, are customer deposits that are evidenced by an agreement between the Company and the customer that specify

stated maturity dates and early withdrawals by the customer are subject to penalties assessed by the Company. Short-term borrowings and long-term debt represent borrowings of the Company and have stated maturity dates. The Company is not a party to any material capital or operating leases as of December 31, 2008. The composition of the Company's contractual obligations as of December 31, 2008 is presented in the following table:

TABLE TEN
CONTRACTUAL OBLIGATIONS

| (in thousands) | Contractual Maturity in | | | | Total |
|---|-------------------------|-----------------------------|------------------------------|-------------------------|---------------------|
| | Less than One Year | Between One and Three Years | Between Three and Five Years | Greater than Five Years | |
| Noninterest-bearing demand deposits | \$ 298,530 | \$ — | \$ — | \$ — | \$ 298,530 |
| Interest-bearing demand deposits ⁽¹⁾ | 422,484 | — | — | — | 422,484 |
| Savings deposits ⁽¹⁾ | 357,417 | — | — | — | 357,417 |
| Time deposits ⁽¹⁾ | 642,176 | 330,561 | 45,204 | 149 | 1,018,090 |
| Short-term borrowings ⁽¹⁾ | 204,589 | — | — | — | 204,589 |
| Long-term debt ⁽¹⁾ | 1,030 | 4,007 | 2,348 | 19,003 | 26,388 |
| Total Contractual Obligations | \$ 1,926,226 | \$ 334,568 | \$ 47,552 | \$ 19,152 | \$ 2,327,498 |

⁽¹⁾ – Includes interest on both fixed- and variable-rate obligations. The interest associated with variable-rate obligations is based upon interest rates in effect at December 31, 2008. The contractual amounts to be paid on variable-rate obligations are affected by market interest rates that could materially affect the contractual amounts to be paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The Company's liability for uncertain tax positions at December 31, 2008 was \$0.3 million pursuant to FASB Interpretation No. 48. This liability represents an estimate of tax positions that the Company has taken in its tax returns that may ultimately not be sustained upon examination by tax authorities. As the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable reliability, this estimated liability has been excluded from the contractual obligations table.

OFF-BALANCE SHEET ARRANGEMENTS

As disclosed in Note Sixteen of Notes to Consolidated Financial Statements, the Company has also entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. While the outstanding commitment obligation is not recorded in the Company's financial statements, the estimated fair value, which is not material to the Company's financial statements, of the standby letters of credit is recorded in the Company's Consolidated Balance Sheets as of December 31, 2008 and 2007. As a result of the Company's off-balance sheet arrangements for 2007 and 2008, no material revenue, expenses, or cash flows were recognized. In addition, the Company had no other indebtedness, retained interests nor were any securities issued in connection with any off-balance sheet arrangements for 2007 and 2008. Also there were no other obligations or liabilities of the Company that were or were reasonably likely to become material at December 31, 2007 or December 31, 2008.

CAPITAL RESOURCES

During 2008, Shareholders' Equity decreased \$13.6 million, or 4.6%, from \$294.0 million at December 31, 2007, to \$280.4 million at December 31, 2008. This decrease was due to cash dividends declared during the year of \$21.9 million, common stock purchases for treasury of \$11.0 million, and a \$11.2 million decrease in accumulated other comprehensive income that were partially offset by reported net income of \$28.1 million for 2008.

The Company repurchased 337,060 shares during 2008 at a weighted average price of \$32.56. However, there can be no assurance that the Company will continue to reacquire its common shares or to what extent the repurchase program will be successful.

The \$11.2 million decrease in accumulated other comprehensive income was due to a \$13.8 million, net of tax, unrealized loss on the Company's available for sale investment securities (see Note Three of Notes to Consolidated Financial Statements); and a \$2.3 million, net of tax, increase in underfunded pension obligations (see Note Fourteen of Notes to Consolidated Financial Statements). These decreases were partially offset by a \$4.9 million, net of tax, unrealized gain on interest rate floors.

During 2007, Shareholders' Equity decreased \$11.3 million, or 3.7%, from \$305.3 million at December 31, 2006, to \$294.0 million at December 31, 2007. This decrease was due to common stock purchases for treasury of \$48.2 million and cash dividends declared during the year of \$20.7 million that were partially offset by reported net income of \$51.0 million for 2007 and a \$6.2 million increase in accumulated other comprehensive income.

Regulatory guidelines require the Company to maintain a minimum total capital to risk-adjusted assets ratio of 8.00%, with at least one-half of capital consisting of tangible common shareholders' equity and a minimum Tier I leverage ratio of 4.00%. 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 total capital, Tier I capital, and leverage ratios of 8.00%, 4.00%, and 4.00%, respectively. To be classified as "well capitalized," City National must maintain total capital, Tier I capital, and leverage ratios of 10.00%, 6.00%, and 5.00%, respectively.

The Capital Securities issued by City Holding Capital Trust III ("Trust III") qualify as regulatory capital for the Company under guidelines established by the Federal Reserve Board. The Company's regulatory capital ratios remained strong for both City Holding and City National as of December 31, 2008, as illustrated in the following table:

| | Minimum | Well-Capitalized | Actual | |
|-----------------------|---------|------------------|---------------|--------|
| | | | December 31 | |
| | | | 2008 | 2007 |
| City Holding: | | | | |
| Total | 8.00% | 10.00% | 13.43% | 15.11% |
| Tier I Risk-based | 4.00 | 6.00 | 12.25 | 14.12 |
| Tier I Leverage | 4.00 | 5.00 | 9.47 | 10.31 |
| City National: | | | | |
| Total | 8.00% | 10.00% | 11.48% | 13.51% |
| Tier I Risk-based | 4.00 | 6.00 | 10.27 | 12.51 |
| Tier I Leverage | 4.00 | 5.00 | 7.97 | 9.08 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(CONTINUED)*

LEGAL ISSUES

The Company and City National are engaged in various legal actions in the ordinary course of business. As these legal actions are resolved, the Company or City National could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately decided. There can be no assurance that the ultimate resolution of current actions will not materially impact the financial statements or that there will be no material actions presented in the future.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note One, "Recent Accounting Pronouncements," of Notes to Consolidated Financial Statements discusses recently issued new accounting pronouncements and their expected impact on the Company's consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements that are included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such information involves risks and uncertainties that could cause the Company's actual results to differ from those projected in the forward-looking information. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to those set forth in the Company's Annual Report on Form 10-K under "Risk Factors" and the following: (1) the Company may incur additional loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company may experience increases in the default rates on previously securitized loans that would result

in impairment losses or lower the yield on such loans; (4) the Company may not continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on these assets; (5) the Company could have adverse legal actions of a material nature; (6) the Company may face competitive loss of customers; (7) the Company may be unable to manage its expense levels; (8) the Company may have difficulty retaining key employees; (9) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (10) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (11) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (12) the Company may experience difficulties growing loan and deposit balances; (13) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (14) continued deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in the securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments; and (15) the United States government's plan to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions may not be effective and/or it may not be available to us. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

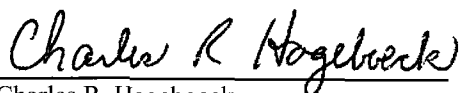
REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of City Holding Company is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements of City Holding Company have been prepared in accordance with U.S. generally accepted accounting principles and, necessarily include some amounts that are based on the best estimates and judgments of management.

The management of City Holding Company is responsible for establishing and maintaining adequate internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. generally accepted accounting principles. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audits with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment, management believes that, as of December 31, 2008, the Company's system of internal control over financial reporting is effective based on those criteria. Ernst & Young, LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting. This report appears on page 24.

March 2, 2009



Charles R. Hageboeck
President and Chief Executive Officer



David L. Bumgarner
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Committee of the Board of Directors and the Shareholders of City Holding Company

We have audited City Holding Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). City Holding Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on City Holding Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, City Holding Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of City Holding Company and our report dated March 2, 2009 expressed an unqualified opinion thereon.

Ernst & Young LLP

Charleston, West Virginia
March 2, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

Audit Committee of the Board of Directors and the Shareholders of City Holding Company

We have audited the accompanying consolidated balance sheets of City Holding Company and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of City Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of City Holding Company and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), City Holding Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

Ernst & Young LLP

Charleston, West Virginia
March 2, 2009

CONSOLIDATED BALANCE SHEETS

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | December 31 | |
|---|---------------------|---------------------|
| | 2008 | 2007 |
| Assets | | |
| Cash and due from banks | \$ 55,511 | \$ 64,726 |
| Interest-bearing deposits in depository institutions | 4,118 | 9,792 |
| Cash and Cash Equivalents | 59,629 | 74,518 |
| Investment securities available-for-sale, at fair value | 424,214 | 382,098 |
| Investment securities held-to-maturity, at amortized cost (approximate fair value at December 31, 2008 and 2007 - \$22,050 and \$35,198, respectively) | 29,067 | 34,918 |
| Total Investment Securities | 453,281 | 417,016 |
| Gross loans | 1,812,344 | 1,767,021 |
| Allowance for loan losses | (22,254) | (17,581) |
| Net Loans | 1,790,090 | 1,749,440 |
| Bank-owned life insurance | 70,400 | 64,467 |
| Premises and equipment | 60,138 | 54,635 |
| Accrued interest receivable | 9,024 | 11,254 |
| Net deferred tax assets | 48,462 | 20,633 |
| Intangible assets | 57,479 | 58,238 |
| Other assets | 33,943 | 32,566 |
| Total Assets | \$ 2,582,446 | \$ 2,482,767 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 298,530 | \$ 314,231 |
| Interest-bearing: | | |
| Demand deposits | 420,554 | 397,510 |
| Savings deposits | 354,956 | 350,607 |
| Time deposits | 967,090 | 927,733 |
| Total Deposits | 2,041,130 | 1,990,081 |
| Short-term borrowings | 194,463 | 161,916 |
| Long-term debt | 19,047 | 4,973 |
| Other liabilities | 47,377 | 31,803 |
| Total Liabilities | 2,302,017 | 2,188,773 |
| 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 December 31, 2008 and 2007, less 2,548,538 and 2,292,357 shares in treasury, respectively | 46,249 | 46,249 |
| Capital surplus | 102,895 | 103,390 |
| Retained earnings | 230,613 | 224,386 |
| Cost of common stock in treasury | (88,729) | (80,664) |
| Accumulated other comprehensive (loss) income: | | |
| Unrealized loss on securities available-for-sale | (15,628) | (1,783) |
| Unrealized gain on derivative instruments | 9,287 | 4,390 |
| Underfunded pension liability | (4,258) | (1,974) |
| Total Accumulated Other Comprehensive (Loss) Income | (10,599) | 633 |
| Total Shareholders' Equity | 280,429 | 293,994 |
| Total Liabilities and Shareholders' Equity | \$ 2,582,446 | \$ 2,482,767 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands, except per share data) | Year Ended December 31 | | |
|--|------------------------|------------------|------------------|
| | 2008 | 2007 | 2006 |
| Interest Income | | | |
| Interest and fees on loans | \$ 122,127 | \$ 128,609 | \$ 123,945 |
| Interest on investment securities: | | | |
| Taxable | 23,852 | 25,677 | 28,418 |
| Tax-exempt | 1,523 | 1,689 | 1,782 |
| Interest on loans held for sale | - | - | 322 |
| Interest on deposits in depository institutions | 171 | 521 | 1,477 |
| Interest on federal funds sold | - | 819 | 179 |
| Total Interest Income | 147,673 | 157,315 | 156,123 |
| Interest Expense | | | |
| Interest on deposits | 41,906 | 51,826 | 44,046 |
| Interest on short-term borrowings | 2,629 | 6,642 | 5,099 |
| Interest on long-term debt | 1,383 | 1,808 | 4,579 |
| Total Interest Expense | 45,918 | 60,276 | 53,724 |
| Net Interest Income | 101,755 | 97,039 | 102,399 |
| Provision for loan losses | 10,423 | 5,350 | 3,801 |
| Net Interest Income After Provision for Loan Losses | 91,332 | 91,689 | 98,598 |
| Noninterest Income | | | |
| Investment securities (losses) gains | (38,265) | 45 | (1,995) |
| Service charges | 45,995 | 44,416 | 42,559 |
| Insurance commissions | 4,212 | 4,090 | 2,335 |
| Trust and investment management fee income | 2,239 | 2,042 | 2,140 |
| Bank-owned life insurance | 2,932 | 2,477 | 2,352 |
| Gain on sale of retail credit card portfolio and merchant agreements | - | 1,500 | 3,563 |
| VISA IPO Gain | 3,289 | - | - |
| Other income | 1,534 | 1,566 | 3,249 |
| Total Noninterest Income | 21,936 | 56,136 | 54,203 |
| Noninterest Expense | | | |
| Salaries and employee benefits | 37,263 | 36,034 | 34,484 |
| Occupancy and equipment | 6,871 | 6,366 | 6,481 |
| Depreciation | 4,523 | 4,472 | 4,219 |
| Professional fees | 1,680 | 1,628 | 1,760 |
| Postage, delivery, and statement mailings | 2,549 | 2,588 | 2,832 |
| Advertising | 2,899 | 3,123 | 3,216 |
| Telecommunications | 1,916 | 1,809 | 2,048 |
| Bankcard expenses | 2,689 | 2,354 | 1,964 |
| Insurance and regulatory | 1,388 | 1,555 | 1,528 |
| Office supplies | 2,021 | 1,838 | 1,578 |
| Reposessed asset losses (gains), net of expenses | 524 | (157) | (98) |
| Loss on early extinguishment of debt | 1,208 | - | 1,368 |
| Other expenses | 10,141 | 9,403 | 9,905 |
| Total Noninterest Expense | 75,672 | 71,013 | 71,285 |
| Income Before Income Taxes | 37,596 | 76,812 | 81,516 |
| Income tax expense | 9,487 | 25,786 | 28,329 |
| Net Income | \$ 28,109 | \$ 51,026 | \$ 53,187 |
| Basic earnings per common share | \$ 1.74 | \$ 3.02 | \$ 3.00 |
| Diluted earnings per common share | \$ 1.74 | \$ 3.01 | \$ 2.99 |
| Dividends declared per common share | \$ 1.36 | \$ 1.24 | \$ 1.12 |
| Average common shares outstanding: | | | |
| Basic | 16,118 | 16,877 | 17,701 |
| Diluted | 16,167 | 16,935 | 17,762 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Common Stock (Par Value) | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Shareholders' Equity |
|--|-----------------------------------|--------------------|----------------------|--|-------------------|----------------------------------|
| Balances at December 31, 2005 | 46,249 | 104,435 | 160,747 | (8,012) | (11,278) | 292,141 |
| Comprehensive income: | | | | | | |
| Net income | — | — | 53,187 | — | — | 53,187 |
| Other comprehensive gain, net of deferred income tax benefit of \$1,655: | | | | | | |
| Unrealized gain on securities of \$5,645, net of tax and reclassification adjustments for losses included in net income of \$1,995 | — | — | — | 2,190 | — | 2,190 |
| Unrealized loss on interest rate floors of \$350, net of tax | — | — | — | (210) | — | (210) |
| Decrease in underfunded pension liability of \$838, net of tax | — | — | — | 503 | — | 503 |
| Total comprehensive income | | | | | | 55,670 |
| Cash dividends declared (\$1.12 per share) | — | — | (19,721) | — | — | (19,721) |
| Issuance of stock award shares, net | — | 239 | — | — | 245 | 484 |
| Exercise of 46,243 stock options | — | (900) | — | — | 1,698 | 798 |
| Excess tax benefit on stock-based compensation | — | 269 | — | — | — | 269 |
| Purchase of 666,753 common shares for treasury | — | — | — | — | (24,334) | (24,334) |
| Balances at December 31, 2006 | \$ 46,249 | \$104,043 | \$ 194,213 | \$ (5,529) | \$ (33,669) | \$ 305,307 |
| Comprehensive income: | | | | | | |
| Cumulative effect of adoption of FIN 48 | — | — | (125) | — | — | (125) |
| Net income | — | — | 51,026 | — | — | 51,026 |
| Other comprehensive gain, net of deferred income tax benefit of \$10,270: | | | | | | |
| Unrealized gain on securities of \$1,443, net of tax | — | — | — | 866 | — | 866 |
| Unrealized gain on interest rate floors of \$7,667, net of tax | — | — | — | 4,600 | — | 4,600 |
| Decrease in underfunded pension liability of \$1,160, net of tax | — | — | — | 696 | — | 696 |
| Total comprehensive income | | | | | | 57,188 |
| Cash dividends declared (\$1.24 per share) | — | — | (20,728) | — | — | (20,728) |
| Issuance of stock award shares, net | — | (515) | — | — | 942 | 427 |
| Exercise of 7,300 stock options | — | (141) | — | — | 295 | 154 |
| Excess tax benefit on stock-based compensation | — | 3 | — | — | — | 3 |
| Purchase of 1,314,112 common shares for treasury | — | — | — | — | (48,232) | (48,232) |
| Balances at December 31, 2007 | \$ 46,249 | \$103,390 | \$ 224,386 | \$ 633 | \$ (80,664) | \$ 293,994 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED) CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Common Stock (Par Value) | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Shareholders' Equity |
|--|---|----------------------------|------------------------------|--|---------------------------|---|
| Balances at December 31, 2007 | \$ 46,249 | \$103,390 | \$ 224,386 | \$ 633 | \$(80,664) | \$ 293,994 |
| Comprehensive income: | | | | | | |
| Net income | — | — | 28,109 | — | — | 28,109 |
| Other comprehensive gain, net of deferred income tax benefit of \$18,519: | | | | | | |
| Unrealized loss on securities of \$22,828, net of tax | — | — | — | (13,845) | — | (13,845) |
| Unrealized gain on interest rate floors of \$8,074, net of tax | — | — | — | 4,897 | — | 4,897 |
| Increase in underfunded pension liability of \$3,766, net of tax | — | — | — | (2,284) | — | (2,284) |
| Total comprehensive income | | | | | | 16,877 |
| Cash dividends declared (\$1.36 per share) | — | — | (21,882) | — | — | (21,882) |
| Issuance of stock award shares, net | — | (12) | — | — | 491 | 479 |
| Exercise of 66,454 stock options | — | (749) | — | — | 2,418 | 1,669 |
| Excess tax benefit on stock-based compensation | — | 266 | — | — | — | 266 |
| Purchase of 337,060 common shares for treasury | — | — | — | — | (10,974) | (10,974) |
| Balances at December 31, 2008 | \$ 46,249 | \$102,895 | \$ 230,613 | \$ (10,599) | \$(88,729) | \$ 280,429 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|------------------|-------------------|
| | 2008 | 2007 | 2006 |
| Operating Activities | | | |
| Net income | \$ 28,109 | \$ 51,026 | \$ 53,187 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization and accretion | (1,195) | (2,309) | (2,596) |
| Depreciation of premises and equipment | 4,523 | 4,472 | 4,219 |
| Provision for loan losses | 10,423 | 5,350 | 3,801 |
| Loss on early extinguishments of debt | 1,208 | — | 1,368 |
| Deferred income tax (benefit) expense | (14,449) | (1,176) | 2,516 |
| Net periodic pension cost | 50 | 236 | 246 |
| Increase in value of bank-owned life insurance | (2,933) | (2,477) | (2,352) |
| Proceeds from bank-owned life insurance | — | 205 | 126 |
| Gain from sale of retail credit card portfolio and merchant agreements | — | (1,500) | (3,563) |
| Loss on sale of premises and equipment | 125 | — | 15 |
| Realized investment securities losses (gains) | 38,265 | (45) | 1,995 |
| Decrease in accrued interest receivable | 2,230 | 1,083 | 797 |
| Increase in other assets | (17,712) | (4,775) | (2,690) |
| Increase in other liabilities | 5,916 | 258 | 2,078 |
| Net Cash Provided by Operating Activities | 54,560 | 50,348 | 59,147 |
| Investing Activities | | | |
| Proceeds from maturities and calls of securities held to maturity | 1,468 | 12,458 | 7,667 |
| Proceeds from sale of money market and mutual fund available-for-sale securities | 972,269 | 1,015,160 | 1,092,400 |
| Purchases of money market and mutual fund available-for-sale securities | (972,375) | (969,052) | (1,093,411) |
| Proceeds from sales of securities available-for-sale | 3,019 | 1,819 | 57,526 |
| Proceeds from maturities and calls of securities available-for-sale | 56,765 | 84,431 | 79,138 |
| Purchases of securities available-for-sale | (159,246) | (41,261) | (57,650) |
| Net increase in loans | (47,445) | (88,566) | (75,475) |
| Sales of premises and equipment | 340 | 15 | — |
| Purchases of premises and equipment | (10,491) | (14,433) | (6,381) |
| Investment in bank owned life insurance | (3,000) | (7,000) | — |
| Proceeds from sale of retail credit card portfolio and merchant agreements | — | 1,650 | 13,920 |
| Proceeds from sale of VISA stock | 2,334 | — | — |
| Proceeds from sale of derivative instruments | 20,454 | — | — |
| Net Cash (Used in) Provided by Investing Activities | (135,908) | (4,779) | 17,734 |
| Financing Activities | | | |
| Net decrease in noninterest-bearing deposits | (15,701) | (6,807) | (55,038) |
| Net increase in interest-bearing deposits | 66,750 | 11,671 | 111,932 |
| Net increase (decrease) in short-term borrowings | 47,106 | (17,524) | (38,406) |
| Proceeds from long-term debt | 16,495 | — | — |
| Repayment of long-term debt | (100) | (163) | (15,575) |
| Redemption of trust preferred securities | (17,569) | — | (13,002) |
| Purchases of treasury stock | (10,974) | (48,232) | (24,334) |
| Proceeds from stock options exercises | 1,669 | 154 | 798 |
| Excess tax benefits from stock-based compensation arrangements | 266 | 3 | 269 |
| Dividends paid | (21,483) | (20,601) | (19,350) |
| Net Cash Provided by (Used in) Financing Activities | 66,459 | (81,499) | (52,706) |
| (Decrease) Increase in Cash and Cash Equivalents | (14,889) | (35,930) | 24,175 |
| Cash and cash equivalents at beginning of year | 74,518 | 110,448 | 86,273 |
| Cash and Cash Equivalents at End of Year | \$ 59,629 | \$ 74,518 | \$ 110,448 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE ONE

SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Summary of Significant Accounting and Reporting Policies: The accounting and reporting policies of City Holding Company and its subsidiaries (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. Actual results could differ from management's estimates. The following is a summary of the more significant policies.

Principles of Consolidation: The consolidated financial statements include the accounts of City Holding Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity in conformity with U. S. generally accepted accounting principles. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiary, City Holding Capital Trust III, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

Description of Principal Markets and Services: The Company is a bank holding company headquartered in Charleston, West Virginia, 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 69 offices in West Virginia, Kentucky, and Ohio. Principal activities include

providing deposit, credit, trust and investment management, and insurance related products and services. The Company conducts its business activities through one reportable business segment - community banking.

Cash and Due from Banks: The Company considers cash, due from banks, and interest-bearing federal deposits in depository institutions as cash and cash equivalents.

Securities: Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold debt securities to maturity, they are classified as investment securities held-to-maturity and are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as investment securities available-for-sale along with the Company's investment in equity securities. Securities available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, reported in comprehensive income. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors. On a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are other than temporarily impaired. In estimating other-than-temporary impairment losses, management considers the following, among other things, in its determination of the nature of the unrealized losses, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The specific identification method is used to determine the cost basis of securities sold.

Loans: Loans, excluding previously securitized loans, which are discussed separately below, are reported at the principal amount outstanding, net of unearned income. Portfolio loans include those for which management has the intent and City has the ability to hold for the foreseeable future, or until maturity or payoff. The foreseeable future is based upon management's judgement of current business strategies and market conditions, the type of loan, asset/liability management, and liquidity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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 income generally is discontinued when a loan becomes 90 days past due as to principal or interest. 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 when the estimated net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in process of collection.

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, 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.

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. Unsecured commercial loans are generally charged off when the loan becomes 120 days past due. Secured commercial loans are generally evaluated for charge-off when the loan becomes 180 days past due. Closed-end consumer loans are generally charged off when the loan becomes 120 days past due and open-end consumer loans are generally charged off when the loan becomes 180 days past due.

Previously Securitized Loans: Amounts reported in Note Four of Notes to Consolidated Financial Statements as "previously securitized loans" represent the carrying value of loans beneficially owned by the Company as a result of having fully redeemed the obligations owed to investors ("notes") in certain of the Company's securitization transactions. The loans were recorded at the lower of fair value or their carrying values, which was the carrying value of the related retained interest asset underlying the securitization plus amounts remitted by the Company to the noteholders to redeem the

notes. Because the carrying value of the retained interests incorporated assumptions with regard to expected prepayment and default rates on the loans and also considered the expected timing and amount of cash flows to be received by the Company, the carrying value of the retained interests and the carrying value of the loans was less than the actual outstanding balance of the loans.

The Company is accounting for the difference between the carrying value and the expected cash flows from these loans as an adjustment of the yield on the loans over their remaining lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable.

The excess of expected cash flows over contractual cash flows is recognized prospectively through an adjustment to the yield over the remaining lives of the loans. If upon evaluation of estimated collections and collections to date, the estimated total amount of collections is reduced below the original value of the loans, the loans are considered impaired for further evaluation.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level that represents management's best 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. These evaluations are conducted at least quarterly and more frequently if deemed necessary. 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. Loan losses are charged against the allowance and recoveries of amounts previously charged are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the adequacy of the allowance after considering factors noted above, among others.

In evaluating the adequacy of its allowance for loan losses, the Company stratifies the loan portfolio into seven major groupings, including commercial real estate, other commercial, residential real estate, home equity, and others. Historical loss experience, as adjusted, is applied to the then outstanding balance of loans in each classification to estimate probable losses inherent in each segment of the portfolio. Historical loss

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

experience is adjusted using a systematic weighted probability of potential risk factors that could result in actual losses deviating from prior loss experience. Risk factors considered by the Company in completing this analysis include: (1) unemployment and economic trends in the Company's markets, (2) concentrations of credit, if any, among any industries, (3) trends in loan growth, loan mix, delinquencies, losses or credit impairment, (4) 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.

Additionally, all loans within the portfolio are subject to internal risk grading. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. 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.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets. Depreciation of leasehold improvements is computed using the straight-line method over the lesser of the term of the respective lease or the estimated useful life of the respective asset. Maintenance and repairs are charged to expense as incurred, while improvements that extend the useful life of premises and equipment are capitalized and depreciated over the estimated remaining life of the asset.

Goodwill and Other Intangible Assets: Goodwill is the excess of the cost of an acquisition over the fair value of tangible and intangible assets acquired. Goodwill is not amortized. Intangible assets represent purchased assets that also lack physical substance, but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. Intangible assets with determinable useful lives, such as core deposits, are amortized over their estimated useful lives.

The Company performs an annual review for impairment in the recorded value of goodwill and indefinite lived intangible assets. Goodwill is tested for impairment between the annual tests if an event occurs or circumstances change that more than likely reduce the fair value of a reporting unit below its carrying value. An indefinite-lived intangible asset is tested for impairment between the annual tests if an event occurs or circumstances change indicating that the asset might be impaired.

Derivative Financial Instruments: 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 and on future cash flows. All derivative instruments are carried at fair value on the balance sheet. The change in the fair value of the hedged item related to the risk being hedged is recognized in earnings in the same period and in the same income statement caption as the change in the fair value of the derivative. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. The Company has not entered into any fair value hedges as of December 31, 2008. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either a freestanding asset or liability, with a corresponding offset recorded in other comprehensive income within shareholders' equity, net of income taxes. Amounts are reclassified from other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings.

For the Company's cash flow hedges, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge's inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued.

Income Taxes: The consolidated provision for income taxes is based upon reported income and expense. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities, computed using enacted tax rates. The Company files a consolidated income tax return. The respective subsidiaries generally provide for income taxes on a separate return basis and remit amounts determined to be currently payable to the Parent Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

The Company and its subsidiaries are subject to examinations and challenges from federal and state taxing authorities regarding positions taken in returns. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination. These positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority and assuming full knowledge of the position and all relevant facts by the taxing authority.

Advertising Costs: Advertising costs are expensed as incurred.

Stock-Based Compensation: Compensation expense related to stock options and restricted stock awards issued to employees is based upon the fair value of the award at the date of grant. The fair value of stock options is estimated utilizing a Black Scholes pricing model, while the fair value of restricted stock awards is based upon the stock price at the date of grant. Compensation expense is recognized on a straight line basis over the vesting period for options and the respective period for stock awards.

Basic and Diluted Earnings per Common Share: Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding increased by the number of shares of common stock which would be issued assuming the exercise of stock options and other common stock equivalents. The incremental shares related to stock options were 49,000, 58,000, and 61,000 in 2008, 2007, and 2006, respectively.

Recent Accounting Pronouncements: In December 2007, the FASB issued Statement No. 141 (revised 2007) ("SFAS No. 141R"), "Business Combinations." SFAS No. 141R will significantly change how the acquisition method will be applied to business combinations. SFAS No. 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an

acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141R, the requirements of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, "Accounting for Contingencies." Reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period. The allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The Company will be required to prospectively apply SFAS No. 141R to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. The Company is currently evaluating SFAS No. 141R and has not determined the impact it will have on our financial statements.

In December 2007, the FASB issued SFAS No. 160 ("SFAS No. 160"), "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS No. 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest will be recharacterized as a "noncontrolling interests" and should be reported as a component of equity. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS No. 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

In March 2008, the FASB issued SFAS No. 161, ("SFAS No. 161"), "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS No. 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162 ("SFAS No. 162"), "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 identifies the sources of account principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS No. 162 is effective 60 days following the SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." Adoption of SFAS 162 will not be a change in the Company's current accounting practices; therefore, it will not have a material impact on the Company's consolidated financial condition or results of operations.

FASB Staff Position EITF 03-6-1, In June 2008, the FASB issued FSP EITF 03-6-1 ("FSP EITF 03-6-1"), "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities". FSP EITF 03-6-1 clarifies whether instruments, such as restricted stock, granted in share-based payments are participating securities prior to vesting. Such participating securities must be included in the computation of earnings per share under the two-class method as described in SFAS No. 128, "Earnings per Share." FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and requires a company to retrospectively adjust its earnings per share data. Early adoption is not permitted. The Company does not expect that the adoption of FSP EITF 03-6-1 will have a material effect on consolidated results of operations or earnings per share.

Statements of Cash Flows: Cash paid for interest, including interest paid on long-term debt and trust preferred securities, was \$47.4 million, \$60.3 million, and \$53.5 million in 2008, 2007, and 2006, respectively. During 2008, 2007 and 2006, the Company paid \$26.7 million, \$25.5 million, and \$22.9 million, respectively, for income taxes.

NOTE TWO

RESTRICTIONS ON CASH AND DUE FROM BANKS

City National is required to maintain an average reserve balance with the Federal Reserve Bank of Richmond to compensate for services provided by the Federal Reserve and to meet statutory required reserves for demand deposits. The average amount of the reserve balance for the year ended December 31, 2008 was approximately \$14.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE THREE INVESTMENTS

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

| (in thousands) | December 31, 2008 | | | |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Securities available-for-sale: | | | | |
| Obligations of states and political subdivisions | \$ 41,960 | \$ 196 | \$ (735) | \$ 41,421 |
| Mortgage-backed securities | 287,233 | 3,986 | (2,886) | 288,333 |
| Other debt securities | 96,406 | 57 | (22,829) | 73,634 |
| Total Debt Securities | 425,599 | 4,239 | (26,450) | 403,388 |
| Equity securities and investment funds | 24,372 | — | (3,546) | 20,826 |
| Total Securities Available-for-Sale | \$ 449,971 | \$ 4,239 | \$ (29,996) | \$ 424,214 |
| Securities held-to-maturity: | | | | |
| Obligations of states and political subdivisions | \$ 2,834 | \$ 28 | \$ — | \$ 2,862 |
| Other debt securities | 26,233 | — | (7,045) | 19,188 |
| Total Securities Held-to-Maturity | \$ 29,067 | \$ 28 | \$ (7,045) | \$ 22,050 |

| (in thousands) | December 31, 2007 | | | |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Securities available-for-sale: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 248 | \$ 2 | \$ — | \$ 250 |
| Obligations of states and political subdivisions | 39,433 | 256 | (205) | 39,484 |
| Mortgage-backed securities | 260,249 | 795 | (1,708) | 259,336 |
| Other debt securities | 71,194 | 561 | (2,414) | 69,341 |
| Total Debt Securities | 371,124 | 1,614 | (4,327) | 368,411 |
| Equity securities and investment funds | 13,934 | 11 | (258) | 13,687 |
| Total Securities Available-for-Sale | \$ 385,058 | \$ 1,625 | \$ (4,585) | \$ 382,098 |
| Securities held-to-maturity: | | | | |
| Obligations of states and political subdivisions | \$ 4,300 | \$ 36 | \$ — | \$ 4,336 |
| Other debt securities | 30,618 | 673 | (429) | 30,862 |
| Total Securities Held-to-Maturity | \$ 34,918 | \$ 709 | \$ (429) | \$ 35,198 |

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of December 31, 2008 and 2007. 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 at December 31, 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

| December 31, 2008 | | | | | | |
|--|-------------------------|------------------|--------------------------|------------------|-------------------|------------------|
| (in thousands) | Less Than Twelve Months | | Twelve Months or Greater | | Total | |
| | Estimated Fair | | Estimated Fair | | Estimated Fair | |
| | Value | Unrealized Loss | Value | Unrealized Loss | Value | Unrealized Loss |
| Securities available-for-sale: | | | | | | |
| Obligations of states and political subdivisions | \$ 17,068 | \$ 729 | \$ 187 | \$ 6 | \$ 17,255 | \$ 735 |
| Mortgage-backed securities | 43,633 | 2,886 | — | — | 43,633 | 2,886 |
| Other debt securities | 39,601 | 10,493 | 8,122 | 12,336 | 47,723 | 22,829 |
| Equity securities and investment funds | 5,305 | 3,010 | 2,124 | 536 | 7,429 | 3,546 |
| Total | \$ 105,607 | \$ 17,118 | \$ 10,433 | \$ 12,878 | \$ 116,040 | \$ 29,996 |
| Securities held-to-maturity: | | | | | | |
| Other debt securities | \$ 12,408 | \$ 5,282 | \$ 1,700 | \$ 1,763 | \$ 14,108 | \$ 7,045 |

| December 31, 2007 | | | | | | |
|--|-------------------------|-----------------|--------------------------|-----------------|-------------------|-----------------|
| (in thousands) | Less Than Twelve Months | | Twelve Months or Greater | | Total | |
| | Estimated Fair | | Estimated Fair | | Estimated Fair | |
| | Value | Unrealized Loss | Value | Unrealized Loss | Value | Unrealized Loss |
| Securities available-for-sale: | | | | | | |
| Obligations of states and political subdivisions | \$ 6,768 | \$ 90 | \$ 12,585 | \$ 115 | \$ 19,353 | \$ 205 |
| Mortgage-backed securities | 27,410 | 83 | 144,680 | 1,625 | 172,090 | 1,708 |
| Other debt securities | 44,817 | 2,157 | 4,919 | 257 | 49,736 | 2,414 |
| Equity securities and investment funds | 1,524 | 225 | 1,467 | 33 | 2,991 | 258 |
| Total | \$ 80,519 | \$ 2,555 | \$ 163,651 | \$ 2,030 | \$ 244,170 | \$ 4,585 |
| Securities held-to-maturity: | | | | | | |
| Other debt securities | \$ 8,127 | \$ 269 | \$ 2,050 | \$ 160 | \$ 10,177 | \$ 429 |

During 2008, the Company recorded \$38.3 million of other than temporary non-cash investment impairment losses, or \$23.2 million on an after-tax basis. The charges deemed to be other than temporary were related to agency preferreds (\$21.1 million) with remaining book value of \$1.6 million at December 31, 2008; pooled bank trust preferreds (\$14.2 million) with remaining book value of \$10.9 million at December 31, 2008; income notes (\$2.0 million) with no remaining book value at December 31, 2008; and corporate debt securities (\$1.0 million) with remaining book value of \$24.6 million at December 31, 2008. The impairment charges for the agency preferred securities were due to the actions of the federal government to place Freddie Mac and Fannie Mae into conservatorship and the suspension of dividends on such preferred securities. The impairment charges related to the pooled bank trust preferred securities and income notes were based on the Company's quarterly reviews of its investment securities for indications of losses considered to be other than temporary. Based on management's assessment of the securities the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments within the pools, and a review of the financial strength of the banks within the respective pools, management

concluded that impairment charges of \$14.2 million and \$2.0 million on the pooled bank trust preferred securities and the income notes, respectively, were necessary for the year ended December 31, 2008. The \$1.0 million impairment charge for corporate debt securities was due to Lehman Brothers Holdings bankruptcy filing. The Company had acquired this security as the result of an acquisition of a bank in 2005.

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 and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2008, management also had the ability and intent to hold the securities classified as

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

available for sale for a period of time sufficient for a recovery of cost. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions will 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 December 31, 2008, management believes the unrealized losses detailed in the table above are temporary and no 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 recognized in net income in the period the other-than-temporary impairment is identified.

The amortized cost and estimated fair value of debt securities at December 31, 2008, by contractual maturity, are shown in the following table. 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.

| (in thousands) | Cost | Estimated Fair Value |
|--|-------------------|----------------------|
| Securities Available-for-Sale | | |
| Due in one year or less | \$ 750 | \$ 750 |
| Due after one year through five years | 14,946 | 14,684 |
| Due after five years through ten years | 81,454 | 80,761 |
| Due after ten years | 328,449 | 307,193 |
| | <u>\$ 425,599</u> | <u>\$ 403,388</u> |
| Securities Held-to-Maturity | | |
| Due in one year or less | \$ 120 | \$ 120 |
| Due after one year through five years | 2,714 | 2,742 |
| Due after five years through ten years | - | - |
| Due after ten years | 26,233 | 19,188 |
| | <u>\$ 29,067</u> | <u>\$ 22,050</u> |

Gross gains and gross losses realized by the Company from investment security transactions are summarized in the table below:

| (in thousands) | 2008 | 2007 | 2006 |
|------------------------------------|--------------------|--------------|-------------------|
| Gross realized gains | \$ 5 | \$ 47 | \$ 154 |
| Gross realized losses | (38,270) | (2) | (2,149) |
| Investment security gains (losses) | <u>\$ (38,265)</u> | <u>\$ 45</u> | <u>\$ (1,995)</u> |

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$223.3 million and \$192.1 million at December 31, 2008 and 2007, respectively.

NOTE FOUR LOANS

The following summarizes the Company's major classifications for loans:

| (in thousands) | 2008 | 2007 |
|--|---------------------|---------------------|
| Residential real estate – mortgage | \$ 611,962 | \$ 602,057 |
| Home equity | 384,320 | 341,818 |
| Commercial, financial, and agriculture | 768,255 | 707,987 |
| Loans to Depository Institutions | - | 60,000 |
| Installment loans to individuals | 43,585 | 48,267 |
| Previously securitized loans | 4,222 | 6,892 |
| Gross Loans | <u>1,812,344</u> | <u>1,767,021</u> |
| Allowance for loan losses | <u>(22,254)</u> | <u>(17,581)</u> |
| Net Loans | <u>\$ 1,790,090</u> | <u>\$ 1,749,440</u> |

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 the loan portfolio, including construction loans. Adequate consideration has been given to these loans in establishing the Company's allowance for loan losses.

NOTE FIVE ALLOWANCE FOR LOAN LOSSES

A summary of changes in the allowance for loan losses follows:

| (in thousands) | 2008 | 2007 | 2006 |
|---------------------------------------|------------------|------------------|------------------|
| Balance at January 1 | \$ 17,581 | \$ 15,405 | \$ 16,790 |
| Reduction of allowance for loans sold | - | - | (1,368) |
| Provision for possible loan losses | 10,423 | 5,350 | 3,801 |
| Charge-offs | (8,048) | (5,652) | (6,935) |
| Recoveries | 2,298 | 2,478 | 3,117 |
| Balance at December 31 | <u>\$ 22,254</u> | <u>\$ 17,581</u> | <u>\$ 15,405</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The recorded investment in loans on nonaccrual status and loans past due 90 days or more and still accruing interest is included in the following table:

| (in thousands) | 2008 | 2007 |
|---|------------------|------------------|
| Nonaccrual loans | \$ 25,224 | \$ 16,437 |
| Accruing loans past due 90 days or more | 623 | 314 |
| Previously securitized loans past due 90 days or more | 10 | 76 |
| Total | <u>\$ 25,857</u> | <u>\$ 16,827</u> |

Information pertaining to impaired loans is included in the following table:

| (in thousands) | 2008 | 2007 |
|---|------------------|------------------|
| Impaired loans with a valuation allowance | \$ 25,847 | \$ 16,751 |
| Impaired loans with no valuation allowance | 10 | 76 |
| Total impaired loans | <u>\$ 25,857</u> | <u>\$ 16,827</u> |
| Allowance for loan losses allocated to impaired loans | <u>\$ 6,964</u> | <u>\$ 4,139</u> |

The average recorded investment in impaired loans during 2008, 2007, and 2006 was \$21.1 million, \$15.8 million, and \$3.8 million, respectively. The Company recognized approximately \$1.2 million, \$0.8 million, and \$0.1 million of interest income received in cash on non-accrual and impaired loans in 2008, 2007 and 2006, respectively. Approximately \$0.3 million, \$0.4 million and \$0.2 million of interest income would have been recognized during 2008, 2007 and 2006, 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 December 31, 2008 and 2007.

NOTE SIX

PREVIOUSLY SECURITIZED LOANS

Between 1997 and 1999, the Company completed six securitization transactions involving approximately \$759.8 million of fixed rate, junior lien mortgage loans. As described in Note One, the Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to

investors were evidenced by securities ("Notes"). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio. The table below summarizes information regarding delinquencies, net credit losses, and outstanding collateral balances of previously securitized loans for the dates presented:

| (in thousands) | 2008 | December 31 2007 | 2006 |
|--|-----------------|---------------------|------------------|
| Total principal amount of loans outstanding | \$ 18,955 | \$ 24,062 | \$ 33,334 |
| Discount | (14,733) | (17,170) | (17,737) |
| Net book value | <u>\$ 4,222</u> | <u>\$ 6,892</u> | <u>\$ 15,597</u> |
| Principal amount of loans between 30 and 89 days past due | \$ 999 | \$ 1,099 | \$ 1,062 |
| Principal amount of loans between 90 and 119 days past due | 10 | 76 | 48 |
| Net credit (recoveries) during the year | (351) | (2,938) | (4,124) |

Because the book value of the mortgage loans incorporates assumptions for expected cash flows considering prepayment and default rates, the carrying value of the loans is generally less than the actual contractual outstanding balance of the mortgage loans. As of December 31, 2008 and 2007, the Company reported a book value of previously securitized loans of \$4.2 million and \$6.9 million, respectively, while the actual outstanding balance of previously securitized loans at December 31, 2008 and 2007 was \$19.0 million and \$24.1 million, respectively. The difference ("the discount") between the book value and actual outstanding balance of previously securitized loans is accreted into interest income over the life of the loans. If the discounted present value of estimated future cash flows from previously securitized loans declines below the recorded value, an impairment charge would be provided through the Company's provision and allowance for loan losses. No such impairment charges were recorded during the three years in the period ended December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Key assumptions used in estimating the value of the Company's previously securitized loans were as follows:

| | December 31 | |
|--------------------------------------|-------------|-------|
| | 2008 | 2007 |
| Prepayment speed (CPR): | | |
| From January 2008 – March 2008 | – | 16% |
| From April 2008 – December 2008 | – | 15% |
| From January 2009 – December 2009 | 9% | 13% |
| From January 2010 – December 2012 | 9% | 9% |
| Thereafter | 5% | 5% |
| Weighted-average cumulative defaults | 9.39% | 9.54% |

Prepayment speed, or constant prepayment rate (CPR), represents the annualized monthly prepayment amount as a percentage of the previous month's outstanding loan balance minus the scheduled principal payment. Weighted-average cumulative defaults represent actual loan defaults experienced life-to-date plus forecasted loan defaults projected over the remaining life of the collateral loans, divided by the original collateral balance.

During 2008, 2007, and 2006 the Company recognized \$5.6 million, \$7.3 million, and \$9.4 million, respectively, of interest income on the previously securitized loans and received cash of \$8.7 million, \$16.1 million, and \$24.2 million, respectively, comprised of principal and interest payments from borrowers.

NOTE SEVEN PREMISES AND EQUIPMENT

A summary of premises and equipment and related accumulated depreciation as of December 31 is summarized as follows:

| (in thousands) | Estimated Useful Life | 2008 | 2007 |
|-------------------------------|-----------------------|-----------|-----------|
| Land | | \$ 19,967 | \$ 16,958 |
| Buildings and improvements | 10 to 30 yrs. | 67,204 | 64,050 |
| Equipment | 3 to 7 yrs. | 42,330 | 44,253 |
| | | 129,501 | 125,261 |
| Less accumulated depreciation | | (69,363) | (70,626) |
| Net premises and equipment | | \$ 60,138 | \$ 54,635 |

NOTE EIGHT GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill approximated \$54.9 million and \$55.0 million at December 31, 2008 and 2007, respectively. The Company completed its annual assessment of the carrying value of goodwill during 2008 and concluded that its carrying value was not impaired.

The following table summarizes core deposit intangibles as of December 31, 2008 and 2007, which are subject to amortization:

| (in thousands) | 2008 | 2007 |
|-----------------------------|----------|----------|
| Gross carrying amount | \$ 6,580 | \$ 6,580 |
| Accumulated amortization | (3,991) | (3,352) |
| Net core deposit intangible | \$ 2,589 | \$ 3,228 |

During 2008, 2007, and 2006, the Company recognized pre-tax amortization expense of \$639,000, \$706,000, and \$723,000, respectively, associated with its core deposit intangible assets. The estimated amortization expense for core deposit intangible assets for each of the next five years is as follows:

| (in thousands) | Projected Amortization Expense |
|----------------|--------------------------------|
| 2009 | \$ 469 |
| 2010 | 437 |
| 2011 | 409 |
| 2012 | 392 |
| 2013 | 376 |
| | \$ 2,083 |

NOTE NINE SCHEDULED MATURITIES OF TIME DEPOSITS

Scheduled maturities of time deposits outstanding at December 31, 2008 are summarized as follows:

| (in thousands) | |
|-----------------|------------|
| 2009 | \$ 607,752 |
| 2010 | 156,755 |
| 2011 | 159,079 |
| 2012 | 20,329 |
| 2013 | 23,027 |
| Over five years | 148 |
| Total | \$ 967,090 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Scheduled maturities of time deposits of \$100,000 or more outstanding at December 31, are summarized as follows:

| (in thousands) | 2008 | 2007 |
|-------------------------------|-------------------|-------------------|
| Within one year | \$ 159,739 | \$ 178,078 |
| Over one through two years | 36,595 | 33,162 |
| Over two through three years | 55,754 | 10,013 |
| Over three through four years | 4,636 | 2,701 |
| Over four through five years | 5,303 | 2,683 |
| Total | \$ 262,027 | \$ 226,637 |

NOTE TEN SHORT-TERM BORROWINGS

On January 30, 2008, the Company's Board of Directors authorized the redemption of the Junior Subordinated Debentures owed to City Holding Capital Trust at a price of 104.58% of the principal amount on April 1, 2008. The Company incurred charges of \$1.2 million to fully amortize issuance costs incurred in 1998 that were being amortized over the original 30 year life of the securities and for the early redemption premium. Due to the Company's announced intentions to redeem the debentures on April 1, 2008, the debentures were reflected as short-term borrowings at December 31, 2007. Interest expense and average balances for the debentures are considered long-term debt for the year ended December 31, 2007.

A summary of short-term borrowings are as follows:

| (dollars in thousands) | 2008 | 2007 | 2006 |
|---|-------------------|-------------------|-------------------|
| Balance at end of year: | | | |
| Securities repurchase agreements | \$ 122,904 | \$ 119,554 | \$ 115,675 |
| FHLB advances | 71,559 | 25,526 | 20,895 |
| Junior subordinated debentures owed to City Holding Capital Trust | - | 16,836 | - |
| Total | \$ 194,463 | \$ 161,916 | \$ 136,570 |
| Avg. outstanding during the year: | | | |
| Securities repurchase agreements | \$ 132,030 | \$ 117,442 | \$ 98,116 |
| FHLB advances | 4,837 | 42,896 | 45,589 |
| Junior subordinated debentures owed to City Holding Capital Trust | - | - | - |
| Max. outstanding at any month end: | | | |
| Securities repurchase agreements | \$ 137,921 | \$ 127,744 | \$ 115,674 |
| FHLB advances | 71,559 | 46,430 | 67,334 |
| Junior subordinated debentures owed to City Holding Capital Trust | - | 16,836 | - |

| (dollars in thousands) | 2008 | 2007 | 2006 |
|---|-------|-------|-------|
| Weighted-average interest rate: | | | |
| During the year: | | | |
| Securities repurchase agreements | 1.89% | 4.35% | 3.95% |
| FHLB advances | 2.74% | 3.58% | 2.69% |
| Junior subordinated debentures owed to City Holding Capital Trust | - | - | - |
| End of the year: | | | |
| Securities repurchase agreements | 0.38% | 3.95% | 4.43% |
| FHLB advances | 0.84% | 3.68% | 3.40% |
| Junior subordinated debentures owed to City Holding Capital Trust | - | 9.15% | - |

NOTE ELEVEN LONG-TERM DEBT

The components of long-term debt are summarized as follows:

| (in thousands) | Maturity | Weighted-Average Interest Rate | 2008 | 2007 |
|---|----------|--------------------------------|------------------|-----------------|
| FHLB Advances | 2009 | 5.92% | - | 2,343 |
| FHLB Advances | 2010 | 6.30% | 2,003 | 2,000 |
| FHLB Advances | 2011 | 4.45% | 549 | 630 |
| Junior subordinated debentures owed to City Holding Capital Trust III | 2038 | 6.32% | 16,495 | - |
| Total Long-term debt | | | \$ 19,047 | \$ 4,973 |

Through City National, the Company has purchased 63,106 shares of Federal Home Loan Bank ("FHLB") stock at par value as of December 31, 2008. Such purchases are required based on City National's maximum borrowing capacity with the FHLB. Additionally, FHLB stock entitles the Company to dividends declared by the FHLB and provides an additional source of short-term and long-term funding, in the form of collateralized advances. Financing obtained from the FHLB is based, in part, on the amount of qualifying collateral available, specifically U.S. Treasury, U.S. agency debentures and mortgage-backed securities and 1-4 family residential mortgages. At December 31, 2008 and 2007, collateral pledged to the FHLB included approximately \$705.6 million and \$159.1 million, respectively, in investment securities and one-to-four-family residential property loans. Therefore, in addition to the short-term (see Note Ten) and long-term financing discussed above, at December 31, 2008 and 2007, City National had an additional \$631.5 million and \$128.7 million, respectively, available from unused portions of lines of credit with the FHLB and other financial institutions. During January 2009, the Company reduced its borrowing capacity from its line of credit with the FHLB from \$631.5 million to \$350.0 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The Company formed a statutory business trust, City Holding Capital Trust III, under the laws of the state of Delaware ("Capital Trust III"). Capital Trust III was created for the exclusive purpose of (i) issuing trust preferred securities ("Capital Securities"), which represent preferred undivided beneficial interests in the assets of the trusts, (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 (see Note 1).

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 or at any time or in part from time-to-time, at declining redemption prices ranging from 103.525% to 100.000% on June 15, 2013, and thereafter, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of certain pre-defined events.

Payments of distributions on the trust preferred securities and payments on redemption of the trust preferred 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 costs, expenses or liabilities of the trust other than those arising under the trust preferred securities. The obligations of the Company under the junior subordinated 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 trust preferred securities. The Capital Securities issued by the statutory business trusts qualify as Tier 1 capital for the Company under current Federal Reserve Board guidelines.

NOTE TWELVE

DERIVATIVE INSTRUMENTS

The Company utilized interest rate floors to mitigate exposure to interest rate risk. During 2005 and 2006, the Company entered into interest rate floors with a total notional value of \$600 million, seven of which (total notional amount of \$500 million) were designated as cash flow hedges. These derivative instruments provided the Company protection against the impact of declining interest rates on future income streams from the Company's portfolio of \$500 million of variable-rate loans outstanding. The interest rate floors had maturities between May 2008 and June 2011 and strike rates ranging from 6.00% to 8.00%. During 2008, interest rate floors with a total notional value of \$150 million matured. The remaining interest rate floors with a total notional value of \$450 million were sold during 2008. The gains from the sales of \$16.8 million will be recognized over the remaining lives of the various hedged loans. At December 31, 2008, the unrecognized gain was approximately \$15.3 million or \$9.3 million net of taxes.

The notional amounts and estimated fair values of interest rate floor derivative positions outstanding at year-end are presented in the following table. The estimated fair values of the interest rate floors on variable-rate loans are based on quoted market prices.

| (in thousands) | 2008 | | 2007 | |
|---|----------------|----------------------|----------------|----------------------|
| | Notional Value | Estimated Fair Value | Notional Value | Estimated Fair Value |
| Interest rate floors on variable-rate loans | \$ - | \$ - | \$500,000 | \$11,362 |

For cash flow hedges, the effective portion of the gain or loss on the derivative hedging instrument is reported in other comprehensive income, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is recorded in current earnings as other income or other expense. The Company recognized the increase in fair value of \$4.6 million, net of taxes, in other comprehensive income for the year ended December 31, 2007 on these derivative instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE THIRTEEN INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

| (in thousands) | 2008 | 2007 |
|--|------------------|------------------|
| Deferred tax assets: | | |
| Previously securitized loans | \$ 8,849 | \$ 9,970 |
| Allowance for loan losses | 8,612 | 6,885 |
| Deferred compensation payable | 2,923 | 3,078 |
| Underfunded pension liability | 2,763 | 1,316 |
| Unrealized securities losses | 10,140 | 1,189 |
| Accrued expenses | 1,343 | 1,493 |
| Impaired building and premises | 1,173 | 1,133 |
| Impaired security losses | 15,059 | - |
| Other | 1,321 | 2,531 |
| Total Deferred Tax Assets | 52,183 | 27,595 |
| Deferred tax liabilities: | | |
| Unrealized derivative instrument gains | - | 2,927 |
| Intangible assets | 2,197 | 1,947 |
| Deferred loan fees | 558 | 786 |
| Other | 966 | 1,302 |
| Total Deferred Tax Liabilities | 3,721 | 6,962 |
| Net Deferred Tax Assets | \$ 48,462 | \$ 20,633 |

No valuation allowance for deferred tax assets was recorded at December 31, 2008 and 2007 as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

Significant components of the provision for income taxes are as follows:

| (in thousands) | 2008 | 2007 | 2006 |
|---|--------------------|------------------|------------------|
| Current: | | | |
| Federal | \$ 23,322 | \$ 25,326 | \$ 25,242 |
| State | 614 | 1,636 | 571 |
| Total current | 23,936 | 26,962 | 25,813 |
| Deferred: | | | |
| Federal | (11,118) | (1,029) | 517 |
| State | (3,331) | (147) | 1,999 |
| Total deferred | (14,449) | (1,176) | 2,516 |
| Income tax expense | \$ 9,487 | \$ 25,786 | \$ 28,329 |
| Income tax (benefit) expense attributable to securities transactions | \$ (15,306) | \$ 18 | \$ (798) |

A reconciliation of the significant differences between the federal statutory income tax rate and the Company's effective income tax rate is as follows:

| (in thousands) | 2008 | 2007 | 2006 |
|--|-----------------|------------------|------------------|
| Computed federal taxes at statutory rate | \$ 13,159 | \$ 26,884 | \$ 28,519 |
| State income taxes, net of federal tax benefit | (671) | 969 | 1,671 |
| Tax effects of: | | | |
| Tax-exempt interest income | (686) | (786) | (797) |
| Bank-owned life insurance | (1,026) | (867) | (823) |
| Tax reserve adjustment | (1,095) | - | - |
| Other items, net | (194) | (414) | (241) |
| Income tax expense | \$ 9,487 | \$ 25,786 | \$ 28,329 |

Effective January 1, 2007, the Company adopted FIN 48. The cumulative effect of adopting FIN 48 was an increase in tax reserves and a decrease of \$0.1 million to the January 1, 2007 retained earnings balance. The entire amount of the Company's unrecognized tax benefits if recognized, would favorably affect the Company's effective tax rate. The Company does not expect that the amounts of unrecognized tax positions will change significantly within the next 12 months. A reconciliation of the beginning and ending balance of unrecognized tax benefits for the year ended December 31, 2008 is as follows:

| (in thousands) | |
|--|----------|
| Balance at January 1, 2007 | \$ 1,225 |
| Additions for current year tax positions | 510 |
| Additions for prior year tax positions | - |
| Decreases for prior year tax positions | - |
| Decreases related to lapse of applicable statute of limitation | (219) |
| Balance at December 31, 2007 | \$ 1,516 |
| Additions for current year tax positions | 198 |
| Additions for prior year tax positions | - |
| Decreases for prior year tax positions | (120) |
| Decreases for settlements with tax authorities | (1,403) |
| Decreases related to lapse of applicable statute of limitation | (191) |
| Balance at December 31, 2008 | \$ - |

Interest and penalties on income tax uncertainties are included in income tax expense. During 2008, 2007, and 2006, the provision related to interest and penalties was \$0.4 million, \$0.4 million, and \$0.4 million, respectively. The balance of accrued interest and penalties at December 31, 2008 and 2007 was \$0.5 million and \$0.8 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2005 through 2007. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the year ended December 31, 2007.

NOTE FOURTEEN EMPLOYEE BENEFIT PLANS

During 2003, shareholders approved the City Holding Company 2003 Incentive Plan ("the Plan"), replacing the Company's 1993 Stock Incentive Plan that expired on March 8, 2003. Employees, directors, and individuals who provide service to the Company (collectively "Plan Participants") are eligible to participate in the Plan. Pursuant to the terms of the Plan, the Compensation Committee of the Board of Directors, or its delegate, may, from time-to-time, grant stock options, stock appreciation rights ("SARs"), or stock awards to Plan Participants. A maximum of 1,000,000 shares of the Company's common stock may be issued upon the exercise of stock options and SARs and stock awards, but no more than 350,000 shares of common stock may be issued as stock awards. 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 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 stock on the date of grant. All incentive stock options and SARs will be exercisable up to ten years from the date granted and all options and SARs are exercisable for the period specified in the individual agreement. As of December 31, 2008, 330,250

stock options had been awarded pursuant to the terms of the Plan and 42,675 stock awards had been granted.

Each award from the 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 grant. Options granted expire at such time as the Compensation Committee determines at the date of 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 plans, all outstanding options immediately vest.

A summary of the Company's stock option activity and related information is presented below for the years ended December 31:

| | 2008 | | 2007 | | 2006 | |
|--------------------------------|----------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| Outstanding at January 1 | 305,909 | \$ 32.05 | 271,709 | \$ 30.51 | 318,132 | \$ 28.56 |
| Granted | 31,000 | 34.28 | 47,500 | 39.34 | - | - |
| Exercised | (66,454) | 25.11 | (7,300) | 21.17 | (46,423) | 17.20 |
| Forfeited | - | - | (6,000) | 35.20 | - | - |
| Outstanding at December 31 | 270,455 | \$ 33.96 | 305,909 | \$ 32.05 | 271,709 | \$ 30.51 |
| Exercisable at end of year | 157,205 | 32.72 | 203,784 | 30.31 | 200,584 | 29.90 |
| Nonvested at beginning of year | 102,125 | \$ 35.40 | 71,125 | \$ 32.21 | 86,125 | \$32.34 |
| Granted during year | 31,000 | 34.28 | 47,500 | 39.34 | - | - |
| Vested during year | (19,875) | 32.07 | (13,500) | 32.64 | (15,000) | 32.97 |
| Forfeited during year | - | - | (3,000) | 35.22 | - | - |
| Nonvested at end of year | 113,250 | \$ 35.68 | 102,125 | \$ 35.40 | 71,125 | \$32.21 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Additional information regarding stock options outstanding and exercisable at December 31, 2008, is provided in the following table:

| Ranges of Exercise Prices | No. of Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Months) | Intrinsic Value | No. of Options Currently Exercisable | Weighted-Average Exercise Price of Options Currently Exercisable | Weighted-Average Remaining Contractual Life (Months) | Intrinsic Value |
|---------------------------|----------------------------|---------------------------------|--|-----------------|--------------------------------------|--|--|-----------------|
| \$13.30 | 1,900 | \$ 13.30 | 37 | \$ 41 | 1,900 | \$ 13.30 | 37 | \$ 41 |
| \$28.00 - \$33.90 | 150,555 | 31.70 | 67 | 463 | 116,305 | 31.65 | 65 | 364 |
| \$35.36 - \$40.88 | 118,000 | 37.18 | 98 | 86 | 39,000 | 36.87 | 84 | - |
| | <u>270,455</u> | | | <u>\$ 590</u> | <u>157,205</u> | | | <u>\$ 405</u> |

Proceeds from stock option exercises totaled \$1.7 million in 2008, \$0.2 million in 2007, and \$0.8 million in 2006. Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares are issued from available authorized shares. During 2008, 2007 and 2006, all shares issued in connection with stock option exercises and restricted stock awards were issued from available treasury stock.

The total intrinsic value of stock options exercised was \$1.1 million in 2008, \$0.1 million in 2007, and \$0.9 million in 2006.

Stock-based compensation expense totaled \$0.2 million in 2008 and \$0.3 million in 2007, and \$0.2 million in 2006. The total income tax benefit recognized in the accompanying consolidated statements of income related to stock-based compensation was \$0.1 million in 2008. Unrecognized stock-based compensation expense related to stock options totaled \$0.8 million at December 31, 2008. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.9 years.

The fair value for the options was estimated at the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2008 | 2007 | 2006 |
|-------------------------|---------|---------|---------|
| Risk-free interest rate | 3.98% | 4.38% | 3.93% |
| Expected dividend yield | 2.59% | 3.15% | 2.98% |
| Volatility factor | 0.498 | 0.391 | 0.384 |
| Expected life of option | 8 years | 6 years | 5 years |

As the Company did not issue any options during the year ended December 31, 2006, the factors for the year ending December 31, 2006 are consistent with the factors for the year ending December 31, 2005.

The Company records compensation expense with respect to restricted shares in an amount equal to the fair market 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 officers and employees terminate 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, 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. The Company recognized \$0.3 million and \$0.2 million of compensation expense for the years ended December 31, 2008 and December 31, 2007, respectively, within salaries and employee benefits in the Company's Consolidated Statements of Income associated with the restricted stock awards issued. Unrecognized stock-based compensation expense related to non-vested restricted shares was \$0.8 million at December 31, 2008. At December 31, 2008, this unrecognized expense is expected to be recognized over 3.5 years based on the weighted average-life of the restricted shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

A summary of the Company's restricted shares activity and related information is presented below for the years ended December 31:

| | 2008 | | 2007 | |
|----------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | Restricted Awards | Average Market Price At Grant | Restricted Awards | Average Market Price At Grant |
| Outstanding at January 1 | 31,818 | | 15,600 | |
| Granted | 8,825 | \$ 39.00 | 17,650 | \$ 39.01 |
| Vested | (4,468) | | (1,432) | |
| Outstanding at December 31 | 36,175 | | 31,818 | |

Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options at the time of grant.

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). Any employee who has attained age 21 is eligible to participate beginning the first day of the month following employment. Unless specifically chosen otherwise, every employee is automatically enrolled in the 401(k) Plan and may make before-tax contributions of between 1% and 15% of eligible pay up to the dollar limit imposed by Internal Revenue Service regulations. The first 6% of an employee's contribution is matched 50% by the Company. The employer matching contribution is invested according to the investment elections chosen by the employee. Employees are 100% vested in both employee and employer contributions and the earnings generated by such contributions. As of December 31, 2008, there were 18 investment options, including City Holding Company common stock, available under the 401(k) Plan.

The Company's total expense associated with the retirement benefit plan approximated \$597,000, \$592,000, and \$574,000, in 2008, 2007, and 2006, respectively. The total number of shares of the Company's common stock held by the 401(k) Plan as of December 31, 2008 and 2007 is 293,302 and 370,264, respectively. Other than the 401(k) Plan, the Company offers no postretirement benefits.

The Company also maintains a defined benefit pension plan ("the Defined Benefit Plan") that covers approximately 300 current and former employees. The Defined Benefit Plan was frozen in 1999 subsequent to the Company's acquisition of the plan sponsor. The Defined Benefit Plan maintains an October 31 year-end for purposes of computing its benefit obligations.

Primarily as a result of the interest rate environment over the past two years, the benefit obligation exceeded the estimated fair value of plan assets as of December 31, 2008 and December 31, 2007. The Company has recorded a minimum pension liability of \$4.0 million and \$0.2 million as of December 31, 2008 and 2007, respectively, included in Other Liabilities within the Consolidated Balance Sheets, and a \$4.2 million and \$2.0 million, net of tax, underfunded pension liability in Accumulated Other Comprehensive Income within Shareholders' Equity at December 31, 2008 and 2007, respectively. The following table summarizes activity within the Defined Benefit Plan in 2008 and 2007:

| (in thousands) | Pension Benefits | |
|---|-------------------|-----------------|
| | 2008 | 2007 |
| Change in fair value of plan assets: | | |
| Fair value at beginning of measurement period | \$10,806 | \$ 8,669 |
| Actual (loss) gain on plan assets | (2,994) | 1,414 |
| Contributions | 149 | 1,324 |
| Benefits paid | (766) | (601) |
| Fair value at end of measurement period | 7,195 | 10,806 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of measurement period | (11,017) | (11,274) |
| Interest cost | (772) | (658) |
| Actuarial (loss) gain | (158) | 314 |
| Benefits paid | 766 | 601 |
| Benefit obligation at end of measurement period | (11,181) | (11,017) |
| Funded status | (3,986) | (211) |
| Unrecognized net actuarial gain | 7,007 | 3,162 |
| Unrecognized net obligation | - | (17) |
| Other comprehensive loss | (7,007) | (3,145) |
| Accrued Benefit Cost | \$ (3,986) | \$ (211) |
| Weighted-average assumptions as of October 31: | | |
| Discount rate | 6.25% | 6.25% |
| Expected return on plan assets | 8.50% | 8.50% |

The following table presents the components of the net defined benefit pension benefit:

| (in thousands) | Pension Benefits | | |
|-------------------------------------|------------------|---------------|---------------|
| | 2008 | 2007 | 2006 |
| Components of net periodic benefit: | | | |
| Interest cost | \$ 662 | \$ 657 | \$ 650 |
| Expected return on plan assets | (857) | (741) | (718) |
| Net amortization and deferral | 245 | 320 | 314 |
| Net Periodic Pension Cost | \$ 50 | \$ 236 | \$ 246 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The Defined Benefit Plan is administered by the West Virginia Bankers Association ("WVBA") and all investment policies and strategies are established by the WVBA Pension Committee. The policy established by the Pension Committee is to invest assets per target allocations, as detailed in the table below. The assets are reallocated periodically to meet these target allocations. The investment policy is reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be revised.

The overall investment return goal is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5%, after fees, over a rolling five-year moving average basis. Allowable assets include cash equivalents, fixed income securities, equity securities, exchange-traded index funds and guaranteed investment contracts. Prohibited investments include, but are not limited to, commodities and futures contracts, private placements, options, limited partnerships, venture capital investments, real estate and interest-only, principal-only, and residual tranche collateralized mortgage obligations. Unless a specific derivative security is allowed per the plan document, permission must be sought from the WVBA Pension Committee to include such investments.

In order to achieve a prudent level of portfolio diversification, the securities of any one company are not to exceed more than 10% of the total plan assets, and no more than 25% of total plan assets are to be invested in any one industry (other than securities of the U.S. government or U.S. government agencies). Additionally, no more than 20% of plan assets shall be invested in foreign securities (both equity and fixed).

The expected long-term rate of return for the plan's assets is based on the expected return of each of the categories, weighted based on the median of the target allocation for each class, noted in the table below. The allowable, target, and current allocation percentages of plan assets are as follows:

| | Target Allocation | Allowable Allocation | Percentage of Plan Assets at December 31 | |
|-------------------|----------------------|-------------------------|---|------|
| | 2007 | Range | 2008 | 2007 |
| Equity securities | 70-75% | 40-80% | 64% | 68% |
| Debt securities | 20-25% | 20-40% | 30% | 27% |
| Other | 0-5% | 3-10% | 6% | 5% |
| Total | | | 100% | 100% |

The Company anticipates making a contribution to the plan of \$0.9 million for the year ending December 31, 2009. The following table summarizes the expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter:

| Plan Year Ending December 31 | Expected Benefits to be Paid (in thousands) |
|------------------------------|--|
| 2009 | \$ 672 |
| 2010 | 708 |
| 2011 | 718 |
| 2012 | 722 |
| 2013 | 747 |
| 2014 through 2018 | 4,042 |

In addition, the Company and its subsidiary participate in the Pentegra multi-employer pension plan (the "multi-employer plan"). This non-contributory defined benefit plan covers current and former employees of Classic Bancshares (acquired by the Company during 2005). The multi-employer plan has a June 30 year-end, and it is the policy of the Company to fund the normal cost of the multiemployer plan. No contributions were required for the year ended December 31, 2008. The benefits of the multi-employer plan were frozen prior to the acquisition of Classic Bancshares in 2005, and it is the intention of the Company to fund benefit amounts when assets of the plan are sufficient.

The Company has entered into employment contracts with certain of its current and former executive officers. The employment contracts provide for, among other things, the payment of severance compensation in the event an executive officer either voluntarily or involuntarily terminates his employment with the Company for other than "Just Cause." The cost of these benefits was accrued over the five-year service period for each executive and is included in Other Liabilities within the Consolidated Balance Sheets. The liability was \$2.0 million and \$1.9 million at December 31, 2008 and 2007, respectively. For the year ended December 31, 2006 \$0.1 million was charged to operations in connection with these contracts. No such charge was incurred for the years ended December 31, 2008 and December 31, 2007. As of December 31, 2007, two officers had left the Company and are receiving severance compensation in accordance with the terms of each of their respective agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Certain entities previously acquired by the Company had entered into individual deferred compensation and supplemental retirement agreements with certain current and former directors and officers. The Company has assumed the liabilities associated with these agreements, the cost of which is being accrued over the period of active service from the date of the respective agreement. The cost of such agreements approximated \$0.2 million, \$0.2 million, and \$0.2 million, during 2008, 2007, and 2006, respectively. The liability for such agreements approximated \$4.5 million and \$4.6 million at December 31, 2008 and December 31, 2007, respectively and is included in Other Liabilities in the accompanying Consolidated Balance Sheets.

To assist in funding the above liabilities, the acquired entities had insured the lives of certain current and former directors and officers. The Company is the current owner and beneficiary of insurance policies with a cash surrender value approximating \$7.2 million and \$7.0 million at December 31, 2008 and 2007, respectively, which is included in Other Assets in the accompanying Consolidated Balance Sheets.

NOTE FIFTEEN RELATED PARTY TRANSACTIONS

City National has granted loans to certain non-executive officers and directors of the Company and its subsidiaries, and to their associates totaling \$26.1 million at December 31, 2008 and \$25.9 million at December 31, 2007. The loans were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third-party lending arrangements. During 2008, total principal additions were \$8.1 million and total principal reductions were \$7.2 million.

Related party deposits of executive officers and directors of the Company and its subsidiaries, and their associates totaled \$17.3 million and \$11.3 million at December 31, 2008 and 2007, respectively.

NOTE SIXTEEN COMMITMENTS AND CONTINGENT LIABILITIES

The Company has entered into agreements with certain of its 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. 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 table below presents a summary of the contractual obligations of the Company resulting from significant commitments:

| (in thousands) | 2008 | 2007 |
|-------------------------------|------------|------------|
| Commitments to extend credit: | | |
| Home equity lines | \$ 129,794 | \$ 135,255 |
| Commercial real estate | 34,025 | 47,529 |
| Other commitments | 173,522 | 163,332 |
| Standby letters of credit | 18,388 | 16,243 |
| Commercial letters of credit | 159 | 215 |

Loan commitments, standby letters of credit and commercial letters of credit have credit risks essentially the same as that 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 and City National are involved in various legal actions arising in the ordinary course of business. There can be no assurance that the ultimate resolution of the current actions will not materially impact the financial statements or that no material actions will be presented in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE SEVENTEEN PREFERRED STOCK AND SHAREHOLDER RIGHTS PLAN

The Company's Board of Directors has the authority to issue preferred stock, and to fix the designation, preferences, rights, dividends, and all other attributes of such preferred stock, without any vote or action by the shareholders. As of December 31, 2008, no such shares are outstanding, nor are any expected to be issued, except as might occur pursuant to the Stock Rights Plan discussed below.

The Company's Stock Rights Plan provides that each share of common stock carries with it one right. The rights would be exercisable only if a person or group, as defined, acquired 15% or more of the Company's common stock, or announces a tender offer for such stock. Under conditions described in the Stock Rights Plan, holders of rights could acquire shares of preferred stock or additional shares of the Company's common stock—or in the event of a 50% or more change in control, shares of common stock of the acquirer. The value of shares acquired under the plan would equal twice the exercise price. The Stock Rights Plan expires on June 12, 2011.

NOTE EIGHTEEN REGULATORY REQUIREMENTS AND CAPITAL RATIOS

The principal source of income and cash for City Holding (the "Parent Company") is dividends from City National. Dividends paid by City National to the Parent Company 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. Approval is also required if dividends declared would cause City National's regulatory capital to fall below specified minimum levels. During 2007 and 2008 combined, City National received regulatory approval and paid \$88.6 million in cash dividends to the Parent Company, while generating net profits of \$78.1 million. Therefore, City National will be required to obtain regulatory approval prior to declaring any cash dividends to the Parent Company throughout 2009. Although regulatory authorities have approved prior cash dividends, there can be no assurance that future dividend requests will be approved.

During 2008, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders, (2) remit interest payments on the Company's junior subordinated debentures, and (3) fund repurchases of

the Company's common shares. As of December 31, 2008, the Parent Company reported a cash balance of approximately \$1.4 million. Management believes that the Parent Company's available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2009.

The Company, including City National, is subject to various regulatory capital requirements administered by the various banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, action by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and City National must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The Company's and City National's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and City National to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of December 31, 2008, that the Company and City National met all capital adequacy requirements to which they were subject.

As of December 31, 2008, the most recent notifications from banking regulatory agencies categorized the Company and City National as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since these notifications that management believes have changed the institutions' categories. The Company's and City National's actual capital amounts and ratios are presented in the following table.

| (dollars in thousands) | 2008 | | 2007 | | Well | Minimum |
|---|------------|-------|------------|-------|-------------|---------|
| | Amount | Ratio | Amount | Ratio | Capitalized | Ratio |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated | \$ 231,106 | 13.4% | \$ 250,876 | 15.1% | 10.0% | 8.0% |
| City National | 190,296 | 11.5 | 219,972 | 13.5 | 10.0 | 8.0 |
| Tier I Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated | 253,359 | 12.3 | 268,457 | 14.1 | 6.0 | 4.0 |
| City National | 212,549 | 10.3 | 237,554 | 12.5 | 6.0 | 4.0 |
| Tier I Capital (to Average Assets): | | | | | | |
| Consolidated | 253,359 | 9.5 | 268,457 | 10.3 | 5.0 | 4.0 |
| City National | 212,549 | 8.0 | 237,554 | 9.1 | 5.0 | 4.0 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE NINETEEN

FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, ("SFAS No. 157"), "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. The application of SFAS 157 in situations where the market for a financial asset is not active was clarified by the issuance of FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," in October 2008. FSP No. SFAS 157-3 became effective immediately and did not significantly impact the methods by which the Company determines the fair values of its financial assets. In accordance with Financial Accounting Standards Board Staff Position No. 157-2, "Effective Date of FASB Statement No. 157," the Company has delayed application of SFAS No. 157 for non-financial assets and non-financial liabilities until January 1, 2009.

SFAS No. 157 defines fair value as the exchange price that would be received to sell an asset or paid to transfer a 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.

SFAS 157 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 established by SFAS No. 157 is as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity 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 used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value.

Securities Available for Sale. Securities available for sale are reported at fair value utilizing Level 1 and Level 2 inputs.

The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges 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.

Previously Securitized Loans. Previously securitized loans are reported at fair value utilizing Level 3 inputs. The Company utilizes an internal valuation model that calculates the present value of estimated future cash flows. The internal valuation model incorporates assumptions such as loan prepayment and default rates. Using cash flow modeling techniques that incorporate these assumptions, the Company estimated total future cash collections expected to be received from these loans and determined the yield at which the resulting discount would be accreted into income.

Impaired Loans. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," (SFAS No. 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2008, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS No. 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2008:

| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
|-------------------------------|------------|----------|------------|---------|
| Assets: | | | | |
| Securities available-for-sale | \$ 411,176 | \$ 9,710 | \$ 401,466 | \$ - |
| Previously securitized loans | 4,222 | - | - | 4,222 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis for Level 3 assets for the year ended December 31, 2008.

| (in thousands) | Previously Securitized Loans |
|------------------------------------|------------------------------------|
| Beginning balance, January 1, 2008 | \$ 6,892 |
| Principal receipts and recoveries | (2,670) |
| Transfers into Level 3 | - |
| Ending Balance, December 31, 2008 | <u>\$ 4,222</u> |

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. At December 31, 2008, the Company has \$23.9 million of impaired loans that are measured at fair value on a nonrecurring basis. These assets are considered to be measured at Level 2 in the fair value measurement hierarchy.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, ("SFAS No. 159") "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) is applicable on an instrument by instrument basis, with certain exceptions, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. The Company has not elected to account for any of its assets at fair value and therefore adoption of SFAS No. 159 on January 1, 2008 did not effect its financial statements.

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, 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 the discount rate and estimates 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. Statement No. 107 excludes certain financial instruments and

all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table represents the estimates of fair value of financial instruments:

| (in thousands) | Fair Value of Financial Instruments | | | |
|-------------------------------|-------------------------------------|------------|-----------------|------------|
| | 2008 | | 2007 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 59,629 | \$ 59,629 | \$ 74,518 | \$ 74,518 |
| Securities available-for-sale | 424,214 | 424,214 | 382,098 | 382,098 |
| Securities held-to-maturity | 29,067 | 22,050 | 34,918 | 35,198 |
| Net loans | 1,790,090 | 1,842,888 | 1,749,440 | 1,744,771 |
| Financial derivative assets | - | - | 11,362 | 11,362 |
| Liabilities: | | | | |
| Deposits | 2,041,130 | 2,065,947 | 1,990,081 | 1,993,351 |
| Short-term borrowings | 194,463 | 194,544 | 161,916 | 162,681 |
| Long-term debt | 19,047 | 19,242 | 4,973 | 5,206 |

The following methods and assumptions were used in estimating fair value amounts 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 using discounted cash flow analyses at interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying value of accrued interest approximates its fair value.

Financial Derivative Assets: The estimated fair values of the interest rate floors on variable-rate loans are based on quoted market prices.

Deposits: The fair values of demand deposits (e.g., interest and noninterest-bearing checking, regular savings, and other money market demand accounts) are, by definition, equal to their carrying values. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities of time deposits.

Short-term borrowings: Securities sold under agreements to repurchase represent borrowings with original maturities of less than 90 days. The carrying amount of advances from the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

FHLB and borrowings under repurchase agreements approximate their fair values.

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 above.

NOTE TWENTY CITY HOLDING COMPANY (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Condensed Balance Sheets

| (in thousands) | December 31 | |
|---|-------------------|-------------------|
| | 2008 | 2007 |
| Assets | | |
| Cash | \$ 1,411 | \$ 9,648 |
| Securities available-for-sale | 5,489 | 4,856 |
| Investment in subsidiaries | 290,897 | 299,166 |
| Deferred tax asset | 2,071 | 210 |
| Fixed assets | 18 | 40 |
| Other assets | 2,500 | 2,915 |
| Total Assets | \$ 302,386 | \$ 316,835 |
| Liabilities | | |
| Junior subordinated debentures | \$ 16,495 | \$ 16,836 |
| Dividends payable | 5,423 | 5,024 |
| Accrued interest payable | 39 | 366 |
| Other liabilities | - | 615 |
| Total Liabilities | 21,957 | 22,841 |
| Shareholders' Equity | 280,429 | 293,994 |
| Total Liabilities and Shareholders' Equity | \$ 302,386 | \$ 316,835 |

Junior subordinated debentures represent the Parent Company's amounts owed to City Holding Capital Trust III and City Holding Capital Trust at December 31, 2008 and 2007, respectively.

Condensed Statements of Income

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 2008 | 2007 | 2006 |
| Income | | | |
| Dividends from bank subsidiaries | \$ 40,900 | \$ 51,200 | \$ 95,200 |
| Other income | 286 | 297 | 366 |
| | 41,186 | 51,497 | 95,566 |
| Expenses | | | |
| Interest expense | 1,170 | 1,472 | 2,223 |
| Investment securities losses | 1,954 | 2 | - |
| Loss on early extinguishment of debt | 1,208 | - | 1,368 |
| Other expenses | 413 | 563 | 639 |
| | 4,745 | 2,037 | 4,230 |
| Income Before Income Tax Benefit and Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries | 36,441 | 49,460 | 91,336 |
| Income tax benefit | (1,930) | (890) | (1,828) |
| Income Before Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries | 38,371 | 50,350 | 93,164 |
| (Excess dividends) equity in undistributed net income of subsidiaries | (10,262) | 676 | (39,977) |
| Net Income | \$ 28,109 | \$ 51,026 | \$ 53,187 |

Condensed Statements of Cash Flows

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|-----------------|------------------|
| | 2008 | 2007 | 2006 |
| Operating Activities | | | |
| Net income | \$ 28,109 | \$ 51,026 | \$ 53,187 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Loss on early extinguishment of debentures | - | - | 1,368 |
| Realized investment securities losses | 1,954 | 2 | - |
| Amortization and accretion | 17 | 12 | 25 |
| Provision for depreciation | 22 | 35 | 43 |
| (Increase) decrease in other assets | (463) | (1,511) | 4,322 |
| (Decrease) increase in other liabilities | (463) | (739) | 1,159 |
| Excess dividends (equity in undistributed net income) of subsidiaries | 10,263 | (676) | 39,977 |
| Net Cash Provided by Operating Activities | 39,439 | 48,149 | 100,081 |
| Investing Activities | | | |
| Purchases of available for sale securities | (5,312) | (2,555) | (755) |
| Proceeds from sales of available for sale securities | 186 | 718 | 932 |
| Investment in subsidiaries | (11,687) | (11,030) | (40,017) |
| Net Cash Used in Investing Activities | (16,813) | (12,867) | (39,840) |
| Financing Activities | | | |
| Proceeds from long-term debt | 16,495 | - | - |
| Redemption of junior subordinated debentures | (16,836) | - | (13,002) |
| Dividends paid | (21,483) | (20,601) | (19,350) |
| Purchases of treasury stock | (10,974) | (48,232) | (24,334) |
| Exercise of stock options | 1,669 | 154 | 798 |
| Excess tax benefits from stock-based compensation arrangements | 266 | 3 | 269 |
| Net Cash Used in Financing Activities (Decrease) Increase in Cash and Cash Equivalents | (8,237) | (33,394) | 4,622 |
| Cash and cash equivalents at beginning of year | 9,648 | 43,042 | 38,420 |
| Cash and Cash Equivalents at End of Year | \$ 1,411 | \$ 9,648 | \$ 43,042 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE TWENTY-ONE SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information for 2008 and 2007 follows:

| (in thousands, except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| 2008 | | | | |
| Interest income | \$ 37,520 | \$ 36,968 | \$ 36,522 | \$ 36,663 |
| Taxable equivalent adjustment | 214 | 204 | 200 | 200 |
| Interest income (FTE) | 37,734 | 37,172 | 36,722 | 36,863 |
| Interest expense | 13,601 | 11,494 | 10,241 | 10,582 |
| Net interest income | 24,133 | 25,678 | 26,481 | 26,281 |
| Provision for loan losses | 1,883 | 850 | 2,350 | 5,340 |
| Investment securities gains (losses) | 2 | — | (27,467) | (10,800) |
| Noninterest income | 17,316 | 14,195 | 14,709 | 13,981 |
| Noninterest expense | 19,899 | 18,761 | 19,246 | 17,766 |
| Income (loss) before income tax expense | 19,669 | 20,262 | (7,873) | 6,356 |
| Income tax expense (benefit) | 6,417 | 6,679 | (5,516) | 1,907 |
| Taxable equivalent adjustment | 214 | 204 | 200 | 200 |
| Net income (loss) | \$ 13,038 | \$ 13,379 | \$ (2,557) | \$ 4,249 |
| Basic earnings (loss) per common share | \$ 0.81 | \$ 0.83 | \$ (0.16) | \$ 0.26 |
| Diluted earnings (loss) per common share | 0.80 | 0.83 | (0.16) | 0.26 |
| Average common shares outstanding: | | | | |
| Basic | 16,147 | 16,103 | 16,142 | 16,078 |
| Diluted | 16,205 | 16,167 | 16,195 | 16,100 |
| 2007 | | | | |
| Interest income | \$ 39,199 | \$ 39,530 | \$ 39,597 | \$ 38,989 |
| Taxable equivalent adjustment | 230 | 231 | 224 | 226 |
| Interest income (FTE) | 39,429 | 39,761 | 39,821 | 39,215 |
| Interest expense | 14,756 | 15,196 | 15,374 | 14,950 |
| Net interest income | 24,673 | 24,565 | 24,447 | 24,265 |
| Provision for loan losses | 900 | 1,600 | 1,200 | 1,650 |
| Investment securities gains (losses) | — | 45 | (1) | 1 |
| Noninterest income | 14,352 | 13,644 | 13,815 | 14,280 |
| Noninterest expense | 17,596 | 17,525 | 18,031 | 17,861 |
| Income before income tax expense | 20,529 | 19,129 | 19,030 | 19,035 |
| Income tax expense | 7,067 | 6,576 | 6,092 | 6,051 |
| Taxable equivalent adjustment | 230 | 231 | 224 | 226 |
| Net income | \$ 13,232 | \$ 12,322 | \$ 12,714 | \$ 12,758 |
| Basic earnings per common share | \$ 0.76 | \$ 0.72 | \$ 0.76 | \$ 0.78 |
| Diluted earnings per common share | 0.76 | 0.72 | 0.76 | 0.78 |
| Average common shares outstanding: | | | | |
| Basic | 17,369 | 17,100 | 16,714 | 16,359 |
| Diluted | 17,424 | 17,158 | 16,767 | 16,414 |

NOTE TWENTY-TWO EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

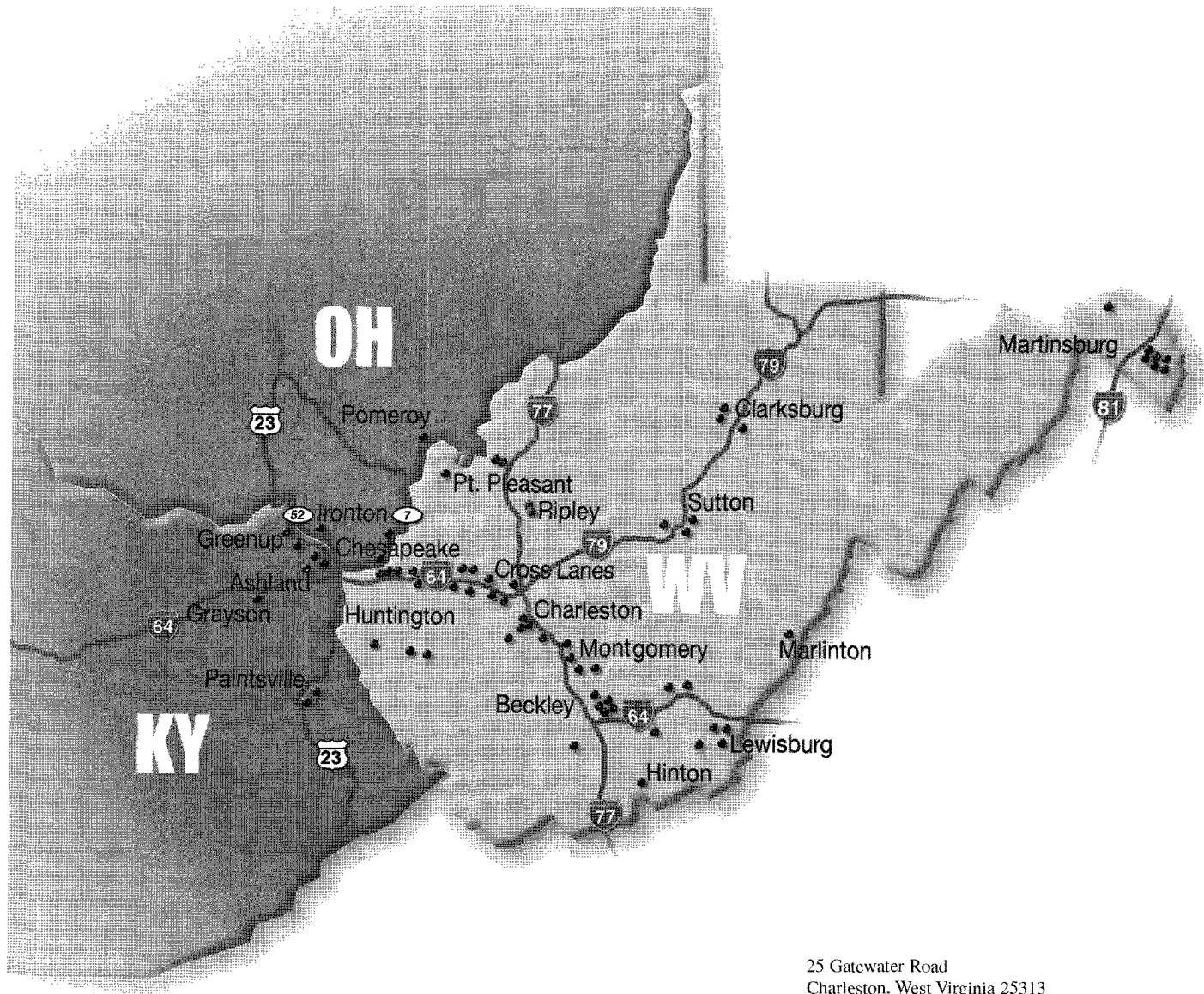
| (in thousands, except per share data) | 2008 | 2007 | 2006 |
|---------------------------------------|-----------|-----------|-----------|
| Net income | \$ 28,109 | \$ 51,026 | \$ 53,187 |
| Average shares outstanding | 16,118 | 16,877 | 17,701 |
| Effect of dilutive securities: | | | |
| Employee stock options | 49 | 58 | 61 |
| Shares for diluted earnings per share | 16,167 | 16,935 | 17,762 |
| Basic earnings per share | \$ 1.74 | \$ 3.02 | \$ 3.00 |
| Diluted earnings per share | \$ 1.74 | \$ 3.01 | \$ 2.99 |

Options to purchase 97,500 and 88,750 shares of common stock at exercise prices between \$36.48 and \$40.88 and \$36.48 and \$39.34 per share were outstanding during 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares and therefore, the effect would be antidilutive.

NOTE TWENTY-THREE DISPOSITIONS

On February 1, 2007, the Company sold its merchant processing agreements to NOVA Information Systems, Inc. (NOVA) and recognized a pretax gain of \$1.5 million. As part of this agreement, the Company and NOVA entered into an alliance and sales agreement that NOVA will provide payment processing services to the Company's merchant customers.

On August 4, 2006, the Company sold its credit card portfolio of approximately \$11.5 million to Elan Financial Services (Elan), a wholly owned subsidiary of U.S. Bancorp. As part of this agreement, the Company and Elan have entered into an agent marketing agreement that will enable the Company's customers to continue to receive credit card products, while allowing Elan the exclusive marketing rights to the Company's current and prospective customer base. This transaction was completed during the third quarter of 2006 and resulted in a pre-tax gain of approximately \$3.6 million for the Company.



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(304) 769-1106
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About Form 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be forwarded without charge to any shareholder upon written request to:

Investor Relations

City Holding Company
Post Office Box 7520
Charleston, West Virginia 25356-0520

City Holding Company's common stock trades on The NASDAQ Stock Market under the symbol CHCO.

CITY HOLDING COMPANY DIRECTORS

AS OF MARCH 2009

| Name | Principal Occupation During The Past Five Years |
|-------------------------|---|
| Hugh R. Clonch | President, Clonch Industries (lumber manufacturer). |
| Oshel B. Craigo | Owner and Chief Executive Officer, Better Foods, Inc. (restaurants). |
| John R. Elliot | Owner and President, AMFM, Inc. (nursing homes). |
| William H. File III | Partner, File Payne Scherer & File, PLLC (law firm). |
| Robert D. Fisher | Managing Member, Adams, Fisher & Chappell, PLLC (law firm). |
| Jay C. Goldman | President, Goldman and Associates (real estate). |
| Charles R. Hageboeck | President and Chief Executive Officer, City Holding Company and City National Bank since February 1, 2005. |
| David W. Hambrick | Self-employed attorney since 2004. |
| Tracy W. Hylton II | President, Eller, Inc. (construction and reclamation company). |
| C. Dallas Kayser | Senior Partner, Kayser, Layne & Clark, PLLC (law firm). |
| Philip L. McLaughlin | Chairman of the Board, City Holding Company and City National Bank of West Virginia since April 2007. |
| James L. Rossi | Chief Financial Officer, Valtronics, Inc. (manufacturers of products for commercial and industrial customers) since July 2008. |
| Sharon H. Rowe | Senior Consultant, Charles Ryan Associates (formerly Gallagher/Goodwin-Gregg Communications Group) (marketing/public relations) since May 2006. |
| Mary E. Hooten Williams | Vice President, Virginia Street Properties Corp. and Manager, Hooten Properties (real estate rental companies) since January 2006. |

Executive Officers

Charles R. Hageboeck
President & CEO

Craig G. Stilwell
Executive Vice President
Retail Banking

John A. DeRito
Executive Vice President
Commercial Banking

David L. Bumgarner
Chief Financial Officer

John W. Alderman
General Legal Counsel

