



ANNUAL $\frac{20}{11}$ REPORT



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

or
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-11733



CITY HOLDING COMPANY
(Exact Name of Registrant as Specified in its Charter)

West Virginia
(State or Other Jurisdiction of
Incorporation or Organization)

55-0619957
(I.R.S. Employer
Identification No.)

25 Gatewater Road, Cross Lanes, WV
(Address of Principal Executive Offices)

25313
(Zip Code)

304-769-1100
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered:</u>
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$2.50 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of June 30, 2011, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the shares of common stock held by non-affiliates, based upon the closing price per share of the registrant's common stock as reported on the Nasdaq Global Select Market, was approximately \$479.7 million. (Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.)

As of March 9, 2012, there were 14,745,184 shares of the Company's common stock, \$2.50 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual report to security holders for the fiscal year ended December 31, 2011 are incorporated by reference into Part I, Item 1 and Part II, Items 6, 7, 7A, and 8. Portions of the Proxy Statement for the 2012 annual shareholders' meeting to be held on April 25, 2012 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14.

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PART I

Item 1. Business

City Holding Company (the “Company”) is a bank holding company headquartered in Charleston, West Virginia. The Company conducts its principal activities through its wholly-owned subsidiary, City National Bank of West Virginia (“City National”). Through its network of 68 banking offices in West Virginia (57 offices), Kentucky (8 offices), and Ohio (3 offices), City National provides credit, deposit, trust and investment management, and insurance products and services to its customers. In addition to its branch network, City National’s delivery channels include ATMs, check cards, interactive voice response systems, and internet technology. City National has approximately 7% of the deposit market share in West Virginia and the Company is the third largest bank holding company headquartered in West Virginia based on deposit share. The Company’s business activities are currently limited to one reportable business segment, which is community banking.

No portion of City National’s deposits are derived from a single person or persons, the loss of which could have a material adverse effect on liquidity, capital, or other elements of financial performance. Although no portion of City National’s loan portfolio is concentrated within a single industry or group of related industries, it historically has held residential mortgage loans as a significant portion of its loan portfolio. At December 31, 2011, approximately 54% of the Company’s loan portfolio was categorized as residential mortgage and home equity loans. However, due to the fractionated nature of residential mortgage lending, there is no concentration of credits that would be considered materially detrimental to the Company’s financial position or operating results.

The Company’s business is not seasonal and has no foreign sources or applications of funds. There are no anticipated material capital expenditures, or any expected material effects on earnings or the Company’s competitive position as a result of compliance with federal, state and local provisions enacted or adopted relating to environmental protection.

The Company’s loan portfolio is comprised of commercial and industrial, commercial real estate, residential real estate, home equity, consumer loans, DDA overdrafts and previously securitized loans.

The commercial and industrial loan portfolio consists of loans to corporate borrowers primarily in small to mid-size industrial and commercial companies, as well as automobile dealers, service, retail and wholesale merchants. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. Commercial and industrial loans are considered to contain a higher level of risk than other loan types although care is taken to minimize these risks. Numerous risk factors impact this portfolio including industry specific risks such as economy, new technology, labor rates and cyclicity, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. As of December 31, 2011, the Company reported \$130.9 million of loans classified as “Commercial and Industrial.”

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as the commercial and industrial loans. As of December 31, 2011, the Company reported \$732.1 million of loans classified as “Commercial Real Estate.”

The Company diversifies risk within the commercial and industrial and commercial real estate portfolios by closely monitoring industry concentrations and portfolios to ensure that it does not exceed established lending guidelines. Diversification is intended to limit the risk of loss from any single unexpected economic event or trend. Underwriting standards require a comprehensive credit analysis and independent evaluation of virtually all larger balance commercial loans by the loan committee prior to approval.

Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15- to 30- year term, and in most cases, are extended to borrowers to finance their primary residence. In some cases, government agencies or private mortgage insurers guarantee the loan. The Company sells a majority of our fixed-rate originations in the secondary market. As of December 31, 2011, the Company reported \$638.6 million of loans classified as “Residential Real Estate.”

Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first- or second- mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is granted directly affect the amount of credit extended. As of December 31, 2011, the Company reported \$433.0 million of loans classified as "Home Equity."

Consumer loans are secured by automobiles, boats, recreational vehicles, and other personal property. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. As of December 31, 2011, the Company reported \$35.8 million of loans classified as "Consumer."

DDA overdraft balances reflect demand deposit accounts that have been overdrawn by deposit customers and have been reclassified as loans. As of December 31, 2011, the Company reported \$2.6 million of loans classified as "DDA Overdrafts."

The Company's loan underwriting guidelines and standards are updated periodically and are presented for approval by the Board of Directors. The purpose of the standards and guidelines is to grant loans on a sound and collectible basis; to invest available funds in a safe, profitable manner; to serve the legitimate credit needs of the communities in our primary market area; and to ensure that all loan applicants receive fair and equal treatment in the lending process. It is the intent of the underwriting guidelines and standards to: minimize loan losses by carefully investigating the credit history of each applicant, verify the source of repayment and the ability of the applicant to repay, collateralize those loans in which collateral is deemed to be required, exercise care in the documentation of the application, review, approval, and origination process, and administer a comprehensive loan collection program. The above guidelines are adhered to and subject to the experience, background and personal judgment of the loan officer assigned to the loan application.

The Company categorizes commercial loans by industry according to the Standard Industry Classification System (SIC) to monitor the portfolio for possible concentrations in one or more industries. As of December 31, 2011, the Company has no industry classifications that exceeded 10% of total loans.

Market Area

As of December 2011, West Virginia's unemployment rate was 7.7% as compared to the national average of 8.5% according to the Workforce West Virginia. West Virginia's unemployment rate for December of 7.7% decreased from December 2010's rate of 9.4%. According to the U.S. Census Bureau 2011 estimates, West Virginia's population was approximately 1.9 million and has increased 2.5% over the past 10 years. The median home price in the Charleston, WV metropolitan area was \$130,000 for 2011 and \$129,000 for 2010, while the number of home sales in West Virginia increased 9.7% for the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010, according to the National Association of Realtors.

Competition

As noted previously, the Company's principal markets are located in West Virginia. The majority of the Company's banking offices are located in the areas of Charleston, Huntington, Beckley, Lewisburg and Martinsburg where there is a significant presence of other financial service providers. In its markets, the Company competes with national, regional, and local community banks for deposit, credit, trust and investment management, and insurance customers. In addition to traditional banking organizations, the Company competes with credit unions, finance companies, insurance companies and other financial service providers who are able to provide specialty financial services to targeted customer groups. As further discussed below, changes in laws and regulations enacted in recent years have increased the competitive environment the Company faces to retain and attract customers.

Regulation and Supervision

Overview: The Company, as a registered financial holding company, and City National, as an insured depository institution, operate in a highly regulated environment and are regularly examined by federal and state regulators. The following description briefly discusses certain provisions of federal and state laws and regulations and the potential impact of such provisions to which the Company and City National are subject. These federal and state laws and regulations are designed to reduce potential loss exposure to the depositors of such depository institutions and to the Federal Deposit Insurance Corporation's insurance fund and are not intended to protect the Company's security holders. Proposals to

change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company. To the extent that the following information describes statutory or regulatory provisions, it is qualified entirely by reference to the particular statutory or regulatory provision.

As a financial holding company, the Company is regulated under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve Board. The BHCA provides generally for “umbrella” regulation of bank holding companies such as the Company by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. The Company is also under the jurisdiction of the Securities and Exchange Commission (“SEC”) and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. The Company is listed on the Nasdaq Stock Market, Inc. (NASDAQ) under the trading symbol “CHCO,” and is subject to the rules of the NASDAQ for listed companies.

City National is organized as a national banking association under the National Bank Act. It is subject to regulation and examination by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”).

In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Under the BHCA, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the OCC) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

The BHC Act generally limits acquisitions by bank holding companies that are not qualified as financial holding companies to commercial banks and companies engaged in activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. The Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Riegle-Neal”) permits bank holding companies to acquire banks located in any state. Riegle-Neal also allows national banks and state banks with different home states to merge across state lines and allows branch banking across state lines, unless specifically prohibited by state laws.

The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (USA “Patriot Act”) was adopted in response to the September 11, 2001 terrorist attacks. The Patriot Act provides law enforcement with greater powers to investigate terrorism and prevent future terrorist acts. Among the broad-reaching provisions contained in the Patriot Act are several designed to deter terrorists’ ability to launder money in the United States and provide law enforcement with additional powers to investigate how terrorists and terrorist organizations are financed. The Patriot Act creates additional requirements for banks, which were already subject to similar regulations. The Patriot Act authorizes the Secretary of Treasury to require financial institutions to take certain “special measures” when the Secretary suspects that certain transactions or accounts are related to money laundering. These special measures may be ordered when the Secretary suspects that a jurisdiction outside of the United States, a financial institution operating outside of the United States, a class of transactions involving a jurisdiction outside of the United States or certain types of accounts are of “primary money laundering concern.” The special measures include the following: (a) require financial institutions to keep records and report on transactions or accounts at issue; (b) require financial institutions to obtain and retain information related to the beneficial ownership of any account opened or maintained by foreign persons; (c) require financial institutions to identify each customer who is permitted to use a payable-through or correspondent account and obtain certain information from each customer permitted to use the account; and (d) prohibit or impose conditions on the opening or maintaining of correspondent or payable-through accounts. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

The Company and its subsidiary bank and nonfinancial subsidiaries are affiliates within the meaning of the Federal Reserve Act. The Federal Reserve Act imposes limitations on a bank with respect to extensions of credit to, investments in, and certain other transactions with, its parent bank holding company and the holding company’s other subsidiaries. Furthermore, bank loans and extensions of credit to affiliates are also subject to various collateral requirements.

The Community Reinvestment Act of 1977 (“CRA”) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction. City National received a satisfactory rating on its most recent CRA examination.

On July 21 2010, sweeping financial regulatory reform legislation entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”) was signed into law. Generally, the Dodd-Frank Act was effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and have broad powers to supervise and enforce consumer protection laws;
- Change standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;
- After a three-year phase-in period which begins January 1, 2013, remove trust preferred securities as a permitted component of a holding company’s tier 1 capital;
- Require the Office of the Comptroller of the Currency to seek to make its capital requirements for national banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;

- Require financial holding companies, such as City, to be well-capitalized and well-managed as of July 21, 2011. Bank holding companies and banks must also be both well-capitalized and well-managed in order to acquire banks located outside their domiciled state;
- Provide for an increase in the FDIC assessment for depository institutions with assets of \$10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;
- Require large, publicly traded bank holding companies with assets of \$10 billion or more to establish a risk committee responsible for the oversight of enterprise risk management;
- Provide for new disclosure and other requirements relating to executive compensation and corporate governance. These disclosures and requirements apply to all public companies, not just financial institutions;
- Permanently increase the \$250 thousand limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from \$100 thousand to \$250 thousand and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions;
- Repeal the federal prohibitions on the payment of interest on demand deposits;
- Amend the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer;
- Enhance the requirements for certain transactions with affiliates under the Federal Reserve Act, including an expansion of the “covered transactions” definition and increase the amount of time for which collateral requirements regarding covered transactions must be maintained;
- Strengthen the existing limits on a depository institution’s credit exposure to one borrower by expanding the scope of limitations to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions;
- Strengthen loan restrictions to insiders by expanding the types of transactions subject to various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements, and securities lending or borrowing transactions. Additionally, restrictions on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and approved by the institution’s board of directors in certain situations are to be put in place; and
- Increase the authority of the Federal Reserve to examine City and its non-bank subsidiaries.

Uncertainty remains as to the ultimate impact of the Act, which could have a material adverse impact either on the financial services industry as a whole, or on City’s business, results of operations and financial condition. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of the Company and City National Bank could require the Company and City National Bank to seek other sources of capital in the future.

Capital Adequacy: Federal banking regulations set forth capital adequacy guidelines, which are used by regulatory authorities to assess the adequacy of capital in examining and supervising a bank holding company and its insured depository institutions. The capital adequacy guidelines generally require bank holding companies to maintain total capital equal to at least 8% of total risk-adjusted assets, with at least one-half of total capital consisting of core capital (i.e., Tier I capital) and the remaining amount consisting of “other” capital-eligible items (i.e., Tier II capital), such as perpetual preferred stock, certain subordinated debt, and, subject to limitations, the allowance for loan losses. Tier I capital generally includes common stockholders’ equity plus, within certain limitations, perpetual preferred stock and trust preferred securities. For purposes of computing risk-based capital ratios, bank holding companies 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In addition to total and Tier I capital requirements, regulatory authorities also require bank holding companies and insured depository institutions to maintain a minimum leverage capital ratio of 3%. The leverage ratio is determined as the ratio of Tier I capital to total average assets, where average assets exclude goodwill, other intangibles, and other specifically excluded assets. Regulatory authorities have stated that minimum capital ratios are adequate for those institutions that are operationally and financially sound, experiencing solid earnings, have high levels of asset quality, and are not experiencing significant growth. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. In those instances where these criteria are not evident, regulatory authorities expect, and may require, bank holding companies and insured depository institutions to maintain higher than minimum capital levels.

Additionally, federal banking laws require regulatory authorities to take “prompt corrective action” with respect to depository institutions that do not satisfy minimum capital requirements. The extent of these powers depends upon whether the institutions in question are “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized” or “critically undercapitalized”, as such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies. As an example, a depository institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. Additionally, a depository institution is generally prohibited from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company, may be subject to asset growth limitations and may be required to submit capital restoration plans if the depository institution is considered undercapitalized. The Company’s and City National’s regulatory capital ratios are presented in the following table:

	December 31,	
	2011	2010
City Holding:		
Tier I Risk-based	13.12%	13.88%
Total	14.07	14.81
Tier I Leverage	10.18	10.54
City National:		
Tier I Risk-based	12.03%	12.67%
Total	12.99	13.61
Tier I Leverage	9.32	9.62

Dividends and Other Payments: The Company is a legal entity separate and distinct from City National. Dividends from City National are essentially the sole source of cash for the Company. The right of the Company, and shareholders of the Company, to participate in any distribution of the assets or earnings of City National through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of City National, except to the extent that claims of the Company in its capacity as a creditor may be recognized. Moreover, there are various legal limitations applicable to the payment of dividends to the Company as well as the payment of dividends by the Company to its shareholders. Under federal law, City National may not, subject to certain limited exceptions, make loans or extensions of credit

to, or invest in the securities of, or take securities of the Company as collateral for loans to any borrower. City National is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

City National is subject to various statutory restrictions on its ability to pay dividends to the Company. Specifically, the approval of the Office of the Comptroller of the Currency (“OCC”) is required prior to the payment of dividends by City National in excess of its earnings retained in the current year plus retained net profits for the preceding two years. The payment of dividends by the Company and City National may also be limited by other factors, such as requirements to maintain adequate capital above regulatory guidelines. The OCC has the authority to prohibit any bank under its jurisdiction from engaging in an unsafe and unsound practice in conducting its business. Depending upon the financial condition of City National, the payment of dividends could be deemed to constitute such an unsafe or unsound practice. The Federal Reserve Board and the OCC have indicated their view that it generally would be an unsafe and unsound practice to pay dividends except out of current operating earnings. The Federal Reserve Board has stated that, as a matter of prudent banking, a bank or bank holding company should not maintain its existing rate of cash dividends on common stock unless (1) the organization’s net income available to common shareholders over the past year has been sufficient to fund fully the dividends and (2) the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality, and overall financial condition. Moreover, the Federal Reserve Board has indicated that bank holding companies should serve as a source of managerial and financial strength to their subsidiary banks. Accordingly, the Federal Reserve Board has stated that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company’s ability to serve as a source of strength.

At December 31, 2011, City National could pay dividends up to \$22.7 million plus net profits for 2012, as defined by statute, up to the dividend declaration date without prior regulatory permission. During 2011, the Company used cash obtained from these dividends 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. Management believes that the Company’s available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2012.

Governmental Policies

The Federal Reserve Board regulates money and credit and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of bank loans, investments and deposits and affect interest rates charged on loans or paid for time and savings deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Deposit Insurance

Substantially all of the deposits of City National are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. On April 1, 2011, the deposit insurance assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In December 2009, the Corporation paid \$11.6 million in prepaid risk-based assessments and \$5.7 million of that amount is included in other assets as prepaid deposit insurance in the accompanying consolidated balance sheet as of December 31, 2011. FDIC insurance expense totaled \$2.6 million, \$3.7 million and \$2.2 million in 2011, 2010, and 2009.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution’s average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution’s insured deposits. The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of \$10

billion or more. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-command rulemaking if required.

On November 9, 2010 and January 18, 2011, the FDIC (as mandated by Section 343 of the “Dodd-Frank Wall Street Reform and Consumer Protection Act,” as described below) adopted rules providing for unlimited deposit insurance for traditional noninterest-bearing transaction accounts and IOLTA accounts for two years starting December 31, 2010. This coverage applies to all insured deposit institutions, and there is no separate FDIC assessment for the insurance. Furthermore, this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured depository institution.

Under the Federal Deposit Insurance Act, as amended (“FDIA”), the FDIC may terminate deposit insurance upon finding that an institution has engaged in unsafe and unsound practices, is in unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III”. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. This capital conservation buffer also increases the minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

U.S. banking agencies have informally indicated that they expect to propose regulations implementing Basel III during the first half of 2012. Additionally, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions’ capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to City and its banking subsidiaries may be substantially different from the Basel III final framework as published in December 2010. The requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company’s and City National’s financial results.

Future Legislation

Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system and to limit the investments that a depository institution may make with insured funds, are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. Such legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time. The Company cannot determine the ultimate effect that such potential legislation, if enacted, would have upon its financial condition or operations.

Executive Officers of the Registrant

At December 31, 2011, the executive officers of the Company were as follows:

Name	Age	Business Experience
Charles R. Hageboeck, Ph.D.	49	President and Chief Executive Officer, City Holding Company and City National Bank, Charleston, WV since February 1, 2005. Executive Vice President and Chief Financial Officer, City Holding Company and City National Bank, Charleston, WV from June 2001 – January 31, 2005.
Craig G. Stilwell	56	Executive Vice President of Retail Banking, City Holding Company and City National Bank, Charleston, WV since February 2005. Executive Vice President of Marketing & Human Resources, City Holding Company and City National Bank, Charleston, WV from May 2001 – February 2005.
John A. DeRito	61	Executive Vice President of Commercial Banking, City Holding Company and City National Bank, Charleston, WV since June 25, 2004.
David L. Bumgarner	46	Senior Vice President and Chief Financial Officer, City Holding Company and City National Bank since February 2005. Audit Senior Manager, Arnett & Foster, PLLC from August 2000 – January 2005.
Michael T. Quinlan, Jr.	43	Senior Vice President, Branch Banking, City Holding Company and City National Bank since August 2001

Employees

The Company had 795 full-time equivalent employees at December 31, 2011.

Available Information

The Company's Internet website address is www.bankatcity.com. The Company makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission. The information on the Company's website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing with the Securities and Exchange Commission. Copies of the Company's annual report will be made available, free of charge, upon written request.

Statistical Information

The information noted below is provided pursuant to Guide 3 -- Statistical Disclosure by Bank Holding Companies. Page references are to the Annual Report to Shareholders for the year ended December 31, 2011 and such pages have been filed as an exhibit to this Form 10-K and are incorporated herein by reference.

<u>Description of Information</u>	<u>Page Reference</u>
1. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	
a. Average Balance Sheets	5
b. Analysis of Net Interest Earnings	6
c. Rate Volume Analysis of Changes in Interest Income and Expense	7
2. Investment Portfolio	
a. Book Value of Investments	12
b. Maturity Schedule of Investments	12
c. Securities of Issuers Exceeding 10% of Stockholders' Equity	12
3. Loan Portfolio	
a. Types of Loans	13
b. Maturities and Sensitivity to Changes in Interest Rates	14
c. Risk Elements	14-18
d. Other Interest Bearing Assets	N/A
4. Summary of Loan Loss Experience	18
5. Deposits	
a. Breakdown of Deposits by Categories, Average Balance And Average Rate Paid	5
b. Maturity Schedule of Time Certificates of Deposit and Other Time Deposits of \$100,000 or More	19
6. Return on Equity and Assets	4
7. Short-term Borrowings	20

Item 1A. Risk Factors

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations. You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this Annual Report on Form 10-K, before making an investment in the Company's common stock. If any of the following risks occur, the Company's financial condition and results of operations could be materially and adversely affected, and you could lose all or part of your investment.

The Company's Business May be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

The business environment that the Company operates in the United States and worldwide could deteriorate, which could affect the credit quality of the Company's loans, results of operations, and financial condition. From December 2007 through June 2009, the United States was in a recession. Business activity across a wide range of industries and regions was greatly reduced and local governments and many businesses continue to be in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment increased significantly during this time period.

As a result of the recession, the financial services industry and the securities markets have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages but spread to all mortgage and real estate asset classes, to leverage bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions but more recently in companies in a number of other industries and in the broader markets.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. As a result of these events and the projection of future failures, the capitalization level of the deposit insurance fund has been significantly weakened and the FDIC has increased the deposit insurance premiums paid by financial institutions. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon on the business environment in the markets where the Company operates, in the States of West Virginia, Kentucky, and Ohio, and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

Overall, during 2011, the business environment has continued to be adverse for many households and businesses in the United States and worldwide. While the business environments in West Virginia, Kentucky, and Ohio, the United States and worldwide have shown improvement since the recession, there

can be no assurance that these conditions will continue to improve. Such conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

The Value of the Company's Common Stock May Fluctuate

The market for the Company's common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated quarterly variations in operating results, changes in expectations of future financial performance, changes in estimates by securities analysts, governmental regulatory action, banking industry reform measures, customer relationship developments and other factors, many of which will be beyond the Company's control.

Furthermore, the stock market in general, and the market for financial institutions in particular, have experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's common stock, regardless of actual operating performance.

The Trading Volume In The Company's Common Stock Is Less Than That Of Other Larger Financial Services Companies

Although the Company's common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

Future Sales of Shares of the Company's Common Stock Could Negatively Affect its Market Price

Future sales of substantial amounts of the Company's common stock, or the perception that such sales could occur, could adversely affect the market price of the Company's common stock in the open market. We make no prediction as to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the market price of the Company's common stock.

Shares of the Company's Common Stock Are Not FDIC Insured

Neither the Federal Deposit Insurance Corporation nor any other governmental agency insures the shares of the Company's common stock. Therefore, the value of your shares in the Company will be based on their market value and may decline.

The Company's Ability To Pay Dividends Is Limited

Although the Board of Directors has declared cash dividends in the past, the current ability to pay dividends is largely dependent upon the receipt of dividends from City National. Federal and state laws impose restrictions on the ability of City National to pay dividends. Holders of shares of the Company's common stock are entitled to dividends if, and when, they are declared by the Company's Board of Directors out of funds legally available for that purpose. Additional restrictions are placed upon the Company by the policies of federal regulators, including the Federal Reserve Board's November 14, 1985 policy statement, which provides that bank holding companies should pay dividends only out of the past year's net income, and then only if their prospective rate of earnings retention appears consistent with their capital needs, asset quality, and overall financial condition. In general, future dividend policy is subject to the discretion of the Board of Directors and will depend upon a number of factors, including the Company's and City National's future earnings, capital requirements, regulatory constraints and financial condition.

An Economic Slowdown in West Virginia, Kentucky, and Ohio Could Hurt Our Business

Because the Company focuses its business in West Virginia, Kentucky, and Ohio, an economic slowdown in these states could hurt our business. An economic slowdown could have the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for the products and services of City National may decline; and
- Collateral (including real estate) for loans made by City National may decline in value, in turn reducing customers' borrowing power, and making existing loans less secure.

The Company and City National are Extensively Regulated

Policies adopted or required by governmental authorities can adversely affect the Company's business operations and the availability, growth and distribution of the Company's investments, borrowings and deposits. The operations of the Company and City National are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on them. In addition, the Office of the Comptroller of the Currency periodically conducts examinations of the Company and City National and may impose various requirements or sanctions.

Proposals to change the laws governing financial institutions are frequently raised in Congress and before bank regulatory authorities. Changes in applicable laws or policies could materially affect the Company's business, and the likelihood of any major changes in the future and their effects are impossible to determine. Moreover, it is impossible to predict the ultimate form any proposed legislation might take or how it might affect the Company.

The Company is Subject to Interest Rate Risk

Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies, including the use of derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Risk Management" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

The Company's Allowance for Loan Losses May Not Be Sufficient

The Company maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense that represents management's best estimate of probable losses in the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations.

Management evaluates the adequacy of the allowance for loan losses at least quarterly, which includes testing certain individual loans as well as collective pools of loans for impairment. This evaluation includes an assessment of actual loss experience within each category of the portfolio, individual commercial and commercial real estate loans that exhibit credit weakness; current economic events, including employment statistics, trends in bankruptcy filings, and other pertinent factors; industry or geographic concentrations, and regulatory guidance. See the section captioned "Allowance and Provision for Loan Losses" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan losses.

Customers May Default On the Repayment of Loans

City National's customers may default on the repayment of loans, which may negatively impact the Company's earnings due to loss of principal and interest income. Increased operating expenses may result from the allocation of management time and resources to the collection and work-out of the loan. Collection efforts may or may not be successful causing the Company to write off the loan or repossess the collateral securing the loan, which may or may not exceed the balance of the loan.

Due To Increased Competition, the Company May Not Be Able To Attract and Retain Banking Customers At Current Levels

The Company faces competition from the following:

- local, regional and national banks;
- savings and loans;
- internet banks;
- credit unions;
- finance companies; and
- brokerage firms serving the Company's market areas.

In particular, City National's competitors include several major national financial and banking companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions may have products and services not offered by the Company, which may cause current and potential customers to choose those institutions. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and range and quality of services provided. If the Company is unable to attract new and retain current customers, loan and deposit growth could decrease causing the Company's results of operations and financial condition to be negatively impacted.

The Company May Be Required To Write Down Goodwill And Other Intangible Assets, Causing Its Financial Condition And Results To Be Negatively Affected

When the Company acquires a business, a portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2011, the Company's goodwill and other identifiable intangible assets were approximately \$56.2 million. Under current accounting standards, if the Company determines goodwill or intangible assets are impaired, it would be required to write down the value of these assets. The Company conducts an annual review to determine whether goodwill and other identifiable intangible assets are impaired. The Company recently completed such an impairment analysis and concluded that no impairment charge was necessary for the year ended December 31, 2011. The Company cannot provide assurance whether it will be required to take an impairment charge in the future. Any impairment charge would have a negative effect on its shareholders' equity and financial results and may cause a decline in our stock price.

Acquisition Opportunities May Present Challenges

The Company expects that other banking and financial companies, many of which have significantly greater resources, will compete with it to acquire compatible businesses. The Company continually evaluates opportunities to acquire other businesses. However, the Company may not have the opportunity to make suitable acquisitions on favorable terms in the future, which could negatively impact the growth of its business. This competition could increase prices for acquisitions that the Company would likely pursue, and its competitors may have greater resources than it does. Also, acquisitions of regulated businesses such as banks are subject to various regulatory approvals. If the Company fails to receive the appropriate regulatory approvals, it will not be able to consummate an acquisition that it believes is in its best interests.

Any future acquisitions may result in unforeseen difficulties, which could require significant time and attention from our management that would otherwise be directed at developing our existing business. In addition, we could discover undisclosed liabilities resulting from any acquisitions for which we may become responsible. Further, the benefits that we anticipate from these acquisitions may not develop.

The Company's Controls and Procedures May Fail or Be Circumvented

Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition. Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, no matter how well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met.

Significant Legal Actions Could Result in Substantial Liabilities

From time to time, the Company is subject to claims related to our operations. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and cause the Company to incur significant defense claims. As a result, the Company may be exposed to substantial liabilities, which could negatively affect on its shareholders' equity and financial results.

The Company May Not Be Able To Attract and Retain Skilled People

The unexpected loss of services of one or more of the Company's key personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense and the Company may not be able to hire people or to retain them.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

City National owns the Company's executive offices, located at 25 Gatewater Road, Charleston, West Virginia. City National operates 68 branch offices, with fifty-seven offices in West Virginia, eight in Kentucky, and three offices in Ohio. The West Virginia locations are primarily centered in the Charleston, Huntington, Beckley, and Martinsburg markets. City National owns fifty-one locations and leases seventeen locations, pursuant to operating leases. All of the properties are suitable and adequate for their current operations and are generally being fully utilized.

City National also owns a thirty thousand square foot office building in an unincorporated area approximately fifteen miles west of Charleston, West Virginia. This facility formerly housed loan operations personnel, but has since been vacated by the Company. The building is currently being leased to a third party.

Item 3. Legal Proceedings

City National Bank is currently in a civil action pending in the Circuit Court of Kanawha County, West Virginia, in a case styled *Thomas Casto v. City National Bank, N.A.* This putative class action asserts that the plaintiffs, and others similarly situated, were wrongfully assessed overdraft fees in connection with City National Bank accounts. The plaintiffs alleged that City National Bank's policy of posting debit and check transactions from high to low order was in violation of the West Virginia Consumer Credit and Protection Act, constituted a breach of the implied covenant of good faith and fair dealing and created an unjust enrichment to City National Bank.

On August 5, 2011, the Company and plaintiffs' attorneys submitted a Preliminary Motion to Approve Settlement to the Kanawha County Circuit Court. The motion asked the Court to approve a settlement in which City National Bank will pay the eligible members of the class a total of \$3.0 million and will forgive and release \$2.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts. The parties have since agreed to revise the Preliminary Motion to Approve Settlement and now City National Bank will pay the eligible members of the class a total of \$3.4 million and will forgive and release \$3.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts.

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

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Common Stock Market and Dividends

The Company's common stock trades on the NASDAQ Global Select 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, 2011, there were 2,802 shareholders of record.

	Cash Dividends Per Share	Market Value	
		Low	High
2011			
Fourth Quarter	\$ 0.35	\$ 26.06	\$ 35.10
Third Quarter	0.34	26.82	33.96
Second Quarter	0.34	30.55	36.37
First Quarter	0.34	33.79	37.22
2010			
Fourth Quarter	\$ 0.34	\$ 30.37	\$ 38.03
Third Quarter	0.34	26.87	31.15
Second Quarter	0.34	27.88	37.28
First Quarter	0.34	30.37	34.92

As noted in the section captioned Dividends and Other Payments included in Item 1. Business, the section captioned Liquidity included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note Nineteen 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").

Stock Repurchase Plan

The following table sets forth information regarding the Company's common stock repurchases during the quarter:

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs^(a)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 – October 31, 2011	50,000	26.67	50,000	722,023
November 1 – November 30, 2011	--	--	--	722,023
December 1 – December 31, 2011	30,000	34.25	30,000	692,023

^(a)On July 27, 2011, the Company announced that the Board of Directors had authorized the Company to buy back up to 1,000,000 shares of its common stock, in open market transactions at prices that are accretive to continuing shareholders. No timetable was placed on the duration of this share repurchase program.

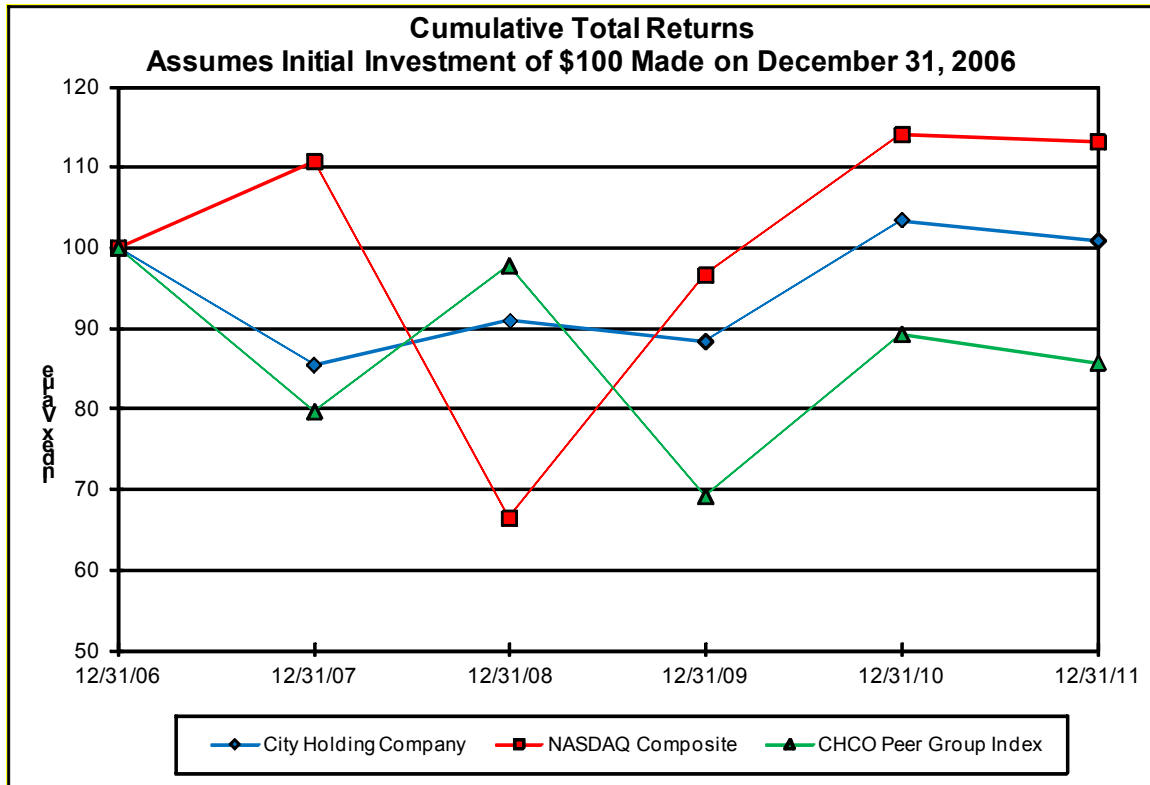
Stock-Based Compensation Plan

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2011, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, is presented in the table below. Additional information regarding stock-based compensation plans is presented in Note Fifteen, Employee Benefit Plans, of Notes to Consolidated Financial Statements.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Awards (a)	Weighted- average exercise price of outstanding awards (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	293,817	\$33.95	703,500
Plans not approved by shareholders	-	-	-
Total	<u>293,817</u>	<u>\$33.95</u>	<u>703,500</u>

Stock Performance

The following graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) to the Company's shareholders during the five-year period ended December 31, 2011, as well as an overall stock market index (The Nasdaq Stock Market Index) and the Company's Peer Group. The Peer Group consists of certain publicly-traded banking institutions over \$1 billion but less than \$9 billion in assets located in West Virginia and adjoining states. The trading symbols for such financial institutions include: SRCE, BMTC, CFNL, CBU, CTBI, FISI, FCF, FCBC, THFF, GABC, NBTB, ORRF, RBCAA, SYBT, SASR, SCBT, TMP, UVSP and WSBC. The stock performance shown on the graph below is not necessarily indicative of future price performance.



	2006	2007	2008	2009	2010	2011
City Holding Company	100.00	85.40	90.96	88.41	103.44	100.83
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
Peer Group	100.00	79.65	97.77	69.14	89.28	85.76

This graph shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless the Company specifically incorporates this report by reference. It will not be otherwise filed under such Acts.

Item 6. **Selected Financial Data**

Selected Financial Data on page 1 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2011, included in this report as Exhibit 13, is incorporated herein by reference.

Item 7. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 2 through 21 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2011, included in this report as Exhibit 13, is incorporated herein by reference.

Item 7A. **Quantitative and Qualitative Disclosures About Market Risk**

Information appearing under the caption "Risk Management" appearing on pages 9-10 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2011, included in this report as Exhibit 13, is incorporated herein by reference.

Item 8. **Financial Statements and Supplementary Data**

The consolidated financial statements, notes to consolidated financial statements, reports of management and the independent registered public accounting firm included on pages 22 through 60 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2011, included in this report as Exhibit 13, are incorporated herein by reference.

Item 9. **Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None

Item 9A. **Controls and Procedures**

Pursuant to Rule 13a-15b under the Securities Exchange Act of 1934, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic Securities and Exchange Commission filings.

- (a) Management's annual report on internal control over financial reporting appears on page 22 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2011, included in this report as Exhibit 13, is incorporated herein by reference.
- (b) The Company did not have any changes in internal control over financial reporting during its fourth quarter for the year ending December 31, 2011, that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

The Report of Management on Internal Control Over Financial Reporting is included in Item 8. of this Annual Report on Form 10-K.

Item 9B. **Other Information**

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information regarding executive officers is included under the section captioned "Executive Officers of The Registrant" in Part I, Item 1, elsewhere in this Annual Report on Form 10-K. Other information required by this Item appears under the captions "ELECTION OF DIRECTORS", "ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS", "REPORT OF THE AUDIT COMMITTEE", "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's 2012 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

In December 2009, the Company adopted a new Code of Business Conduct and Ethics which applies to all employees (including its chief executive officer, chief financial officer and principal accounting officer). Members of the Board of Directors are governed by a separate Code of Business Conduct and Ethics approved in January 2004. Both of the Codes of Business Conduct and Ethics have been posted on its website at www.bankatcity.com under the "Corporate Governance" link located at the bottom of the page. A copy of the Company's Code of Business Conduct and Ethics covering all employees and/or a copy of Code of Business Conduct and Ethics covering the Board of Directors will be mailed without charge upon request to Investor Relations, City Holding Company, 25 Gateway Road, P.O. Box 7520, Charleston, WV 25356-0520. Any amendments to or waivers from any provision of the Code of Ethics applicable to the Company's chief executive officer, chief financial officer, or principal accounting officer will be disclosed by timely posting such information on the Company's internet website.

Item 11. Executive Compensation

The information required by Item 11 of FORM 10-K appears under the captions "COMPENSATION OF DIRECTORS", "COMPENSATION DISCUSSION AND ANALYSIS", "EQUITY HOLDINGS", "POST-EMPLOYMENT PAYMENTS", and "BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION" in the Company's 2012 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 of FORM 10-K appears under the caption "COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Company's 2012 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 of FORM 10-K appears under the captions "CERTAIN TRANSACTIONS INVOLVING DIRECTORS AND EXECUTIVE OFFICERS" and "ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS" in the Company's 2012 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of FORM 10-K appears under the caption "PRINCIPAL ACCOUNTING FEES AND SERVICES" in the Company's 2012 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a)
 - (1) Financial Statements. Reference is made to Part II, Item 8, of this Annual Report on Form 10-K.
 - (2) Financial Statement Schedules. These schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.
 - (3) Exhibits. The exhibits listed in the “Exhibit Index” on pages 28-30 of this Annual Report on Form 10-K included herein are filed herewith or incorporated by reference from previous filings.
- (b) See (a) (3) above.
- (c) See (a) (1) and (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 15, 2012

City Holding Company

(Registrant)

/s/ Charles R. Hageboeck, Ph.D.

Charles R. Hageboeck, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

/s/ David L. Bumgarner

David L. Bumgarner
Senior Vice President, Chief Financial Officer and
Principal Accounting Officer
(Principal Financial Officer)

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 29, 2012. Each of the directors and/or officers of City Holding Company whose signature appears below hereby appoints Philip L. McLaughlin, and/or Charles R. Hageboeck Ph.D., as his attorney-in-fact to sign in his name and behalf, in any and all capacities stated below and to file with the Securities and Exchange Commission, any and all amendments to this report on Form 10-K, making such changes in this report on Form 10-K as appropriate, and generally to do all such things in their behalf in their capacities as officers and directors to enable City Holding Company to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Philip L. McLaughlin

Philip L. McLaughlin
Chairman

/s/ David W. Hambrick

David W. Hambrick
Director

/s/ Hugh R. Clonch

Hugh R. Clonch
Director

/s/ Charles R. Hageboeck, Ph.D.

Charles R. Hageboeck, Ph.D.
Director, President, and Chief
Executive Officer

/s/ Oshel B. Craig

Oshel B. Craig
Director

/s/ Tracy W. Hylton, II

Tracy W. Hylton, II
Director

John R Elliot
Director

/s/ C. Dallas Kayser
C. Dallas Kayser
Director

/s/ William H. File, III
William H. File, III
Director

/s/ James L. Rossi
James L. Rossi
Director

/s/ Robert D. Fisher
Robert D. Fisher
Director

/s/ Sharon H. Rowe
Sharon H. Rowe
Director

/s/ Jay C. Goldman
Jay C. Goldman
Director

EXHIBIT INDEX

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

<u>Exhibit</u>	<u>Description</u>
2(a)	Agreement and Plan of Merger , dated November 14, 2011, by and among Virginia Savings Bancorp, Inc., Virginia Savings Bank, F.S.B., City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from, City Holding Company's Form 8-K dated November 14, 2011, and filed with the Securities and Exchange Commission on November 14, 2011).
3(a)	Articles of Incorporation of City Holding Company (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission).
3(b)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7, 1984, and filed with the Securities and Exchange Commission on March 22, 1984).
3(c)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated March 4, 1986 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1986, filed March 31, 1987 with the Securities and Exchange Commission).
3(d)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated September 29, 1987 (attached to and incorporated by reference from, City Holding Company's Registration Statement on Form S-4, Registration No. 33-23295, filed with the Securities and Exchange Commission on August 3, 1988).
3(e)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 6, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
3(f)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 7, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission).
3(g)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated August 1, 1994 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended September 30, 1994, filed November 14, 1994 with the Securities and Exchange Commission).
3(h)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated December 9, 1998 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1998, filed March 31, 1999 with the Securities and Exchange Commission).
3(i)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).
3(j)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 10, 2006 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q, Quarterly Report for the quarter ended June 30, 2006, filed August 9, 2006 with the Securities and Exchange Commission).
3(k)	Amended and Restated Bylaws of City Holding Company , revised February 28, 2007 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2007 with the Securities and Exchange Commission).

- 3(l) **Amended and Restated Bylaws of City Holding Company**, revised February 24, 2010 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2010 with the Securities and Exchange Commission).
- 4(b) **Amendment No. 1 to the Rights Agreement** dated as of November 30, 2005 (attached to, and incorporated by reference from City Holding Company's Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).
- 10(a) **Directors' Deferred Compensation Plan for the Directors of the Bank of Raleigh**, dated January 1987 (attached to and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(b) **Form of Deferred Compensation Agreement for the Directors of the National Bank of Summers**, dated January 15, 1987 (attached to and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(c) **City Holding Company's 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, Exhibit 4.1 to City Holding Company's Registration Statement on Form S-8, Registration No. 333-87667, filed with the Securities and Exchange Commission on September 23, 1999).
- 10(d) **Amendment No. 1 to City Holding Company's 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, Exhibit 4.2 to City Holding Company's Registration Statement on Form S-8, Registration No. 333-87667, filed with the Securities and Exchange Commission on September 23, 1999).
- 10(e) **Amendment No. 2 to City Holding Company's 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended June 30, 2002, filed August 14, 2002 with the Securities and Exchange Commission).
- 10(f) **City Holding Company's 2003 Incentive Plan** (attached to, and incorporated by reference from, City Holding Company's Definitive Proxy Statement, filed March 21, 2003 with the Securities and Exchange Commission).
- 10(g) **Form of Employment Agreement**, dated as of July 25, 2007, by and between City Holding Company and Charles R. Hageboeck, Ph.D. (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).
- 10(h) **Form of Employment Agreement**, dated as of July 25, 2007, by and between City Holding Company and Craig G. Stilwell (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).
- 10(i) **Form of Change of Control Agreement**, dated February 1, 2005, by and between City Holding Company and David L. Bumgarner (attached to and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(j) **Form of Change in Control and Termination Agreement**, dated June 28, 2004, by and between City Holding Company and John A. DeRito (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 2005, filed March 7, 2006 with the Securities and Exchange Commission).
- 10(k) **Amended and Restated Declaration of Trust City Holding Capital Trust III**, dated as of March 27, 2008 (attached and incorporated by reference from, City Holding Company's Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).
- 10(l) **Junior Subordinated Indenture**, dated as of March 27, 2008, between City Holding Company and Wells Fargo, National Association, as Trustee (attached and incorporated by reference from,

- City Holding Company's Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).
- 10(m) **City Holding Company Guarantee Agreement**, dated as of March 27, 2008 (attached and incorporated by reference from, City Holding Company's Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).
- 10(n) **Amendment to Employment Agreement**, dated December 19, 2011, by and among City Holding Company, City National Bank of West Virginia and Charles R. Hageboeck (attached to and incorporated by reference from City Holding Company's Form 8-K filed on December 21, 2011, with the Securities and Exchange Commission).
- 10(o) **Amendment to Employment Agreement**, dated December 19, 2011, by and among City Holding Company, City National Bank of West Virginia and Craig G. Stilwell (attached to and incorporated by reference from City Holding Company's Form 8-K filed on December 21, 2011, with the Securities and Exchange Commission).
- 13 Portions of City Holding Company Annual Report to Shareholders for Year Ended December 31, 2011.
- 21 Subsidiaries of City Holding Company
- 23 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
- 24 Power of Attorney (included on the signature page hereof)
- 31(a) Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.
- 31(b) Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner
- 32(a) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.
- 32(b) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner

SELECTED FINANCIAL DATA

TABLE ONE
FIVE-YEAR FINANCIAL SUMMARY

(in thousands, except per share data)

	2011	2010	2009	2008	2007
Summary of Operations					
Total interest income	\$ 112,888	\$ 121,916	\$ 132,036	\$ 147,673	\$ 157,315
Total interest expense	20,758	27,628	36,603	45,918	60,276
Net interest income	92,130	94,288	95,433	101,755	97,039
Provision for loan losses	4,600	7,093	6,994	10,515	5,327
Total other income	54,860	48,939	51,983	21,936	56,136
Total other expenses	81,141	78,721	77,244	75,580	71,036
Income before income taxes	61,249	57,413	63,178	37,596	76,812
Income tax expense	20,571	18,453	20,533	9,487	25,786
Net income available to common shareholders	40,678	38,960	42,645	28,109	51,026
Per Share Data					
Net income basic	\$ 2.68	\$ 2.48	\$ 2.69	\$ 1.74	\$ 3.02
Net income diluted	2.67	2.47	2.68	1.74	3.01
Cash dividends declared	1.37	1.36	1.36	1.36	1.24
Book value per share	21.05	20.31	19.45	17.90	18.21
Selected Average Balances					
Total loans	\$ 1,899,388	\$ 1,820,588	\$ 1,797,115	\$ 1,743,846	\$ 1,717,756
Securities	454,513	507,915	501,475	458,446	512,061
Interest-earning assets	2,391,484	2,348,258	2,304,053	2,210,236	2,257,447
Deposits	2,221,414	2,190,324	2,136,949	2,015,075	1,996,104
Long-term debt	16,495	16,876	18,286	21,506	24,476
Shareholders' equity	316,161	316,030	294,583	303,189	301,639
Total assets	2,701,720	2,654,497	2,608,750	2,502,411	2,511,992
Selected Year-End Balances					
Net loans	\$ 1,953,694	\$ 1,846,776	\$ 1,773,893	\$ 1,790,180	\$ 1,749,622
Securities	396,175	453,585	513,931	459,657	417,016
Interest-earning assets	2,374,804	2,334,921	2,309,884	2,276,119	2,193,829
Deposits	2,221,268	2,171,375	2,163,722	2,041,130	1,990,081
Long-term debt	16,495	16,495	16,959	19,047	4,973
Shareholders' equity	311,134	314,861	308,902	285,463	295,161
Total assets	2,777,109	2,637,295	2,622,620	2,586,403	2,482,949
Performance Ratios					
Return on average assets	1.51%	1.47%	1.63%	1.12%	2.03%
Return on average equity	12.87	12.33	14.48	9.27	16.92
Return on average tangible common equity	15.66	15.02	17.95	11.44	20.99
Net interest margin	3.89	4.06	4.18	4.64	4.34
Efficiency ratio	55.87	52.93	49.99	46.27	45.93
Dividend payout ratio	51.12	54.84	50.56	78.16	41.06
Asset Quality					
Net charge-offs to average loans	0.18%	0.41%	0.59%	0.33%	0.18%
Provision for loan losses to average loans	0.24	0.39	0.39	0.60	0.31
Allowance for loan losses to nonperforming loans	87.76	156.39	132.02	85.72	103.40
Allowance for loan losses to total loans	0.98	0.98	1.03	1.22	0.98
Consolidated Capital Ratios					
Total	14.07%	14.81%	14.44%	13.46%	15.11%
Tier I Risk-based	13.12	13.88	13.46	12.27	14.12
Tier I Leverage	10.18	10.54	10.10	9.47	10.31
Average equity to average assets	11.70	11.91	11.29	12.12	12.01
Average tangible equity to average tangible assets	9.82	9.98	9.31	10.05	9.91
Full-time equivalent employees	795	805	809	827	811

TWO-YEAR SUMMARY OF COMMON STOCK PRICES AND DIVIDENDS

	Cash Dividends Per Share*	Market Value	
		Low	High
2011			
Fourth Quarter	\$ 0.35	\$ 26.06	\$ 35.10
Third Quarter	0.34	26.82	33.96
Second Quarter	0.34	30.55	36.37
First Quarter	0.34	33.79	37.22
2010			
Fourth Quarter	\$ 0.34	\$ 30.37	\$ 38.03
Third Quarter	0.34	26.87	31.15
Second Quarter	0.34	27.88	37.28
First Quarter	0.34	30.37	34.92

*As more fully discussed under the caption *Liquidity* in Management's Discussion and Analysis and in Note Nineteen of the 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").

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 financial holding company and a bank holding company that provides diversified financial products and services to consumers and local businesses. Through its network of 68 banking offices in West Virginia (57), 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 and the top two relative to branch 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

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, 2011, there were 2,802 shareholders of record.

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 the 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, 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. The Company's business activities are currently limited to one reportable business segment, which is community banking.

Pages 14-18 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

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

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.

Page 9 of this Annual Report to Shareholders provides 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 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, 2008 through 2011. The Company and its subsidiary's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2008 through 2011.

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, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) 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 fair values of these investments along with the financial strength of the issuers behind these securities, as well as its entire investment portfolio. Based on the market information available, the Company believes that the recent declines in fair

value are temporary and that the Company does not have the intent to sell any of the securities classified as available for sale and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. 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 additional impairment charges in future periods.

As a result of this review, the Company recognized \$1.3 million of credit-related net investment impairment charges during 2011. The charges deemed other than temporary were related to pooled bank trust preferreds with a remaining book value of \$3.4 million and community bank and bank holding company equity positions with remaining book value of \$3.9 million at December 31, 2011.

FAIR VALUE MEASUREMENTS

The Company determines the fair value of its financial instruments based on the fair value hierarchy established in FASB ASC Topic 820, whereby the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC Topic 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The hierarchy classification is based on whether the inputs in the methodology for determining fair value are observable or unobservable. Observable inputs reflect market-based information obtained from independent sources (Level 1 or Level 2), while unobservable inputs reflect management's estimate of market data (Level 3). Assets and liabilities that are actively traded and have quoted prices or observable market data require a minimal amount of subjectivity concerning fair value. Management's judgment is necessary to estimate fair value when quoted prices or observable market data are not available.

At December 31, 2011, approximately 18.9% of total assets, or \$525.8 million, consisted of financial instruments recorded at fair value. Of this total, approximately 99.6% or \$523.8 million of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 0.4% or \$2.0 million of these financial instruments were valued using unobservable market information or Level 3 measurements. The financial instruments valued using unobservable market information were pooled trust preferred investment securities classified as available-for-sale. At December 31, 2011, approximately \$11.5 million of total liabilities were recorded at fair value using methodologies involving observable market data. The Company does not believe that any changes in the

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

unobservable inputs used to value the financial instruments mentioned above would have a material impact on the Company's results of operations, liquidity, or capital resources. See Note Twenty of the Notes to Consolidated Financial Statements for additional information regarding ASC Topic 820 and its impact on the Company's financial statements.

FINANCIAL SUMMARY

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

	2011	2010	2009
Net income (<i>in thousands</i>)	\$ 40,678	\$ 38,960	\$ 42,645
Earnings per share, basic	\$ 2.68	\$ 2.48	\$ 2.69
Earnings per share, diluted	\$ 2.67	\$ 2.47	\$ 2.68
ROA*	1.51%	1.47%	1.63%
ROE*	12.87%	12.33%	14.48%
ROATCE*	15.66%	15.02%	17.95%

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

The Company's net income increased \$1.7 million from 2010 primarily as a result a \$2.5 million decline in the provision for loan losses and an increase of \$5.9 million in noninterest income due to lower net investment security losses and higher gains on sales of investment securities. These were partially offset by increased noninterest expenses of \$2.4 million from 2010, due primarily to increased legal and professional fees and salaries and benefits (see *Noninterest Income and Expense* for more analysis of these fluctuations).

The Company's tax equivalent net interest income decreased \$2.2 million, or 2.3%, from \$95.3 million in 2010 to \$93.1 million in 2011. This decline is due to a decrease of \$3.4 million in interest income associated with the gain from the sale of interest rate floors as well as a decrease of \$0.9 million in interest income from the Company's previously securitized loans (PSLs). These declines were partially offset by the decrease in interest expense exceeding the decline in interest income for 2011 by \$1.7 million and the receipt of \$0.4 million of previously deferred interest income from a

trust preferred security. The Company's reported net interest margin declined from 4.06% for the year ended December 31, 2010 to 3.89% for the year ended December 31, 2011 (see *Net Interest Income*). The Company's provision for loan losses decreased \$2.5 million from \$7.1 million in 2010 to \$4.6 million in 2011 (see *Allowance and Provision for Loan Losses*).

BALANCE SHEET ANALYSIS

Total loans increased \$108.1 million, or 5.8%, from December 31, 2010, due to increases in commercial real estate loans of \$70.4 million (10.6%), residential real estate loans of \$28.2 million (4.6%) and home equity loans of \$16.8 million (4.0%).

Total investment securities decreased \$57.4 million, or 12.7%, from \$453.6 million at December 31, 2010, to \$396.2 million at December 31, 2011. The decrease in the securities portfolio in 2011 was related primarily to funding loan growth during 2011.

Total deposits increased \$49.9 million, or 2.3%, from \$2.17 billion at December 31, 2010 to \$2.22 billion at December 31, 2011. This growth was due to increases in savings deposits of \$42.8 million, interest bearing demand deposits of \$40.1 million, and noninterest bearing demand deposits of \$31.1 million that were partially offset by a decrease in time deposits of \$64.1 million.

Short-term debt balances increased \$76.3 million, or 67.7%, from December 31, 2010 to December 31, 2011. This increase was primarily attributable to an increase in federal funds purchased.

Long-term debt balances remained flat at \$16.5 million.

Other liabilities increased \$17.3 million, or 79.2%, from 2010 to 2011. This increase was a result of a \$9.4 million increase in the Company's derivative relationships (consisting of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies), a \$3.0 million increase in the Company's litigation reserve and a \$3.1 million increase in income taxes payable (see *Income Taxes*).

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

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

	2011			2010			2009		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
ASSETS									
Loan portfolio ⁽¹⁾ :									
Residential real estate	\$ 618,976	\$ 29,349	4.74%	\$ 598,484	\$ 31,218	5.22%	\$ 595,518	\$ 33,559	5.64%
Home equity ⁽²⁾	421,484	19,599	4.65	405,539	21,263	5.24	392,077	23,909	6.10
Commercial, financial, and agriculture ⁽³⁾	812,401	37,955	4.67	765,634	39,163	5.12	756,745	41,614	5.50
Installment loans to individuals ⁽⁴⁾	46,167	3,375	7.31	49,724	3,796	7.63	49,733	4,158	8.36
Previously securitized loans	360	3,136	871.11	1,207	4,016	332.73	3,042	3,902	128.27
Total loans	1,899,388	93,414	4.92	1,820,588	99,456	5.46	1,797,115	107,142	5.96
Securities:									
Taxable	408,472	17,729	4.34	458,398	20,594	4.49	460,352	23,200	5.04
Tax-exempt ⁽⁵⁾	46,041	2,611	5.67	49,517	2,826	5.71	41,123	2,588	6.30
Total securities	454,513	20,340	4.48	507,915	23,420	4.61	501,475	25,788	5.14
Deposits in depository institutions	7,655	-	-	5,249	-	-	5,340	11	0.21
Federal funds sold	29,928	48	0.16	14,506	29	0.20	123	-	-
Total interest-earning assets	2,391,484	113,802	4.76	2,348,258	122,905	5.23	2,304,053	132,941	5.77
Cash and due from banks	58,247			53,384			51,655		
Premises and equipment	64,678			64,666			62,883		
Other assets	206,724			207,454			211,465		
Less: Allowance for loan losses	(19,413)			(19,265)			(21,306)		
Total assets	\$ 2,701,720			\$2,654,497			\$2,608,750		
LIABILITIES									
Interest-bearing demand deposits	\$ 493,433	\$ 895	0.18%	\$ 462,641	\$ 1,242	0.27%	\$ 428,342	\$ 1,703	0.40%
Savings deposits	420,212	1,023	0.24	389,385	1,016	0.26	373,476	1,746	0.47
Time deposits	927,789	17,876	1.93	983,310	24,350	2.48	1,006,146	31,781	3.16
Short-term borrowings	123,569	325	0.26	112,575	362	0.32	134,016	529	0.39
Long-term debt	16,495	639	3.87	16,876	658	3.90	18,286	844	4.62
Total interest-bearing liabilities	1,981,498	20,758	1.05	1,964,787	27,628	1.41	1,960,266	36,603	1.87
Noninterest-bearing demand deposits	379,980			354,988			328,985		
Other liabilities	24,081			18,692			24,916		
Shareholders' equity	316,161			316,030			294,583		
Total liabilities and shareholders' equity	\$ 2,701,720			\$ 2,654,497			\$ 2,608,750		
Net interest income		\$93,044			\$95,277			\$96,338	
Net yield on earning assets			3.89%			4.06%			4.18%

- (1) For purposes of this table, loans on nonaccrual status have been included in average balances and loans fees, which are immaterial, have been included in interest income.
- (2) Interest income includes \$632, \$2,494 and \$4,889 from interest rate floors for the years ended December 31, 2011, 2010, and 2009, respectively.
- (3) Interest income includes \$488, \$1,999 and \$4,811 from interest rate floors for the years ended December 31, 2011, 2010 and 2009 respectively.
- (4) Includes the Company's consumer and DDA overdrafts loan categories.
- (5) 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

2011 vs. 2010

The Company's tax equivalent net interest income decreased \$2.2 million, or 2.3%, from \$95.3 million in 2010 to \$93.1 million in 2011. This decline is due to a decrease in interest income associated with the gain from the sale of interest rate floors as well as a decrease in interest income from the Company's previously securitized loans ("PSLs").

During the year ended December 31, 2011, the Company recognized \$1.1 million of interest income compared to \$4.5 million of interest income recognized during the year ended December 31, 2010 from the interest rate floors. For the year ended December 31, 2011, the Company recognized \$3.1 million of interest income compared to \$4.0 million of interest income recognized in the year ended December 31, 2010 from the PSLs.

These declines were partially offset by the decrease in interest expense exceeding the decline in interest income from 2010 resulting in an increase in tax equivalent net income of approximately \$1.7 million. The decline in interest expense is largely due to the average interest rate paid on interest-bearing liabilities declining from 1.41% for the year ended December 31, 2010 to 1.05% for the year ended December 31, 2011 and an increase of \$79 million in the average balance of loans for the year ended December 31, 2011 compared to the year ended December 31, 2010.

The Company's reported net interest margin decreased to 3.89% for the year ended December 31, 2011 as compared to 4.06% for the year ended December 31, 2010.

Average earning assets increased \$43.2 million from 2010 to 2011 with increases attributable to commercial loans, residential real estate, home equity loans and federal funds sold. Average commercial loans increased \$46.8 million, residential real estate loans increased \$20.5 million, home equity loans increased \$15.9 million and federal funds sold increased \$15.4 million. Average liabilities increased \$47.1 million from 2010 as increases in interest-bearing demand deposits (\$30.8 million), savings deposits (\$30.8 million), non-interest bearing demand deposits (\$25.0 million), and short-term borrowings (\$11.0 million) were partially offset by decreases in time deposits (\$55.5 million).

2010 vs. 2009

The Company's tax equivalent net interest income decreased \$1.0 million, or 1.1%, from \$96.3 million in 2009 to \$95.3 million in 2010. This decline is due to a decrease in interest income associated with the gain from the sale of interest rate floors.

During the third and fourth quarters of 2008, the Company sold \$450 million of interest rate floors. The gain from sales of these interest rate floors of \$16.7 million is being recognized over the remaining lives of the various hedged loans – primarily prime-based commercial and home equity loans. During the year ended December 31, 2010, the Company recognized \$4.5 million of interest income compared to \$9.7 million of interest income recognized during the year ended December 31, 2009 from the interest rate floors.

This decline was partially offset by the decrease in interest expense exceeding the decline in interest income from 2009 resulting in an increase in tax equivalent net income of approximately \$3.1 million. In addition, the Company recognized \$1.1 million of additional interest income related to three of the six pools of previously securitized loans that had a negative carrying value due to actual recoveries that exceeded estimates and discount accretion previously recognized. As a result, the carrying value for these three pools was reduced to \$0 and future cash receipts related to these three pools will be recognized as interest income as received.

The Company's reported net interest margin decreased to 4.06% for the year ended December 31, 2010 as compared to 4.18% for the year ended December 31, 2009.

Average earning assets increased \$44.2 million from 2009 to 2010 with increases attributable to federal funds sold, home equity loans, commercial loans, and investments. Average federal funds sold increased \$14.4 million, home equity loans increased \$13.5 million, commercial loans increased \$8.9 million, and investments increased \$6.4 million. Average liabilities increased \$24.3 million from 2009 as increases in interest-bearing demand deposits (\$34.3 million), non-interest bearing demand deposits (\$26.0 million), and savings deposits (\$15.9 million) were partially offset by decreases in time deposits (\$22.8 million) and short-term borrowings (\$21.4 million).

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

TABLE THREE

RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE

(in thousands)

	2011 vs. 2010 Increase (Decrease) Due to Change In:			2010 vs. 2009 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
Interest-Earning Assets						
Loan portfolio:						
Residential real estate	\$ 1,069	\$ (2,938)	\$ (1,869)	\$ 167	\$ (2,508)	\$ (2,341)
Home equity	836	(2,500)	(1,664)	821	(3,467)	(2,646)
Commercial, financial, and agriculture	2,392	(3,600)	(1,208)	489	(2,940)	(2,451)
Installment loans to individuals	(272)	(149)	(421)	(1)	(361)	(362)
Previously securitized loans	(2,818)	1,938	(880)	(2,354)	2,468	114
Total loans	1,207	(7,249)	(6,042)	(878)	(6,808)	(7,686)
Securities:						
Taxable	(2,243)	(622)	(2,865)	(98)	(2,508)	(2,606)
Tax-exempt ⁽¹⁾	(198)	(17)	(215)	528	(290)	238
Total securities	(2,441)	(639)	(3,080)	430	(2,798)	(2,368)
Deposits in depository institutions	-	-	-	-	(11)	(11)
Federal funds sold	31	(12)	19	-	29	29
Total interest-earning assets	\$ (1,203)	\$ (7,900)	\$ (9,103)	\$ (448)	\$ (9,588)	\$ (10,036)
Interest-Bearing Liabilities						
Interest-bearing demand deposits	\$ 83	\$ (430)	\$ (347)	\$ 136	\$ (597)	\$ (461)
Savings deposits	80	(73)	7	74	(804)	(730)
Time deposits	(1,375)	(5,099)	(6,474)	(721)	(6,710)	(7,431)
Short-term borrowings	35	(72)	(37)	(85)	(82)	(167)
Long-term debt	(15)	(4)	(19)	(65)	(121)	(186)
Total interest-bearing liabilities	\$ (1,192)	\$ (5,678)	\$ (6,870)	\$ (661)	\$ (8,314)	\$ (8,975)
Net interest income	\$ (11)	\$ (2,222)	\$ (2,233)	\$ 213	\$ (1,274)	\$ (1,061)

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

NONINTEREST INCOME AND EXPENSE

2011 vs. 2010

During 2011, the Company realized investment gains of \$3.1 million from the sale of U.S. government agencies, mortgage backed securities and certain single issuer trust preferred securities, with remaining book values of \$6.0 million, \$232.8 million and \$66.1 million at December 31, 2011, respectively. In addition, the Company received full payment in 2011 on its investment in a single issuer bank trust preferred security, along with accrued interest that had previously been deferred, that the Company had previously recognized a credit-related net impairment charge of \$0.6 million during 2010. As a result of this repayment, the Company recognized an investment gain of \$0.6 million in 2011.

These gains were partially offset by \$1.3 million of credit-related net investment impairment losses. These charges deemed to be other-than-temporary were related to pooled

bank trust preferred securities (\$0.4 million credit-related net impairment losses) with remaining book value of \$3.4 million at December 31, 2011 and community bank and bank holding company equity positions (\$0.9 million credit-related net impairment losses) with remaining book value of \$3.9 million at December 31, 2011. The credit-related net impairment charges related to the pooled bank trust preferred securities 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 credit-related impairment charges of \$0.4 million were appropriate for the year ended December 31, 2011. During the year ended December 31, 2011, the Company recognized \$0.9 million of credit-related impairment charges on the Company's equity positions due to the length of time and the extent to which the market values of these

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

securities have been below the Company's cost basis in these positions.

Excluding net investment securities gains and losses, non-interest income decreased \$1.2 million to \$52.4 million for the year ended December 31, 2011 as compared to \$53.6 million for the year ended December 31, 2010. Service charges from depository accounts decreased \$1.9 million, or 4.7% to \$38.1 million for the year ended December 31, 2011 due to the changes from complying with Regulation E, a general decline in consumer spending, and implementation of "real time" authorization of all electronic transactions in the second quarter of 2010. Additionally, in anticipation of further guidance from its primary regulator, the Company ceased processing check transactions in high to low order during the fourth quarter of 2011. This decrease was partially offset by increases in insurance commissions (\$0.5 million) and trust and investment management fee income (\$0.3 million).

Non-interest expense increased \$2.4 million from \$78.7 million for the year ended December 31, 2010 to \$81.1 million for the year ended December 31, 2011. Legal and professional fees increased \$3.2 million and salaries and employee benefits increased \$2.5 million. Based on the Company's routine review of facts and circumstances related to pending litigation, the Company recorded a \$3.0 million litigation reserve accrual during the second quarter of 2011. These increases were partially offset by declines in advertising expenses, repossessed asset losses and FDIC insurance expense. Advertising expenses declined \$1.7 million, as the Company eliminated its debit card rewards in 2011 (\$1.0 million) and in the prior year, had increased its communications with its customer base regarding the passage of Regulation E, while repossessed asset losses decreased \$1.2 million due to the write down of a foreclosed property located in the eastern panhandle of West Virginia in 2010. In addition, FDIC insurance expense decreased \$1.2 million due to a change in the assessment base methodology required by the FDIC.

2010 vs. 2009

During 2010, the Company recorded \$6.1 million of credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferreds (\$1.8 million credit-related net impairment losses) with remaining book value of \$7.8 million at December 31, 2010; single issuer bank trust preferreds (\$0.7 million credit-related impairment losses) with a remaining book value of \$1.2 million at December 31, 2010; and community bank and bank holding company equity positions (\$3.6 million credit-related net impairment losses) with remaining book value of \$3.6 million at December 31, 2010. The credit-related net impairment charges related to the pooled bank trust preferred securities and single issuer bank trust preferred securities (Cascade Capital Trust I issued by Cascade Financial of

Everett, Washington) 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 credit-related impairment charges of \$1.8 million and \$0.7 million on the pooled bank trust preferred securities and single issuer bank trust preferred securities, respectively, were appropriate for the year ended December 31, 2010. During the year ended December 31, 2010, the Company recognized \$3.6 million of credit-related impairment charges on the Company's equity positions due to trends of poor financial performance over the last several quarters and the length of time and the extent to which the market values of these securities have been below the Company's cost basis in these positions. As a result of these factors, the Company does not expect the market value of these securities to recover in the near future. These losses were partially offset by the realized investment gains of \$1.4 million as the Company sold certain single issuer trust preferred securities with a remaining book value of \$75.3 million during the year ended December 31, 2010.

Exclusive of investment securities gains and losses, non-interest income decreased \$4.5 million to \$53.6 million for the year ended December 31, 2010 as compared to \$58.1 million for the year ended December 31, 2009. Service charges from depository accounts decreased \$5.0 million, or 11.1% to \$40.0 million for the year ended December 31, 2010. This decline is primarily attributable to the Company's compliance with new federal rules under the Electronic Funds Transfer Act, also known as Regulation E. The changes to this regulation affect how banks can provide certain overdraft services, and were effective July 1, 2010 for new customers and August 15, 2010 for existing accounts. This decrease was partially offset by an increase of \$0.4 million, or 18.1%, in trust and investment management fee income from \$2.4 million for the year ended December 31, 2009 compared to \$2.8 million for the year ended December 31, 2010.

Non-interest expense increased \$1.5 million from \$77.2 million for the year ended December 31, 2009 to \$78.7 million for the year ended December 31, 2010. Insurance and regulatory expense increased \$1.5 million, or 67.6%, from the year ended December 31, 2009 primarily as a result of the Company fully utilizing the balance of its FDIC credits during 2009 and increases in the general assessment rates during 2010, which increased the Company's FDIC insurance expense from \$2.2 million for the year ended December 31, 2009 to \$3.7 million for the year ended December 31, 2010. In addition, repossessed asset losses increased \$0.8 million and salaries and employee benefits increased \$0.7 million, or 1.9%, from the year ended December 31, 2009. The

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

repossessed asset losses were primarily due to the write down of a foreclosed property located in the eastern panhandle of West Virginia reflecting continued weakness in property values in this market. As a result of this write down, this foreclosed property is now valued at approximately one-half of its original cost. Partially offsetting these increases were decreases in other expenses of \$0.7 million or 7.2%, and bankcard expense of \$0.6 million or 24.9%. Other expenses decreased primarily due to a decrease of \$0.6 million of amortization expenses associated with low income housing tax credits.

INCOME TAXES

The Company recorded income tax expense of \$20.6 million, \$18.5 million, and \$20.5 million in 2011, 2010, and 2009, respectively. The Company's effective tax rates for 2011, 2010, and 2009 were 33.6%, 32.1%, and 32.5%, respectively. A reconciliation of the effective tax rate to the statutory rate is included in Note Fourteen of the 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 \$29.2 million at December 31, 2010 to \$32.2 million at December 31, 2011. The components of the Company's net deferred tax assets are disclosed in Note Fourteen of the 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. The deferred tax asset and/or liability associated with unrealized securities losses is the tax impact of the unrealized gains and/or losses on the Company's available for sale security portfolio. At December 31, 2011 and 2010, the Company had a deferred tax liability of \$0.5 million and \$0.6 million, respectively, associated with unrealized securities gains. The impact of the Company's unrealized gains and/or losses is noted in the Company's Consolidated Statements of Changes in Shareholders' Equity as an adjustment to Accumulated Other Comprehensive Income (Loss). The deferred tax liability at December 31, 2011, would be realized if the unrealized gains 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 \$6.8 million at December 31, 2010 to \$7.3 million at December 31, 2011. 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 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 increased from \$6.5 million at December 31, 2010 to \$6.7 million at December 31, 2011. As discussed in Note Seven of the Notes to Consolidated Financial Statements, the Company had net recoveries on previously securitized loans of \$0.1 million during 2011 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, 2011 or 2010.

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

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

interest rate environment. Such analyses quantify the effects of various interest rate scenarios on projected net interest income.

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase or decrease of 400 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity. 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 were being recognized over the remaining lives of the various hedged loans, which ended June 2011. Please refer to Notes One and Thirteen of the 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 estimates 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
2011:			
+400	4.25%	+16.0%	+20.3%
+300	3.25	+10.4	+16.4
+200	2.25	+5.6	+11.2
+100	1.25	+0.8	+5.1

2010:

+400	4.25%	+16.0%	+15.7%
+300	3.25	+10.9	+12.9
+200	2.25	+6.2	+8.4
+100	1.25	+0.9	+3.2

These estimates are highly dependent upon assumptions made by management, including, but not limited to, assumptions regarding the manner in which interest-bearing demand deposit and saving deposit accounts reprice in different interest rate scenarios, pricing behavior of competitors, prepayments of loans and deposits under alternative rate environments, and new business volumes and pricing. As a result, there can be no assurance that the estimates above will be achieved in the event that interest rates increase during 2012 and beyond. The estimates above do not necessarily imply that the Company will experience increases in net income if market interest rates rise. The table above indicates how the Company's net income 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 estimates above, the Company believes that its net income is positively correlated with increasing rates as compared to the level of net income the Company would expect if interest rates remain flat.

LIQUIDITY

The Company evaluates the adequacy of liquidity at both the 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. At December 31, 2011, City National could pay dividends up to \$22.7 million plus net profits for 2012, as defined by statute, up to the dividend declaration date without prior regulatory permission.

During 2011, 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 One of the Notes to Consolidated Financial Statements, on page 59.

The Parent Company anticipates continuing the payment of dividends, which would approximate \$20.7 million on an annualized basis for 2012 based on common shareholders of record at December 31, 2011 and a dividend rate of \$1.40 for 2012. In addition to these anticipated cash needs for 2012, the Parent Company has operating expenses and other contractual

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

obligations, which are estimated to require \$0.6 million of additional cash over the next 12 months. As of December 31, 2011, the Parent Company reported a cash balance of approximately \$2.6 million and management believes that the Parent Company's available cash balance, together with cash dividends from City National will be adequate to satisfy its funding and cash needs over the next twelve months.

Excluding the interest and dividend payments discussed above, the Parent Company has no significant commitments or obligations in years after 2012 other than the repayment of its \$16.5 million obligation under the debentures held by City Holding Capital Trust III. However, this obligation does not mature until June 2038, or earlier at the option of the Parent Company. It is expected that the Parent Company will be able to obtain the necessary cash, either through dividends obtained from City National or the issuance of other debt, to fully repay the debentures at their maturity. 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, 2011, City National's assets are significantly funded by deposits and capital. Additionally, 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, 2011, City National has the capacity to borrow an additional \$771.1 million from the FHLB of Pittsburgh and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systematic financial industry crisis. Additionally, City National maintains a significant percentage (91.1%, or \$360.8 million, at December 31, 2011) of its investment securities portfolio in the highly liquid available-for-sale classification. Although it has no current intention to do so, these securities could be liquidated, if necessary, to provide an additional funding source. City National also segregates certain mortgage loans, mortgage-backed securities, and other investment securities in a separate subsidiary so that it can separately monitor the asset quality of these primarily mortgage-related assets, which could be used to raise cash through securitization transactions or obtain additional equity or debt financing if necessary.

The Company manages its asset and liability mix to balance its desire to maximize net interest income against its desire to minimize risks associated with capitalization, interest rate volatility, and liquidity. With respect to liquidity, the Company has chosen a conservative posture and believes that its liquidity position is strong. As illustrated in the Consolidated Statements of Cash Flows, the Company generated \$56.0 million of cash from operating activities during 2011, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings.

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 \$396.2 million at December 31, 2011, and that greatly exceeded the Company's non-deposit sources of borrowing which totaled \$205.5 million.

The Company primarily funds its assets with deposits, which fund 80.0% of total assets as compared to 65.8% for its peers. Further, the Company's deposit mix has a high proportion of transaction and savings accounts that fund 48.1% of the Company's total assets. And, the Company uses fewer time deposits over \$100,000 than its peers, funding just 9.9% 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 decreased from \$453.6 million at December 31, 2010 to \$396.2 million at December 31, 2011. This decrease was primarily related to funding increases in loan balances.

The investment portfolio remains highly liquid at December 31, 2011, with 91.1% 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

<i>(in thousands)</i>	Carrying Values as of December 31		
	2011	2010	2009
Securities Available-for-Sale:			
States and political subdivisions	\$ 56,802	\$ 65,926	\$ 52,735
US Treasuries and US government agencies	6,041	8,002	11
Mortgage-backed securities:			
US government agencies	227,613	258,815	302,783
Private label	5,156	8,118	11,988
Trust preferred securities	45,157	54,610	63,737
Corporate securities	14,398	15,393	19,488
Total debt securities available-for-sale	355,167	410,864	450,742
Marketable equity securities	3,853	4,693	5,094
Investment funds	1,763	1,610	16,908
Total Securities Available-for-Sale	360,783	417,167	472,744
Securities Held-to-Maturity:			
States and political subdivisions	-	438	1,642
Other debt securities	23,458	23,427	26,522
Total Securities Held-to-Maturity	23,458	23,865	28,164
Other Investment Securities:			
Non-marketable equity securities	11,934	12,553	13,023
Total Other Investment Securities	11,934	12,553	13,023
Total Securities	\$ 396,175	\$ 453,585	\$ 513,931

Included in non-marketable equity securities in the table above at December 31, 2011 are \$5.2 million of Federal Home Loan Bank stock and \$6.7 million of Federal Reserve Bank

stock. At December 31, 2011, there were no securities of any non-governmental issuers whose aggregate carrying or market value exceeded 10% of shareholders' equity.

<i>(dollars in thousands)</i>	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	\$ 8,924	3.50%	\$ 19,760	5.39%	\$ 15,730	6.01%	\$ 12,388	7.49%
US Treasuries and US government agencies	-	-	6,033	2.54	8	1.28	-	-
Mortgage-backed securities:								
US government agencies	123	3.51	15,709	1.50	28,698	4.47	183,083	3.41
Private label	-	-	-	-	1,921	4.65	3,235	4.70
Trust preferred securities	-	-	-	-	-	-	45,157	7.53
Corporate securities	-	-	3,408	3.58	6,533	4.02	4,457	6.50
Total debt securities available-for-sale	9,047	3.50	44,910	3.51	52,890	4.88	248,320	4.43
Securities Held-to-Maturity:								
Trust preferred securities	-	-	-	-	-	-	23,458	8.68
Total debt securities held-to-maturity	-	-	-	-	-	-	23,458	8.68
Total debt securities	\$ 9,047	3.50%	\$ 44,910	3.51%	\$ 52,890	4.88%	\$271,778	4.80%

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

Weighted-average yields on tax-exempt obligations of states and political subdivisions have been computed on a taxable-equivalent basis using the federal statutory tax rate of 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.

LOANS

TABLE FIVE LOAN PORTFOLIO

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

<i>(in thousands)</i>	2011	2010	2009	2008	2007
Residential real estate	\$ 638,585	\$ 610,369	\$ 595,678	\$ 611,962	\$ 602,057
Home equity	433,000	416,172	398,752	384,320	341,818
Commercial and industrial ⁽¹⁾	130,899	134,612	137,093	161,588	141,245
Commercial real estate ⁽¹⁾	732,146	661,758	614,959	606,667	566,742
Loans to depository institutions	-	-	-	-	60,000
Consumer ⁽¹⁾	35,845	38,424	41,684	41,000	44,585
DDA overdrafts ⁽¹⁾	2,628	2,876	2,555	2,585	3,682
Previously securitized loans	-	789	1,713	4,222	6,892
Gross loans	\$ 1,973,103	\$ 1,865,000	\$ 1,792,434	\$ 1,812,344	\$ 1,767,021

(1) Certain prior year loan amounts have been reclassified to conform with the adoption of ASU No. 2010-20, "Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

During 2011, commercial and industrial loans decreased \$3.7 million from \$134.6 million at December 31, 2010 to \$130.9 million at December 31, 2011. Commercial real estate loans increased \$70.3 million, or 10.6%, from \$661.8 million at December 31, 2010, to \$732.1 million at December 31, 2011. This increase was primarily attributable to the Company's ability to attract new commercial relationships, in part from its Charlotte, NC, loan production office. At December 31, 2011, \$20.2 million of the commercial real estate loans were for commercial properties under construction.

Residential real estate loans increased \$28.2 million, or 4.6%, from \$610.4 million at December 31, 2010 to \$638.6 million at December 31, 2011. 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. At December 31, 2011, \$9.2 million of the residential real estate loans were for properties under construction. Home equity loans increased \$16.8 million, or 4.0%, from \$416.2 million at December 31, 2010, to \$433.0 million at December 31, 2011. Home equity loans consist of loans and revolving lines credits to customers that are secured by first or second liens on primary residences. Home equity lines of credit are generally limited to an amount in relation to the market value of the property, net of the first mortgage, if any, which generally cannot exceed 89% of the property value. At December 31, 2011, approximately 68% of the Company's

home equity loans was in a first lien position. Our mortgage products do not include sub-prime, interest only, or option adjustable rate mortgage products.

Consumer loans decreased \$2.6 million, or 6.7%, from \$38.4 million at December 31, 2010 to \$35.8 million at December 31, 2011, while DDA overdrafts decreased \$0.2 million from December 31, 2010.

As of December 31, 2011, the Company reported less than \$0.1 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 *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. As of January 1, 2012, the recorded investment in these loans was \$0.

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

The following table shows the scheduled maturity of loans outstanding as of December 31, 2011:

(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Residential real estate	\$ 131,138	\$ 317,669	\$ 189,778	\$ 638,585
Home equity	87,456	215,521	130,023	433,000
Commercial and industrial	74,816	51,808	4,275	130,899
Commercial real estate	170,453	432,433	129,260	732,146
Consumer	18,195	20,200	78	38,473
Total loans	<u>\$ 482,058</u>	<u>\$ 1,037,631</u>	<u>\$ 453,414</u>	<u>\$ 1,973,103</u>

Loans maturing after one year with interest rates that are:

Fixed until maturity	\$ 255,349
Variable or adjustable	<u>1,235,696</u>
Total	<u>\$ 1,491,045</u>

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.

The Company had net charge-offs of \$3.4 million for the year ended December 31, 2011 compared to \$7.4 million for the year ended December 31, 2010. The decrease was primarily due to the Company receiving life insurance proceeds as the beneficiary of a life insurance policy carried by one of the Company's commercial borrowers during the third quarter of 2011. The Company had previously placed several loans to this customer on non-accrual status and recorded charge-offs related to these credits. The life insurance proceeds satisfied the customer's remaining outstanding balances and also enabled the Company to recover \$1.9 million of the previously recorded charge-offs. Net charge-offs on residential real estate loans, commercial and industrial loans, and overdrawn depository accounts were \$2.4 million, \$0.5 million and \$0.5 million, respectively, for the year ended December 31, 2011. Overdrawn depository account charge-offs decreased in 2011 due to a specific, nonrecurring depository overdraft loss during the fourth quarter of 2010 that was appropriately considered in the Company's normal process for estimating the allowance for loan losses and recognizing charge-offs. While charge-offs on depository accounts are appropriately taken against the allowance for loan losses, 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 1.12% at December 31, 2010 to 1.52% at December 31, 2011, primarily due to a large commercial relationship (approximately \$9.7 million) whose performance deteriorated during the first quarter of 2011 and was placed on nonaccrual status. Based on our analysis, the Company believes that the allowance allocated to impaired 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, 2011.

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

The allowance allocated to the commercial and industrial loan portfolio decreased \$1.3 million, or 68.3%, from \$1.9 million at December 31, 2010 to \$0.6 million at December 31, 2011. This decrease is primarily related to recent trends in the commercial and industrial loan portfolio as well as a decrease in the balance of the commercial and industrial loan portfolio.

The allowance allocated to the commercial real estate loan portfolio increased \$3.2 million, or 37.4%, from \$8.5 million at December 31, 2010 to \$11.7 million at December 31, 2011. This increase was primarily related to four relationships that became impaired during 2011. Due to the Company's review and evaluation of these relationships, the allowance for impaired loans increased \$2.6 million from \$0.1 million at December 31, 2010 to \$2.7 million at December 31, 2011.

The allowance allocated to the residential real estate portfolio decreased from \$4.1 million at December 31, 2010 to \$3.6 million at December 31, 2011. The allowance allocated to the home equity portfolio increased slightly, from \$2.6 million at December 31, 2010 to \$2.8 million at December 31, 2011. These fluctuations were primarily related to recent trends in the respective portfolios.

The allowance allocated to the consumer loan portfolio remained the same, at \$0.1 million at both December 31, 2011 and 2010.

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 allowance allocated to DDA overdrafts declined slightly from \$1.0 million at December 31, 2010 to \$0.7 million at December 31, 2011. This decrease was due to lower charge-offs of DDA overdraft accounts. As reflected in Table Six, the Company reported net charge-offs on depository accounts of \$0.5 million and \$2.1 million during 2011 and 2010, respectively. As of December 31, 2011, the balance of overdraft deposit accounts was \$2.6 million.

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 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. No additions to the provision for loan losses related to previously securitized loans were recorded in 2011.

Based on management's analysis of the adequacy of the allowance for loan losses during 2011, management determined it was appropriate to record a provision for loan losses of \$4.6 million. Changes in the amount of the allowance and related provision for loan losses are based on the Company's detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company's loan portfolio. The Company believes that its methodology for determining the adequacy of its allowance for loan losses adequately provides for probable losses inherent in the loan portfolio at December 31, 2011 and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience. 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, 2011, 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.

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

TABLE SIX
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

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

<i>(in thousands)</i>	2011	2010	2009	2008	2007
Balance at beginning of year	\$ 18,224	\$ 18,541	\$ 22,164	\$ 17,399	\$ 15,246
Charge-offs:					
Commercial and industrial ⁽¹⁾	522	73	530	98	106
Commercial real estate ⁽¹⁾	1,989	3,304	7,219	2,966	408
Residential real estate ⁽¹⁾	1,367	1,607	1,195	758	558
Home equity ⁽¹⁾	1,089	930	721	832	448
Consumer	164	86	265	243	343
DDA overdrafts	1,712	3,638	2,886	3,151	3,789
Totals	6,843	9,638	12,816	8,048	5,652
Recoveries:					
Commercial and industrial ⁽¹⁾	23	27	102	25	97
Commercial real estate ⁽¹⁾	1,981	415	133	13	134
Residential real estate ⁽¹⁾	29	74	102	84	62
Home equity ⁽¹⁾	7	26	20	139	25
Consumer	136	129	222	296	416
DDA overdrafts	1,252	1,557	1,620	1,741	1,744
Totals	3,428	2,228	2,199	2,298	2,478
Net charge-offs	(3,415)	(7,410)	(10,617)	(5,750)	(3,174)
Provision for loan losses	4,600	7,093	6,994	10,515	5,327
Balance at end of year	\$ 19,409	\$ 18,224	\$ 18,541	\$ 22,164	\$ 17,399
As a Percent of Average Total Loans					
Net charge-offs	0.18%	0.41%	0.59%	0.33%	0.18%
Provision for loan losses	0.24	0.39	0.39	0.60	0.31
As a Percent of Nonperforming and Potential Problem Loans					
Allowance for loan losses	87.76%	156.39%	133.06%	86.07%	104.49%

(1) Certain prior year amounts have been reclassified to conform with the adoption of ASU No. 2010-20, "Receivables (Topic 830) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

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

Nonperforming assets at December 31 follows:

<i>(in thousands)</i>	2011	2010	2009	2008	2007
Non-accrual loans	\$ 21,951	\$ 10,817	\$ 13,583	\$ 25,224	\$ 16,437
Accruing loans past due 90 days or more	166	782	382	623	314
Previously securitized loans past due 90 days or more	-	54	79	10	76
	\$ 22,117	\$ 11,653	\$ 14,044	\$ 25,857	\$ 16,827

Nonperforming loans increased primarily due to a large commercial relationship (approximately \$9.7 million) whose performance deteriorated during 2011 and was placed on non-accrual status. Based on the Company's analysis, it believes that the allowance allocated to impaired loans, after

considering the fair value of the collateral securing such loans, is adequate at December 31, 2011.

The Company recognized approximately \$0.6 million, \$0.4 million, and \$0.2 million of interest income received in cash

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

on non-accrual and impaired loans in 2011, 2010 and 2009, respectively. Approximately \$0.8 million, \$0.5 million, and \$0.9 million of interest income would have been recognized during 2011, 2010 and 2009, 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, 2011 and 2010. The company recognized interest income of \$0.6 million, \$0.4 million and \$0.2 million using the accrual method of income recognition during the time period the loans were impaired for 2011, 2010 and 2009, respectively.

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.

Information pertaining to impaired loans at December 31 is included in the following table:

<i>(in thousands)</i>	2011	2010
Impaired loans with a valuation allowance	\$ 19,200	\$ 6,869
Impaired loans with no valuation allowance	2,918	15,286
Total impaired loans	\$ 22,118	\$ 22,155
Allowance for loan losses allocated to impaired loans	\$ 3,488	\$ 1,408

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-02 whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

At December 31, 2011, the Company had one loan modification that was considered to be a TDR, which was less than \$0.3 million, relating to a commercial real estate loan. There was no material difference between the pre-modification and post-modification balances. The impact on the allowance for loan losses was insignificant. The TDR did not default during the year ended December 31, 2011.

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

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:

<i>(dollars in thousands)</i>	2011		2010		2009		2008		2007	
	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount
Commercial and industrial ⁽¹⁾	7%	\$ 590	7%	\$ 1,864	8%	\$ 2,069	9%	\$ 3,096	11%	\$ 1,616
Commercial real estate ⁽¹⁾	37	11,666	36	8,488	34	8,961	33	11,942	32	9,299
Residential real estate ⁽¹⁾	32	3,591	33	4,149	33	3,184	34	2,371	34	1,871
Home equity ⁽¹⁾	22	2,773	22	2,640	23	2,331	21	2,212	20	1,734
Consumer	2	88	2	95	2	191	3	190	3	347
DDA overdrafts	—	701	—	988	—	1,805	—	2,353	—	2,532
	100%	\$ 19,409	100%	\$ 18,224	100%	\$ 18,541	100%	\$ 22,164	100%	\$ 17,399

(1) Certain prior year amounts have been reclassified to conform with the adoption of ASU No. 2010-20, "Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

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 was generally less than the actual outstanding contractual balance of the loans. As of December 31, 2011 and 2010, the Company reported a carrying value of previously securitized loans of less than \$0.1 million and \$0.8 million, respectively, while the actual outstanding contractual balance of these loans was \$9.8 million and \$12.1 million, respectively. For a further discussion of the accounting policies for previously securitized loans, please see Note One of the Notes to Consolidated Financial Statements. During

2011, 2010, and 2009, the Company recognized \$3.1 million, \$4.0 million, and \$3.9 million, respectively, of interest income on its previously securitized loans.

Cash receipts for 2011, 2010, and 2009 are summarized in the following table:

<i>(in thousands)</i>	2011	2010	2009
Principal receipts	\$ 1,232	\$ 2,997	\$ 4,147
Interest receipts	2,716	2,008	2,201
Total cash receipts	\$ 3,948	\$ 5,005	\$ 6,348

Summary: The following table summarizes the activity with the reported balance of previously securitized loans during 2011 and 2010:

<i>(in thousands)</i>	Previously Securitized Loans
Balance at December 31, 2009	\$ 1,713
Principal payments on mortgage loans received from borrowers	(1,907)
Discount accretion	983
Balance at December 31, 2010	\$ 789
Principal payments on mortgage loans received from borrowers	(1,232)
Discount accretion	443
Balance at December 31, 2011	\$ -

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

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 Notes to 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, 2011 and 2010, and no impairment was required to be recognized in 2011 or 2010 as the fair value of the Company continues to exceed its book value.

CERTIFICATES OF DEPOSIT

Scheduled maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2011, are summarized in Table Nine. The Company has time certificates of deposit of \$100,000 or more totaling \$275.7 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	\$ 44,529	16%
Over three months through six months	55,563	20
Over six months through twelve months	49,585	18
Over twelve months	126,072	46
Total	<u>\$275,749</u>	<u>100%</u>

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, 2011.

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

The composition of the Company's contractual obligations as of December 31, 2011 is presented in the following table:

TABLE TEN
CONTRACTUAL OBLIGATIONS

<i>(in thousands)</i>	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	\$ 369,025	\$ —	\$ —	\$ —	\$ 369,025
Interest-bearing demand deposits ⁽¹⁾	526,824	—	—	—	526,824
Savings deposits ⁽¹⁾	439,823	—	—	—	439,823
Time deposits ⁽¹⁾	499,743	289,629	96,185	39	885,596
Short-term borrowings ⁽¹⁾	189,050	—	—	—	189,050
Long-term debt ⁽¹⁾	—	—	—	16,495	16,495
Total Contractual Obligations	\$ 2,024,465	\$ 289,629	\$ 96,185	\$ 16,534	\$ 2,426,813

⁽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, 2011. 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.

The Company's liability for uncertain tax positions at December 31, 2011 was \$6.7 million pursuant to ASC Topic 740. 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 Seventeen of the 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, 2011 and 2010. As a result of the Company's off-balance sheet arrangements for 2011 and 2010, no material revenue, expenses, or cash flows were recognized. In addition, the Company had no other indebtedness or retained interests nor 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, 2011 and 2010.

CAPITAL RESOURCES

During 2011, Shareholders' Equity decreased \$3.8 million, or 1.2%, from \$314.9 million at December 31, 2010, to \$311.1 million at December 31, 2011. This decrease was due to cash dividends declared during 2011 of \$20.5 million and common stock purchases for treasury of \$23.8 million, partially offset by net income of \$40.7 million.

The Company repurchased 755,501 shares during 2011 at a weighted average price of \$31.49. 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.

Accumulated other comprehensive loss increased \$1.4 million, net of tax, during 2011 due to an increase in the Company's underfunded pension liability.

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.

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

The Company's regulatory capital ratios remained strong for both City Holding and City National as of December 31, 2011 and 2010, as illustrated in the following table:

	Minimum	Well-Capitalized	Actual	
			December 31 2011	2010
City Holding:				
Total	8.00%	10.00%	14.1%	14.8%
Tier I Risk-based	4.00	6.00	13.1	13.9
Tier I Leverage	4.00	5.00	10.2	10.5
City National:				
Total	8.00%	10.00%	13.0%	13.6%
Tier I Risk-based	4.00	6.00	12.0	12.7
Tier I Leverage	4.00	5.00	9.3	9.6

LEGAL ISSUES

City National is currently in a civil action pending in the Circuit Court of Kanawha County, West Virginia. This putative class action asserts that the plaintiffs, and others similarly situated, were wrongfully assessed overdraft fees in connection with City National Bank accounts. The plaintiffs allege that City National Bank's policy of posting debit and check transactions from high to low order was in violation of the West Virginia Consumer Credit and Protection Act, constituted a breach of the implied covenant of good faith and created an unjust enrichment to City National Bank.

On August 5, 2011, City National Bank and the plaintiffs' attorneys submitted a Preliminary Motion to Approve Settlement to the Kanawha County Circuit Court. The motion asked the Court to approve a settlement in which the Company will pay the eligible members of the class a total of \$3.0 million and would forgive and release \$2.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts. The parties have since agreed to revise the Preliminary Motion to Approve Settlement and now City National Bank will pay the eligible members of the class a total of \$3.4 million and will forgive and release \$3.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts. The Company has accrued for this probable loss as of December 31, 2011.

In addition, 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.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note One, "Recent Accounting Pronouncements," of the 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 could have adverse legal actions of a material nature; (4) the Company may face competitive loss of customers; (5) the Company may be unable to manage its expense levels; (6) the Company may have difficulty retaining key employees; (7) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (8) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (9) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (10) the Company may experience difficulties growing loan and deposit balances; (11) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (12) 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 (13) the effects of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") recently adopted by the United States Congress. 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, 2011 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, 2011, 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 23.

March 15, 2012

/s/ Charles R. Hageboeck
Charles R. Hageboeck
President and Chief Executive Officer

/s/ David L. Bumgarner
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, 2011, 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, 2011, 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, 2011 and 2010, 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, 2011 of City Holding Company and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 15, 2012

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, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 15, 2012

CONSOLIDATED BALANCE SHEETS

CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands)	December 31	
	2011	2010
Assets		
Cash and due from banks	\$ 140,873	\$ 50,043
Interest-bearing deposits in depository institutions	5,526	5,336
Federal Funds Sold	—	11,000
Cash and Cash Equivalents	146,399	66,379
Investment securities available-for-sale, at fair value	360,783	417,167
Investment securities held-to-maturity, at amortized cost (approximate fair value at December 31, 2011 and 2010 - \$23,423 and \$23,100, respectively)	23,458	23,865
Other securities	11,934	12,553
Total Investment Securities	396,175	453,585
Gross loans	1,973,103	1,865,000
Allowance for loan losses	(19,409)	(18,224)
Net Loans	1,953,694	1,846,776
Bank-owned life insurance	78,961	76,231
Premises and equipment	64,612	64,530
Accrued interest receivable	7,093	7,264
Net deferred tax assets	32,219	29,235
Goodwill and other intangible assets	56,164	56,573
Other assets	41,792	36,722
Total Assets	\$ 2,777,109	\$ 2,637,295
Liabilities		
Deposits:		
Noninterest-bearing	\$ 369,025	\$ 337,927
Interest-bearing:		
Demand deposits	526,824	486,737
Savings deposits	439,823	397,042
Time deposits	885,596	949,669
Total Deposits	2,221,268	2,171,375
Short-term borrowings:		
FHLB borrowings	—	375
Federal Funds purchased	75,000	—
Customer repurchase agreements	114,050	112,335
Long-term debt	16,495	16,495
Other liabilities	39,162	21,854
Total Liabilities	2,465,975	2,322,434
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, 2011 and 2010, less 3,717,993 and 2,994,501 shares in treasury, respectively	46,249	46,249
Capital surplus	103,335	103,057
Retained earnings	291,050	270,905
Cost of common stock in treasury	(125,593)	(102,853)
Accumulated other comprehensive loss:		
Unrealized gain on securities available-for-sale	825	1,022
Unrealized gain on derivative instruments	—	295
Underfunded pension liability	(4,732)	(3,814)
Total Accumulated Other Comprehensive Loss	(3,907)	(2,497)
Total Shareholders' Equity	311,134	314,861
Total Liabilities and Shareholders' Equity	\$ 2,777,109	\$ 2,637,295

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		
	2011	2010	2009
Interest Income			
Interest and fees on loans	\$ 93,414	\$ 99,456	\$ 107,142
Interest on investment securities:			
Taxable	17,729	20,594	23,200
Tax-exempt	1,697	1,837	1,683
Interest on deposits in depository institutions	—	—	11
Interest on federal funds sold	48	29	—
Total Interest Income	112,888	121,916	132,036
Interest Expense			
Interest on deposits	19,794	26,608	35,230
Interest on short-term borrowings	325	362	529
Interest on long-term debt	639	658	844
Total Interest Expense	20,758	27,628	36,603
Net Interest Income	92,130	94,288	95,433
Provision for loan losses	4,600	7,093	6,994
Net Interest Income After Provision for Loan Losses	87,530	87,195	88,439
Noninterest Income			
Total investment securities impairment losses	(2,767)	(9,400)	(11,100)
Noncredit impairment losses recognized in other comprehensive income	1,494	3,336	5,762
Net investment securities impairment losses	(1,273)	(6,064)	(5,338)
Gain (loss) on sale of investment securities	3,756	1,397	(826)
Net investment securities gains (losses)	2,483	(4,667)	(6,164)
Service charges	38,109	40,002	45,013
Insurance commissions	5,946	5,490	5,576
Trust and investment management fee income	3,106	2,767	2,343
Bank-owned life insurance	3,183	3,396	3,271
Other income	2,033	1,951	1,944
Total Noninterest Income	54,860	48,939	51,983
Noninterest Expense			
Salaries and employee benefits	40,717	38,241	37,526
Occupancy and equipment	8,013	7,697	7,689
Depreciation	4,508	4,675	4,746
FDIC insurance expense	2,576	3,733	2,227
Advertising	2,007	3,692	3,503
Bankcard expenses	2,258	1,953	2,599
Postage, delivery, and statement mailings	2,099	2,371	2,600
Office supplies	1,911	1,931	2,005
Legal and professional fees	4,913	1,677	1,505
Telecommunications	1,605	1,732	1,865
Reposessed asset losses, net of expenses	272	1,453	672
Other expenses	10,262	9,566	10,307
Total Noninterest Expense	81,141	78,721	77,244
Income Before Income Taxes	61,249	57,413	63,178
Income tax expense	20,571	18,453	20,533
Net Income Available to Common Shareholders	\$ 40,678	\$ 38,960	\$ 42,645
Average common shares outstanding	15,055	15,589	15,877
Effect of dilutive securities:			
Employee stock options	75	62	55
Shares for diluted earnings per share	15,130	15,651	15,932
Basic earnings per common share	\$ 2.68	\$ 2.48	\$ 2.69
Diluted earnings per common share	\$ 2.67	\$ 2.47	\$ 2.68
Dividends declared per common share	\$ 1.37	\$ 1.36	\$ 1.36

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, 2008	\$ 46,249	\$104,062	\$ 230,613	\$ (6,732)	\$(88,729)	\$ 285,463
Comprehensive income:						
Cumulative effect of adoption of FASB ASC 320	—	—	1,561	(1,561)	—	—
Net income	—	—	42,645	—	—	42,645
Other comprehensive loss, net of deferred income taxes of \$3,578:						
Unrealized gain on securities of \$18,575, net of tax	—	—	—	11,442	—	11,442
Unrealized loss on interest rate floors of \$10,104, net of tax	—	—	—	(6,224)	—	(6,224)
Change in underfunded pension liability of \$846, net of tax	—	—	—	521	—	521
Total comprehensive income						48,384
Cash dividends declared (\$1.36 per share)	—	—	(21,652)	—	—	(21,652)
Stock-based compensation expense	—	(1,135)	—	—	1,699	564
Exercise of 1,350 stock options	—	(10)	—	—	39	29
Purchase of 133,286 common shares for treasury	—	—	—	—	(3,886)	(3,886)
Balances at December 31, 2009	\$ 46,249	\$102,917	\$ 253,167	\$ (2,554)	\$(90,877)	\$ 308,902
Comprehensive income:						
Net income	—	—	38,960	—	—	38,960
Other comprehensive gain, net of deferred income taxes of \$35:						
Unrealized gain on securities of \$4,711, net of tax	—	—	—	2,902	—	2,902
Unrealized loss on interest rate floors of \$4,494, net of tax	—	—	—	(2,768)	—	(2,768)
Change in underfunded pension liability of \$125, net of tax	—	—	—	(77)	—	(77)
Total comprehensive income						39,017
Cash dividends declared (\$1.36 per share)	—	—	(21,222)	—	—	(21,222)
Stock-based compensation expense	—	137	—	—	693	830
Exercise of 7,962 stock options	—	3	—	—	233	236
Purchase of 408,151 common shares for treasury	—	—	—	—	(12,902)	(12,902)
Balances at December 31, 2010	\$ 46,249	\$103,057	\$ 270,905	\$ (2,497)	\$(102,853)	\$ 314,861

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	Treasury Stock	Total Shareholders' Equity
Balances at December 31, 2010	\$ 46,249	\$103,057	\$ 270,905	\$ (2,497)	\$(102,853)	\$ 314,861
Comprehensive income:						
Net income	—	—	40,678	—	—	40,678
Other comprehensive gain, net of deferred income taxes of \$850:						
Unrealized loss on securities of \$314, net of tax	—	—	—	(196)	—	(196)
Unrealized loss on interest rate floors of \$473, net of tax	—	—	—	(295)	—	(295)
Change in underfunded pension liability of \$1,473, net of tax	—	—	—	(919)	—	(919)
Total comprehensive income						39,268
Cash dividends declared (\$1.37 per share)	—	—	(20,533)	—	—	(20,533)
Stock-based compensation expense	—	283	—	—	783	1,066
Exercise of 9,576 stock options	—	(5)	—	—	267	262
Purchase of 755,501 common shares for treasury	—	—	—	—	(23,790)	(23,790)
Balances at December 31, 2011	\$ 46,249	\$103,335	\$ 291,050	\$ (3,907)	\$(125,593)	\$ 311,134

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CITY HOLDING COMPANY AND SUBSIDIARIES

(in thousands)	Year Ended December 31		
	2011	2010	2009
Operating Activities			
Net income	\$ 40,678	\$ 38,960	\$ 42,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and accretion	1,894	1,004	171
Depreciation of premises and equipment	4,508	4,675	4,746
Provision for loan losses	4,600	7,093	6,994
Deferred income tax (benefit) expense	(2,290)	(1,235)	8,647
Accretion of gain from sale of interest rate floors	(295)	(2,768)	(6,224)
Net periodic pension cost	386	232	200
Increase in value of bank-owned life insurance	(3,183)	(3,397)	(3,270)
Proceeds from bank-owned life insurance	601	657	282
Stock-based compensation expense	1,066	830	564
Loss on sale of premises and equipment	25	33	87
Net realized investment securities (gains) losses	(2,483)	4,667	6,164
Change in accrued interest receivable	171	705	1,055
Change in other assets	(5,218)	3,296	(6,178)
Change in other liabilities	15,547	8,027	(30,852)
Net Cash Provided by Operating Activities	56,007	62,779	25,031
Investing Activities			
Proceeds from maturities and calls of securities held to maturity	1,080	3,216	1,200
Proceeds from sale of money market and mutual fund available-for-sale securities	617,230	903,650	808,313
Purchases of money market and mutual fund available-for-sale securities	(617,337)	(888,336)	(823,385)
Proceeds from sales of securities available-for-sale	56,835	11,195	3,791
Proceeds from maturities and calls of securities available-for-sale	115,884	119,655	96,611
Purchases of securities available-for-sale	(115,215)	(91,404)	(129,376)
Net (increase) decrease in loans	(111,924)	(79,520)	10,868
Purchases of premises and equipment	(4,615)	(5,045)	(8,888)
Net Cash Used in Investing Activities	(58,062)	(26,589)	(40,866)
Financing Activities			
Net increase in noninterest-bearing deposits	31,098	9,487	29,910
Net increase (decrease) in interest-bearing deposits	18,795	(1,834)	92,682
Net increase (decrease) in short-term borrowings	76,340	(6,005)	(78,134)
Repayment of long-term debt	—	(78)	(85)
Purchases of treasury stock	(23,790)	(12,902)	(3,886)
Proceeds from stock options exercises, net	262	236	29
Dividends paid	(20,630)	(21,350)	(21,675)
Net Cash Provided by (Used in) Financing Activities	82,075	(32,446)	18,841
Increase in Cash and Cash Equivalents	80,020	3,744	3,006
Cash and cash equivalents at beginning of year	66,379	62,635	59,629
Cash and Cash Equivalents at End of Year	\$ 146,399	\$ 66,379	\$ 62,635

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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.

Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on shareholders’ equity or net income for any period.

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 68 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 may not 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.

The Company utilizes a third party pricing service provider to value its investment portfolio. Annually, the Company obtains an independent auditor’s report from its third party pricing service provider regarding its controls over valuation of investment securities. Although no control deficiencies were noted, the report did contain caveats and disclaimers regarding the pricing information, such as the Company should review market values for reasonableness. On a quarterly basis, the Company selects a sample of its debt securities and reprices those securities with a third party that is independent of the primary pricing service provider to verify the reasonableness of the fair values.

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, 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, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) 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 value of these investments along with the financial strength of the issuers behind these securities, as well as its 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 does not have the intent to sell any of the securities classified as available for sale and believes it is more likely than not that the Company will not have to sell any such securities before recovery of costs. 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.

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

Certain investment securities that do not have readily determinable fair values and for which the Company does not exercise significant influence are carried at cost and classified as other investment securities on the Consolidated Balance Sheets. These cost-method investments are reviewed for impairment at least annually or sooner if events or changes in circumstances indicate the carrying value may not be recoverable.

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 judgment of current business strategies and market conditions, the type of loan, asset/liability management, and liquidity.

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 for all loan types. However, any loan may be placed on non-accrual if the Company receives information that indicates a borrower is unable to meet the contractual terms of their respective loan agreement. Other indicators considered for placing a loan on non-accrual status include the borrower's involvement in bankruptcies, foreclosures, repossessions, litigation and any other situation resulting in doubt as to

whether full collection of contractual principal and interest is attainable. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in process of collection.

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

Generally, all loan types are considered past due when the contractual terms of a loan are not met and the borrower is 30 days or more past due on a payment. Furthermore, residential and home equity loans are generally subject to charge-off when the loan becomes 120 days past due, depending on the estimated fair value of the collateral less cost to dispose, versus the outstanding loan balance. 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 as previously securitized loans represent the carrying value of loans beneficially owned by the Company as a result of exercising its early redemption option during 2003 and 2004 to fully redeem 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable. For loan pools where the discount is fully accreted, the cash receipts related to these loans are recognized in interest income as received.

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 six major groupings, including commercial real estate, commercial and industrial, 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 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 commercial loans within the portfolio are subject to internal risk grading. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. 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.

Other Real Estate Owned: Other real estate owned ("OREO") is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is included in Other Assets initially at the lower of estimated fair value of the asset, less estimated selling costs or the carrying amount of the loan. Changes to the value subsequent to transfer are recorded in noninterest expense, along with direct operating expenses. Gains or losses not previously recognized from sales of OREO are recognized in noninterest expense on the date of the sale. As of December 31, 2011 and 2010, the amount of OREO included in Other Assets was \$7.9 million and \$9.3 million, respectively.

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.

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities sold primarily consists of U.S. government,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

federal agency, and municipal securities pledged as collateral under these financing arrangements and cannot be repledged or sold, unless replaced by the secured party.

Insurance Commissions: Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. The Company maintains a reserve for commission adjustments based on estimated policy cancellations. This reserve was not significant at December 31, 2011 or 2010.

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 no fair value hedges as of December 31, 2011 and 2010. 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. The Company has no cash flow hedges at December 31, 2011 and 2010.

For derivatives that are not designated in a hedge relationship, changes in the fair value of the derivatives are recognized in earnings in the same period as the change in fair value.

Trust Assets: Assets held in a fiduciary or agency capacity for customers are not included in the accompanying financial statements since such items are not assets of the Company.

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.

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.

The Company invests in certain limited partnerships that operate qualified low-income housing tax credit developments. These investments are considered variable interest entities for which the Company is not the primary beneficiary. The tax credits are reflected in the Consolidated Statements of Income as a reduction in income tax expense. The unamortized amount of the investments is recorded within Other Assets within the Consolidated Balance Sheets. The Company's investments in affordable housing limited partnerships were \$2.3 million and \$2.7 million at December 31, 2011 and 2010, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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, excluding participating securities. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding, excluding participating securities, 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 75,000, 62,000, and 55,000 in 2011, 2010, and 2009, respectively.

Recent Accounting Pronouncements: ASU No. 2010-06, *"Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements"* required new disclosures related to fair value measurements included 1) significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, and 2) activity in Level 3 of the fair value hierarchy, including separate gross presentation of purchases, sales, issuances and settlements. ASU 2010-06 also clarified that 1) disclosures should be presented for each class of assets and liabilities (rather than major category) and 2) disclosures should include the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring measurements included in Level 2 or Level 3 of the fair value hierarchy. The disclosure for gross presentation of transactions in Level 3 became effective January 1, 2011. The remaining disclosures became effective January 1, 2010. These disclosures did not have a material impact on the Company's financial statements. See Note Twenty.

ASU No. 2010-20, *"Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses"* requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll-forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 was effective for the Company's financial statements as of December 31, 2010, as it

relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company's financial statements beginning on January 1, 2011 and have been included herein in Note Six.

In April 2011, the FASB issued ASU No. 2011-02, *"A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring."* The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 became effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 did not have a material impact on the Company's statements of income and condition. See Note Six for further discussion.

In May 2011, the FASB issued ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs."* This ASU amends Topic 820, *"Fair Value Measurements and Disclosures,"* to converge the fair value measurement guidance contained in U.S. generally accepted accounting principles and International Financial Reporting Standards ("IFRS"). The provisions of ASU No. 2011-04 clarify existing fair value measurements, amend certain principles set forth in Topic 820 and requires additional fair value disclosures. ASU No. 2011-04 is effective for the Company's reporting period beginning on January 1, 2012. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *"Comprehensive Income (Topic 220) – Presentation of Comprehensive Income."* ASU 2011-05 amends Topic 220, *"Comprehensive Income,"* to require that all non-owner changes in shareholders' equity be presented in either a single continuous statement of comprehensive income or in two separate, but consecutive statements, thus eliminating the option to present components of comprehensive income within the statement of changes in shareholders' equity. ASU No. 2011-05 is effective for the Company's reporting period beginning on January 1, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 *"Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassification Items Out of*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” as further discussed below. The adoption of ASU No. 2011-05 is not expected to have a material impact on the Company’s financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *“Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment.”* Under this ASU, an entity has the option to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If an entity determines, as a result of this qualitative assessment, that it is not more than likely that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. ASU No. 2011-08 is effective for the Company’s reporting period beginning on January 1, 2012. The adoption of ASU No. 2011-08 is not expected to have a material impact on the Company’s financial statements.

In September 2011, the FASB issued ASU No. 2011-09, *“Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80).”* This ASU requires employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. ASU No. 2011-09 is effective for the Company’s reporting period ending on December 31, 2011. The adoption of ASU No. 2011-09 did not have a material impact on the Company’s financial statements.

In December 2011, the FASB issued ASU No. 2011-12, *“Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.”* This ASU defers the changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments. ASU No. 2011-05 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected. ASU No. 2011-12 is effective for the Company’s reporting periods beginning on January 1, 2012 and is not expected to have a material impact on the Company’s financial statements.

Statements of Cash Flows: Cash paid for interest, including interest paid on long-term debt and trust preferred securities, was \$21.7 million, \$28.5 million, and \$37.5 million in 2011, 2010, and 2009, respectively. During 2011, 2010 and 2009, the Company paid \$19.0 million, \$15.0 million, and \$23.5 million, respectively, for income taxes.

NOTE TWO ACQUISITIONS

On November 14, 2011, the Company announced that it had signed a definitive agreement to acquire Virginia Savings Bancorp, Inc. (“VSB”) and its wholly owned subsidiary, Virginia Savings Bank. VSB is a \$128 million bank and operates five branches in the northwest portion of Virginia. The Company and VSB anticipate that the transaction will be completed in the second quarter of 2012, pending regulatory approvals, the approval of the shareholders of VSB and completion of other customary closing conditions. The total transaction value is expected to be less than \$15 million.

NOTE THREE 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, 2011 was approximately \$16.1 million.

NOTE FOUR 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.

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	December 31, 2011			
	Amortized	Gross	Gross	Estimated
(in thousands)	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 55,262	\$ 1,561	\$ 21	\$ 56,802
US Treasuries and US government agencies	5,868	173	-	6,041
Mortgage-backed securities:				
US government agencies	220,815	6,966	168	227,613
Private label	5,117	45	6	5,156
Trust preferred securities	48,951	941	4,735	45,157
Corporate securities	16,226	160	1,988	14,398
Total Debt Securities	352,239	9,846	6,918	355,167
Marketable equity securities	4,318	-	465	3,853
Investment funds	1,724	39	-	1,763
Total Securities Available-for-Sale	\$ 358,281	\$ 9,885	\$ 7,383	\$ 360,783
Securities held-to-maturity:				
Trust preferred securities	\$ 23,458	\$ 675	\$ 710	\$ 23,423
Total Securities Held-to-Maturity	\$ 23,458	\$ 675	\$ 710	\$ 23,423
Other investment securities:				
Non-marketable equity securities	\$ 11,934	\$ -	\$ -	\$ 11,934
Total Other Investment Securities	\$ 11,934	\$ -	\$ -	\$ 11,934

	December 31, 2010			
	Amortized	Gross	Gross	Estimated
(in thousands)	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 65,634	\$ 759	\$ 467	\$ 65,926
US Treasuries and US government agencies	7,837	165	-	8,002
Mortgage-backed securities:				
US government agencies	251,209	8,099	493	258,815
Private label	8,031	87	-	8,118
Trust preferred securities	58,517	1,031	4,938	54,610
Corporate securities	16,214	63	884	15,393
Total Debt Securities	407,442	10,204	6,782	410,864
Marketable equity securities	5,207	8	522	4,693
Investment funds	1,617	-	7	1,610
Total Securities Available-for-Sale	\$ 414,266	\$ 10,212	\$ 7,311	\$ 417,167
Securities held-to-maturity:				
Obligations of states and political subdivisions	\$ 438	\$ 5	\$ -	\$ 443
Trust preferred securities	23,427	-	770	22,657
Total Securities Held-to-Maturity	\$ 23,865	\$ 5	\$ 770	\$ 23,100
Other investment securities:				
Non-marketable equity securities	\$ 12,553	\$ -	\$ -	\$ 12,553
Total Other Investment Securities	\$ 12,553	\$ -	\$ -	\$ 12,553

Securities with limited marketability, such as stock in the Federal Reserve Bank or the Federal Home Loan Bank are carried at cost and are reported as other securities in the table above.

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of December 31, 2011 and 2010. 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, 2011 and 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

	December 31, 2011					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
<i>(in thousands)</i>						
Securities available-for-sale:						
Obligations of states and political subdivisions	\$ 992	\$ 11	\$ 394	\$ 10	\$ 1,386	\$ 21
Mortgage-backed securities:						
US Government agencies	-	-	4,333	168	4,333	168
Private label	3,236	6	-	-	3,236	6
Trust preferred securities	6,724	520	5,402	4,215	12,126	4,735
Corporate securities	1,791	241	4,941	1,747	6,732	1,988
Marketable equity securities	3,810	465	-	-	3,810	465
Total	\$ 16,553	\$ 1,243	\$ 15,070	\$ 6,140	\$ 31,623	\$ 7,383
Securities held-to-maturity:						
Trust preferred securities	\$ 4,823	\$ 212	\$ 8,219	\$ 498	\$ 13,042	\$ 710

	December 31, 2010					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
<i>(in thousands)</i>						
Securities available-for-sale:						
Obligations of states and political subdivisions	\$ 16,242	\$ 253	\$ 2,141	\$ 214	\$ 18,383	\$ 467
Mortgage-backed securities:						
US Government agencies	20,160	493	-	-	20,160	493
Trust preferred securities	6,910	686	6,831	4,252	13,741	4,938
Corporate securities	2,010	26	3,511	858	5,521	884
Marketable equity securities	1,038	221	1,260	301	2,298	522
Investment funds	1,493	7	-	-	1,493	7
Total	\$ 47,853	\$ 1,686	\$ 13,743	\$ 5,625	\$ 61,596	\$ 7,311
Securities held-to-maturity:						
Trust preferred securities	\$ 6,623	\$ 198	\$ 7,889	\$ 572	\$ 14,512	\$ 770

Marketable equity securities consist of investments made by the Company in equity positions of various community banks. Included within this portfolio are meaningful (2-5%) ownership positions in the following community bank holding companies: Community Financial Corporation; Eagle Financial Services, Inc; First National Corporation; and First United Corporation.

During 2011, the Company realized investment gains of \$3.1 million from the sale of U.S. government agencies, mortgage backed securities and certain single issuer trust preferred securities, with remaining book values of \$6.0 million, \$232.8 million and \$66.1 million at December 31, 2011, respectively. In addition, the Company received full payment in 2011 on its investment in a single issuer bank trust preferred security, along with accrued interest that had previously been deferred, that the Company had previously recognized a credit-related net impairment charge of \$0.6 million during 2010. As a result of this repayment, the Company recognized an investment gain of \$0.6 million in

2011. These gains were partially offset by \$1.3 million in credit-related net investment impairment losses. These charges deemed to be other-than-temporary were related to pooled bank trust preferreds (\$0.4 million credit-related net impairment losses) with a remaining book value of \$3.4 million at December 31, 2011, and community bank and bank holding company equity positions (\$0.9 million credit-related net impairment losses) with remaining book value of \$3.9 million at December 31, 2011. The credit-related net impairment charges related to the pooled bank trust preferred securities 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, management concluded that credit-related impairment charges of \$0.4 million on the pooled bank trust preferred securities were appropriate for the year ended December 31, 2011. During the year ended

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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December 31, 2011, the Company recognized \$0.9 million of credit-related net impairment charges on the Company's equity positions due to the length of time and extent to which the market value of these securities have been below the Company's cost basis. As a result of these factors, the Company does not expect the market value of these securities to recover in the near future.

During 2010, the Company recorded \$6.1 million of credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferreds (\$1.8 million credit-related net impairment losses) with a remaining book value of \$7.8 million at December 31, 2010, single issuer bank trust preferreds (\$0.7 million credit-related net impairment losses) with a remaining book value of \$1.2 million at December 31, 2010, and community bank and bank holding company equity positions (\$3.6 million credit-related net impairment losses) with remaining book value of \$3.6 million at December 31, 2010. The credit-related net impairment charges related to the pooled bank trust preferred securities and single issuer bank trust preferred securities (Cascade Capital Trust I issued by Cascade Financial Corporation of Everett, Washington) 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, management concluded that credit-related impairment charges of \$1.8 million and \$0.7 million on the pooled bank trust preferred securities and single issuer bank trust preferred securities, respectively, were appropriate for the year ending December 31, 2010. During the year ended December 31, 2010, the Company recognized \$3.6 million of credit-related net impairment charges on the Company's equity positions due to trends of poor financial performance over the last several quarters and the length of time and extent to which the market value of these securities have been below the Company's cost basis. As a result of these factors, the Company does not expect the market value of these securities to recover in the near future. These losses were partially offset by realized investment gains of \$1.4 million as the Company sold certain single issuer trust preferred securities with a remaining book value of \$75.3 million during the year ended December 31, 2010.

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 are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the

issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent to sell the investment security and if it's more likely than not the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holdings. Although the regional community bank stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.1% of each respective company being traded on a daily basis. Another factor influencing the market value of these equity securities is a depressed stock market, particularly in the smaller community bank financial sector. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2011, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread 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, 2011, 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 credit loss recognized in net income in the period of the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

At December 31, 2011, the book value of the Company's five pooled trust preferred securities totaled \$7.5 million with an estimated fair value of \$3.4 million. All of these securities are mezzanine tranches. Pooled trust preferred securities represent beneficial interests in securitized financial assets that the Company analyzes within the scope of FASB ASC 320,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

Investments—Debt and Equity Securities and are evaluated quarterly for other-than-temporary-impairment (“OTTI”). Management performs an analysis of OTTI utilizing its internal methodology as described below to estimate expected cash flows to be received in the future. The Company reviews each of its pooled trust preferred securities to determine if an OTTI charge would be recognized in current earnings in accordance with FASB ASC 320, Investments—Debt and Equity Securities. There is risk that continued collateral deterioration could cause the Company to recognize additional OTTI charges in earnings in the future.

When evaluating pooled trust preferred securities for OTTI, the Company determines a credit related portion and a noncredit related portion, if any. The credit related portion is recognized in earnings and represents the difference between the present value of expected future cash flows and the amortized cost basis of the security. The noncredit related portion is recognized in other comprehensive income, and represents the difference between the book value and the fair value of the security less the amount of the credit related impairment. The determination of whether it is probable that an adverse change in estimated cash flows has occurred is evaluated by comparing estimated cash flows to those previously projected as further described below. The Company considers this process to be its primary evidence when determining whether credit related OTTI exists. The results of these analyses are significantly affected by other variables such as the estimate of future cash flows, credit worthiness of the underlying issuers and determination of the likelihood of defaults of the underlying collateral.

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

Other assumptions used in the estimate of expected cash flows include expected future default rates and prepayments. Specifically, the model assumes annual prepayment of 1.0% with 100% at maturity and assumes 150 basis points of additional annual defaults from banks that are currently not in default or deferral. In addition, the model assumes no recoveries except for one trust preferred security which assumes that two of the banks currently deferring or in default will cure such positions between June 2012 and September 2012. Management compares the present value of expected cash flows to those previously projected to determine if an adverse change in cash flows has occurred. If an adverse change in cash flows has occurred, management determines the credit loss to be recognized in the current period and the portion related to noncredit factors to be recognized in other comprehensive income.

The following table presents a progression of the credit loss component of OTTI on debt securities recognized in earnings during the years ended December 31, 2011, 2010 and 2009. The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security. As noted above, the credit component of OTTI recognized in earnings during the year ended 2011 is presented in two parts based upon whether the credit impairment in the current period is the first time the debt security was credit impaired (initial credit impairment) or if it is an additional credit impairment on a debt security that was credit impaired in previous periods.

<i>(in thousands)</i>	2011	2010	2009
Beginning balance	\$ 19,240	\$ 17,473	\$ 15,793
Additions:			
Initial credit impairment	-	-	-
Additional credit impairment	355	1,767	1,680
Deductions:			
Called	(638)	-	-
Balance December 31	\$ 18,957	\$ 19,240	\$ 17,473

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The following table presents additional information about the Company's trust preferred securities with a credit rating of below investment grade:

(Dollars in thousands)

Deal Name	Type	Class	Original Cost	Amortized Cost	Fair Value	Difference (1)	Lowest Credit Ratings	# of issuers currently performing	Actual deferrals/defaults (as a % of original dollar)	Expected	Excess
										deferrals/defaults (as a % of remaining of performing collateral)	Subordination as a Percentage of Current Performing Collateral (4)
Pooled trust preferred securities:											
Available for Sale:											
P1 ⁽⁵⁾	Pooled	Mezz	\$ 1,175	\$ 505	\$ 219	\$ (286)	Ca	17	28.7%	14.8% ⁽²⁾	17.4%
P2 ⁽⁶⁾	Pooled	Mezz	3,944	1,197	842	(355)	Ca	16	25.9%	23.1% ⁽²⁾	11.9%
P3 ⁽⁷⁾	Pooled	Mezz	2,962	1,431	379	(1,052)	Caa3	26	24.5%	22.3% ⁽²⁾	0.0%
P4 ⁽⁸⁾	Pooled	Mezz	4,060	965	216	(749)	Ca	13	25.4%	- ⁽³⁾	0.0%
P5 ⁽⁹⁾	Pooled	Mezz	5,650	826	226	(600)	Ca	16	35.6%	22.7% ⁽²⁾	16.3%
Held to Maturity:											
P6 ⁽¹⁰⁾	Pooled	Mezz	2,274	328	437	109	Ca	17	28.7%	14.8% ⁽²⁾	17.4%
P7 ⁽⁶⁾	Pooled	Mezz	5,237	1,047	1,122	75	Ca	16	25.9%	23.1% ⁽²⁾	11.9%
Single issuer trust preferred securities											
Available for Sale:											
S1	Single		1,149	1,038	1,038	-	Ba2	1	-	-	
S2	Single		5,119	5,077	4,638	(439)	BB+	1	-	-	
S3	Single		535	510	460	(50)	BB+	1	-	-	
S4 ⁽¹¹⁾	Single		261	235	101	(134)	NR	1	-	-	
S5	Single		3,000	3,000	3,036	36	B2	1	-	-	
S6	Single		1,000	1,000	1,008	8	B2	1	-	-	
Held to Maturity:											
S7	Single		4,000	4,000	4,000	-	NR	1	-	-	
S8	Single		3,360	3,109	2,850	(259)	NR	1	-	-	
S9	Single		3,564	3,535	3,398	(137)	NR	1	-	-	
S10	Single		4,321	4,133	4,090	(43)	Baa3	1	-	-	

- (1) The differences noted consist of unrealized losses recorded at December 31, 2011 and noncredit other-than-temporary impairments recorded subsequent to April 1, 2009 that have not been reclassified as credit losses.
- (2) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. This model for this security assumes that all collateral that is currently deferring will default with a zero recovery rate. The underlying issuers can cure, thus this bond could recover at a higher percentage upon default than zero.
- (3) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. The model for this security assumes that two of the banks that are currently deferring will cure between June 2012 and September 2012. If additional underlying issuers cure, this bond could recover at a higher percentage.
- (4) Excess subordination is defined as the additional defaults/deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a "break in yield." This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The "percent of current performing collateral" is the ratio of the "excess subordination amount" to current performing collateral—a higher percent means there is more excess subordination to absorb additional defaults/deferrals, and the better our security is protected from loss.
- (5) No other-than-temporary impairment losses were incurred during the year ended December 31, 2011. Other-than-temporary impairment losses of \$370,000 were recognized during the year ended December 31, 2010.
- (6) No other-than-temporary impairment losses were incurred during the years ended December 31, 2011 and 2010, respectively.
- (7) Other-than-temporary impairment losses of \$115,000 and \$72,000 were recognized during the years ended December 31, 2011 and 2010, respectively.
- (8) Other-than-temporary impairment losses of \$240,000 and \$619,000 were recognized during the years ended December 31, 2011 and 2010, respectively.
- (9) No other-than-temporary impairment losses were incurred during the years ended December 31, 2011 and 2010, respectively.
- (10) No other-than-temporary impairment losses were incurred during the year ended December 31, 2011. Other-than-temporary impairment losses of \$706,000 were recognized during the year ended December 31, 2010.
- (11) No other-than-temporary impairment losses were incurred during the year ended December 31, 2011. Other-than-temporary impairment losses of \$15,000 were recognized during the year ended December 31, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The amortized cost and estimated fair value of debt securities at December 31, 2011, 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.

<i>(in thousands)</i>	Cost	Estimated Fair Value
Securities Available-for-Sale		
Due in one year or less	\$ 9,007	\$ 9,047
Due after one year through five years	44,538	44,910
Due after five years through ten years	51,541	52,891
Due after ten years	247,153	248,319
	<u>\$ 352,239</u>	<u>\$ 355,167</u>
Securities Held-to-Maturity		
Due in one year or less	\$ -	\$ -
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	23,458	23,423
	<u>\$ 23,458</u>	<u>\$ 23,423</u>

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

<i>(in thousands)</i>	2011	2010	2009
Gross realized gains	\$ 3,756	\$ 1,397	\$ 259
Gross realized losses	-	-	(1,085)
Investment security (losses) gains	<u>\$ 3,756</u>	<u>\$ 1,397</u>	<u>\$ (826)</u>

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

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$204.0 million and \$204.6 million at December 31, 2011 and 2010, respectively.

NOTE FIVE LOANS

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

<i>(in thousands)</i>	2011	2010
Residential real estate	\$ 638,585	\$ 610,369
Home equity	433,000	416,172
Commercial and industrial	130,899	134,612
Commercial real estate	732,146	661,758
Consumer	35,845	38,424
DDA overdrafts	2,628	2,876
Previously securitized loans	-	789
Gross Loans	<u>1,973,103</u>	<u>1,865,000</u>
Allowance for loan losses	<u>(19,409)</u>	<u>(18,224)</u>
Net Loans	<u>\$ 1,953,694</u>	<u>\$ 1,846,776</u>

Construction loans of \$9.2 million and \$7.9 million are included within residential real estate loans at December 31, 2011 and 2010, respectively. Construction loans of \$20.2 million and \$31.5 million are included within commercial real estate loans at December 31, 2011 and 2010, respectively. The Company's commercial and residential real estate construction loans are primarily secured by real estate within the Company's principal markets. These loans were originated under the Company's loan policy, which is focused on the risk characteristics of the loan portfolio, including construction loans. Adequate consideration has been given to these loans in establishing the Company's allowance for loan losses.

NOTE SIX ALLOWANCE FOR LOAN LOSSES

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

Individual credits are selected throughout the year for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the adequacy of the allowance. Due to the nature of commercial lending, evaluation of the adequacy of the allowance as it relates to these loan types is often based more upon specific credit 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The following summarizes the activity in the allowance for loan losses, by portfolio segment, for the year ended December 31, 2011. The following also presents the balance in the allowance for loan losses disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment, as of December 31, 2011 and 2010.

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2011								
<i>Allowance for loan losses</i>								
Beginning balance	\$ 1,864	\$ 8,488	\$ 4,149	\$ 2,640	\$ 95	\$ 988	\$ -	\$ 18,224
Charge-offs	(522)	(1,989)	(1,367)	(1,089)	(164)	(1,712)	-	(6,843)
Recoveries	23	1,981	29	7	136	1,252	-	3,428
Provision	(775)	3,186	780	1,215	21	173	-	4,600
Ending balance	\$ 590	\$ 11,666	\$ 3,591	\$ 2,773	\$ 88	\$ 701	\$ -	\$ 19,409
December 31, 2010								
<i>Allowance for loan losses</i>								
Beginning balance	\$ 2,069	\$ 8,961	\$ 3,184	\$ 2,331	\$ 191	\$ 1,805	\$ -	\$ 18,541
Charge-offs	(73)	(3,304)	(1,607)	(930)	(86)	(3,638)	-	(9,638)
Recoveries	27	415	74	26	129	1,557	-	2,228
Provision	(159)	2,416	2,498	1,213	(139)	1,264	-	7,093
Ending balance	\$ 1,864	\$ 8,488	\$ 4,149	\$ 2,640	\$ 95	\$ 988	\$ -	\$ 18,224
December 31, 2009								
<i>Allowance for loan losses</i>								
Beginning balance	\$ 3,096	\$ 11,942	\$ 2,371	\$ 2,212	\$ 190	\$ 2,353	\$ -	\$ 22,164
Charge-offs	(530)	(7,219)	(1,195)	(721)	(265)	(2,886)	-	(12,816)
Recoveries	102	133	102	20	222	1,620	-	2,199
Provision	(599)	4,105	1,906	820	44	718	-	6,994
Ending balance	\$ 2,069	\$ 8,961	\$ 3,184	\$ 2,331	\$ 191	\$ 1,805	\$ -	\$ 18,541
As of December 31, 2011								
<i>Allowance for loan losses</i>								
Evaluated for impairment:								
Individually	\$ -	\$ 2,666	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,666
Collectively	590	9,000	3,591	2,773	88	701	-	16,743
Total	\$ 590	\$ 11,666	\$ 3,591	\$ 2,773	\$ 88	\$ 701	\$ -	\$ 19,409
Loans								
Evaluated for impairment:								
Individually	\$ 81	\$ 15,311	\$ 476	\$ 298	\$ -	\$ -	\$ -	\$ 16,166
Collectively	130,818	716,835	638,109	432,702	35,845	2,628	-	1,956,937
Total	\$ 130,899	\$ 732,146	\$ 638,585	\$ 433,000	\$ 35,845	\$ 2,628	\$ -	\$ 1,973,103
As of December 31, 2010								
<i>Allowance for loan losses</i>								
Evaluated for impairment:								
Individually	\$ -	\$ 150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150
Collectively	1,864	8,338	4,149	2,640	95	988	-	18,074
Total	\$ 1,864	\$ 8,488	\$ 4,149	\$ 2,640	\$ 95	\$ 988	\$ -	\$ 18,224
Loans								
Evaluated for impairment:								
Individually	\$ -	\$ 15,909	\$ 483	\$ 1,047	\$ -	\$ -	\$ -	\$ 17,439
Collectively	134,612	645,849	609,886	415,125	38,424	2,876	789	1,847,561
Total	\$ 134,612	\$ 661,758	\$ 610,369	\$ 416,172	\$ 38,424	\$ 2,876	\$ 789	\$ 1,865,000

During the third quarter of 2011, the Company received life insurance proceeds from a policy carried by one of its commercial customers. The Company had previously placed several loans to this customer on non-accrual status and recorded the charge-offs related to these credits. The life

insurance proceeds satisfied the customer's remaining outstanding balances and also enabled the Company to recover \$1.9 million of the previously recorded charge-offs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

Credit Quality Indicators

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

The Company categorizes loans into risk categories based on relevant information regarding the customer's debt service ability, capacity, overall collateral position along with other economic trends, and historical payment performance. The risk grades for each credit are updated when the Company receives current financial information, the loan is reviewed by the Company's internal loan review/credit administration departments, or the loan becomes delinquent or impaired. The risk grades are updated a minimum of annually for loans rated exceptional, good, acceptable, or pass/watch. Loans rated special mention, substandard or doubtful are reviewed at least quarterly. The Company uses the following definitions for risk ratings:

Risk Rating	Description
<i>Exceptional</i>	Loans classified as exceptional are secured with liquid collateral conforming to the internal loan policy. Loans rated within this category pose minimal risk of loss to the bank and the risk grade within this pool of loans is generally updated on an annual basis.
<i>Good</i>	Loans classified as good have similar characteristics that include a strong balance sheet, satisfactory debt service coverage ratios, strong management and/or guarantors, and little exposure to economic cycles. Loans within this category are generally reviewed on an annual basis. Loans in this category generally have a low chance of loss to the bank.
<i>Acceptable</i>	Loans classified as acceptable have acceptable liquidity levels, adequate debt service coverage ratios, experienced management, and have average exposure to economic cycles. Loans within this category generally have a low risk of loss to the bank.
<i>Pass/Watch</i>	Loans classified as pass/watch have erratic levels of leverage and/or liquidity, cash flow is volatile and the borrower is subject to moderate economic risk. A borrower in this category poses a low to moderate risk of loss to the bank.
<i>Special Mention</i>	Loans classified as special mention have a potential weakness(es) that deserves management's close attention. The potential weakness could result in deterioration of the loan repayment or the bank's credit position at some future date. A loan rated in this category poses a moderate loss risk to the bank.
<i>Substandard</i>	Loans classified as substandard reflect a customer with well defined weaknesses that jeopardize the liquidation of the debt. Loans in this category have the possibility that the bank will sustain some loss if the deficiencies are not corrected and the bank's collateral value is weakened by the financial deterioration of the borrower.
<i>Doubtful</i>	Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that make collection of the full contract amount highly improbable. Loans rated in this category are most likely to cause the bank to have a loss due to a collateral shortfall or a negative capital position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

The following presents loans by internally assigned grade as of December 31, 2011 and 2010:

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2011:								
<i>Risk Grade</i>								
Exceptional	\$ 4,220	\$ 42	-	-	-	-	-	\$ 4,262
Good	6,728	107,718	-	-	-	-	-	114,446
Acceptable	93,077	411,721	-	-	-	-	-	504,798
Pass/watch	25,246	161,598	-	-	-	-	-	186,844
Special mention	470	16,802	-	-	-	-	-	17,272
Substandard	1,037	34,265	-	-	-	-	-	35,302
Doubtful	121	-	-	-	-	-	-	121
Total	<u>\$ 130,899</u>	<u>\$ 732,146</u>						<u>863,045</u>

Payment Activity

Performing			\$ 637,586	\$ 431,199	\$ 35,845	\$ 2,616	\$ -	1,107,246
Non-performing			999	1,801	-	12	-	2,812
Total			<u>\$ 638,585</u>	<u>\$ 433,000</u>	<u>\$ 35,845</u>	<u>\$ 2,628</u>	<u>\$ -</u>	<u>\$ 1,973,103</u>

December 31, 2010:

<i>Risk Grade</i>								
Exceptional	\$ 3,241	\$ 47	-	-	-	-	-	\$ 3,288
Good	5,693	68,417	-	-	-	-	-	74,110
Acceptable	98,067	396,072	-	-	-	-	-	494,139
Pass/watch	20,675	142,223	-	-	-	-	-	162,898
Special mention	4,030	28,547	-	-	-	-	-	32,577
Substandard	2,693	26,354	-	-	-	-	-	29,047
Doubtful	213	98	-	-	-	-	-	311
Total	<u>\$ 134,612</u>	<u>\$ 661,758</u>						<u>796,370</u>

Payment Activity

Performing	\$ 608,422	\$ 414,599	\$ 38,419	\$ 2,875	\$ 604	1,064,919
Non-performing	1,947	1,573	5	1	185	3,711
Total	<u>\$ 610,369</u>	<u>\$ 416,172</u>	<u>\$ 38,424</u>	<u>\$ 2,876</u>	<u>\$ 789</u>	<u>\$ 1,865,000</u>

Aging Analysis of Accruing and Non-Accruing Loans

The following presents an aging of the Company's accruing and non-accruing loans as of December 31, 2011 and 2010:

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2011:								
30 – 59 days past due	\$ 1,243	\$ 576	\$ 4,912	\$ 1,906	\$ 133	\$ 883	\$ -	\$ 9,653
60 – 89 days past due	-	2,839	408	228	5	14	-	3,494
Over 90 days past due	-	-	42	112	-	12	-	166
Non-accrual	375	18,930	957	1,689	-	-	-	21,951
	<u>1,618</u>	<u>22,345</u>	<u>6,319</u>	<u>3,935</u>	<u>138</u>	<u>909</u>	<u>-</u>	<u>35,264</u>
Current	129,281	709,801	632,266	429,065	35,707	1,719	-	1,937,839
Total	<u>\$ 130,899</u>	<u>\$ 732,146</u>	<u>\$ 638,585</u>	<u>\$ 433,000</u>	<u>\$ 35,845</u>	<u>\$ 2,628</u>	<u>\$ -</u>	<u>\$ 1,973,103</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2010:								
30 – 59 days past due	\$ -	\$ 775	\$ 3,512	\$ 1,817	\$ 122	\$ 354	\$ 247	\$ 6,827
60 – 89 days past due	-	-	667	278	20	6	44	1,015
Over 90 days past due	-	-	595	181	5	1	54	836
Non-accrual	237	7,705	1,352	1,392	-	-	131	10,817
	237	8,480	6,126	3,668	147	361	476	19,495
Current	134,375	653,278	604,243	412,504	38,277	2,515	313	1,845,505
Total	\$ 134,612	\$ 661,758	\$ 610,369	\$ 416,172	\$ 38,424	\$ 2,876	\$ 789	\$ 1,865,000

Impaired Loans

The following presents the Company's impaired loans as of December 31, 2011 and 2010:

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2011:								
<i>With no related allowance recorded:</i>								
Recorded investment	\$ 78	\$ 2,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,918
Unpaid principal balance	78	6,036	-	-	-	-	-	6,114
<i>With an allowance recorded</i>								
Recorded investment	\$ 297	\$ 16,090	\$ 1,000	\$ 1,801	\$ -	\$ 12	\$ -	\$ 19,200
Unpaid principal balance	297	16,090	1,000	1,801	-	12	-	19,200
Related allowance	53	3,044	139	240	-	12	-	3,488
December 31, 2010:								
<i>With no related allowance recorded:</i>								
Recorded investment	\$ -	\$ 13,755	\$ 483	\$ 1,048	\$ -	\$ -	\$ -	\$ 15,286
Unpaid principal balance	-	18,390	483	1,048	-	-	-	19,921
<i>With an allowance recorded</i>								
Recorded investment	\$ 237	\$ 3,670	\$ 1,947	\$ 824	\$ 5	\$ 1	\$ 185	\$ 6,869
Unpaid principal balance	237	4,199	1,947	824	5	1	185	7,398
Related allowance	113	554	487	206	1	1	46	1,408

The following table presents information related to the average recorded investment and interest income recognized on the Company's impaired loans for the year ended December 31, 2011:

<i>(in thousands)</i>	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Previously Securitized loans	Total
December 31, 2011:								
<i>With no related allowance recorded:</i>								
Average recorded investment	\$ 30	\$ 10,436	\$ 240	\$ 523	\$ -	\$ -	\$ -	\$ 11,229
Interest income recognized	1	270	15	5	-	-	-	291
<i>With an allowance recorded</i>								
Average recorded investment	\$ 216	\$ 14,232	\$ 861	\$ 773	\$ -	\$ -	\$ -	\$ 16,082
Interest income recognized	2	305	4	17	-	-	-	328

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Approximately \$0.8 million, \$0.5 million and \$0.9 million of interest income would have been recognized during 2011, 2010 and 2009, 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, 2011 and 2010.

Loan Modifications

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-02 whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

At December 31, 2011, the Company had one loan modification, relating to a commercial real estate loan, that was considered to be a TDR, which was less than \$0.3 million. There was no material difference between the pre-modification and post-modification balances. The impact on the allowance for loan losses was insignificant. The TDR did not default during the year ended December 31, 2011.

NOTE SEVEN PREVIOUSLY SECURITIZED LOANS

The table below summarizes information regarding delinquencies, net credit losses, and outstanding collateral balances of previously securitized loans for the dates presented:

(in thousands)	December 31		
	2011	2010	2009
Total principal amount of loans outstanding	\$ 9,821	\$ 12,098	\$ 15,119
Discount	(9,821)	(11,309)	(13,406)
Net book value	\$ -	\$ 789	\$ 1,713
Principal amount of loans between 30 and 89 days past due	\$ -	\$ 291	\$ 1,023
Principal amount of loans between 90 and 119 days past due	-	54	79
Net credit recoveries during the year	128	182	312

As of December 31, 2011 and 2010, the Company reported a book value of previously securitized loans of less than \$0.1 million and \$0.8 million, respectively, while the actual outstanding balance of previously securitized loans at December 31, 2011 and 2010 was \$9.8 million and \$12.1 million, respectively. During 2011, 2010, and 2009 the Company recognized \$3.1 million, \$4.0 million, and \$3.9 million, respectively, of interest income on the previously securitized loans and received cash of \$3.9 million, \$5.0 million, and \$6.3 million, respectively, comprised of principal and interest payments from borrowers.

NOTE EIGHT 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	2011	2010
Land		\$ 25,065	\$ 25,007
Buildings and improvements	10 to 30 yrs.	72,940	71,028
Equipment	3 to 7 yrs.	35,159	35,444
		133,164	131,479
Less accumulated depreciation		(68,552)	(66,949)
Net premises and equipment		\$ 64,612	\$ 64,530

NOTE NINE GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill approximated \$54.9 million at December 31, 2011 and 2010, respectively. The Company completed its annual assessment of the carrying value of goodwill during 2011 and concluded that its carrying value was not impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The following table summarizes core deposit intangibles as of December 31, 2011 and 2010, which are subject to amortization:

<i>(in thousands)</i>	2011	2010
Gross carrying amount	\$ 4,404	\$ 4,404
Accumulated amortization	(3,130)	(2,721)
Net core deposit intangible	\$ 1,274	\$ 1,683

During 2011, 2010, and 2009, the Company recognized pre-tax amortization expense of \$0.4 million, \$0.4 million, and \$0.5 million, 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:

<i>(in thousands)</i>	Projected Amortization Expense
2012	\$ 392
2013	376
2014	359
2015	147
2016	-
	\$ 1,274

NOTE TEN SCHEDULED MATURITIES OF TIME DEPOSITS

Scheduled maturities of time deposits outstanding at December 31, 2011 are summarized as follows:

<i>(in thousands)</i>	
2012	\$ 499,743
2013	183,083
2014	106,546
2015	43,048
2016	53,137
Over five years	39
Total	\$ 885,596

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

<i>(in thousands)</i>	2011	2010
Within one year	\$ 149,677	\$ 178,909
Over one through two years	52,961	69,899
Over two through three years	31,869	16,216
Over three through four years	15,655	9,914
Over four through five years	25,244	13,697
Over five years	343	-
Total	\$ 275,749	\$ 288,635

NOTE ELEVEN SHORT-TERM BORROWINGS

A summary of short-term borrowings are as follows

<i>(dollars in thousands)</i>	2011	2010	2009
Balance at end of year:			
Securities repurchase agreements	\$ 114,050	\$ 112,335	\$ 116,329
Federal Funds purchased	75,000	-	-
FHLB advances	-	375	2,000
Total	\$ 189,050	\$ 112,710	\$ 118,329

Avg. outstanding during the year:			
Securities repurchase agreements	\$ 122,693	\$ 110,891	\$ 125,024
Federal Funds purchased	576	-	-
FHLB advances	300	1,684	8,992

Max. outstanding at any month end:			
Securities repurchase agreements	\$ 139,607	\$ 119,174	\$ 154,577
Federal Funds purchased	75,000	-	-
FHLB advances	367	2,000	42,256

Weighted-average interest rate:			
During the year:			
Securities repurchase agreements	0.25%	0.25%	0.26%
Federal Funds purchased	0.28%	-	-
FHLB advances	4.36%	4.93%	2.27%
End of the year:			
Securities repurchase agreements	0.25%	0.25%	0.25%
Federal Funds purchased	0.28%	-	-
FHLB advances	-	4.38%	6.30%

Through City National, the Company has purchased 52,042 shares of Federal Home Loan Bank ("FHLB") stock at par value as of December 31, 2011. 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 1-4 family residential mortgages, other residential mortgages, and commercial real estate and other non-residential mortgage loans. At December 31, 2011 and 2010, collateral pledged to the FHLB included approximately \$1.2 billion and \$1.3 billion, respectively, in investment securities and one-to-four-family residential property loans. Therefore, in addition to the short-term financing discussed above and long-term financing (see Note Twelve), at December 31, 2011 and 2010, City National had an additional \$771.1 million and \$455.7 million, respectively, available from unused portions of lines of credit with the FHLB and other financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE TWELVE LONG-TERM DEBT

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

(in thousands)	Maturity	Weighted-Average Interest Rate	2011	2010
Junior subordinated debentures owed to City Holding Capital Trust III	2038	3.85%	16,495	16,495
Total Long-term debt			\$ 16,495	\$ 16,495

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 One).

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 THIRTEEN DERIVATIVE INSTRUMENTS

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 were recognized over the remaining lives of the various hedged loans and expired in June 2011.

As of December 31, 2011 and 2010, the Company has derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies.

The following table summarizes the fair value of these derivative financial instruments at December 31:

(in thousands)	2011	2010
Fair Value		
Other Assets	\$ 11,541	\$ 2,116
Other Liabilities	11,541	2,116
Change in Fair Value		
Noninterest income	\$ 9,425	\$ 2,097
Noninterest expense	9,425	2,097

NOTE FOURTEEN 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

<i>(in thousands)</i>	2011	2010
Deferred tax assets:		
Previously securitized loans	\$ 6,669	\$ 6,533
Allowance for loan losses	7,310	6,803
Deferred compensation payable	2,932	2,972
Underfunded pension liability	2,874	2,346
Accrued expenses	1,729	781
Impaired building and premises	1,362	1,195
Impaired security losses	10,386	10,265
Other	863	1,222
Total Deferred Tax Assets	34,125	32,117
Deferred tax liabilities:		
Intangible assets	925	1,579
Unrealized securities gains	495	629
Other	486	674
Total Deferred Tax Liabilities	1,906	2,882
Net Deferred Tax Assets	\$ 32,219	\$ 29,235

No valuation allowance for deferred tax assets was recorded at December 31, 2011 and 2010 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:

<i>(in thousands)</i>	2011	2010	2009
Current:			
Federal	\$ 20,052	\$ 17,147	\$ 10,083
State	2,809	2,541	1,803
Total current	22,861	19,688	11,886
Total deferred	(2,290)	(1,235)	8,647
Income tax expense	\$ 20,571	\$ 18,453	\$ 20,533

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

<i>(in thousands)</i>	2011	2010	2009
Computed federal taxes at statutory rate	\$ 21,437	\$ 20,096	\$ 22,111
State income taxes, net of federal tax benefit	1,654	1,586	1,669
Tax effects of:			
Tax-exempt interest income	(785)	(804)	(748)
Bank-owned life insurance	(1,172)	(1,269)	(1,195)
Tax reserve adjustment	(70)	(85)	(64)
Other items, net	(493)	(1,071)	(1,240)
Income tax expense	\$ 20,571	\$ 18,453	\$ 20,533

The entire amount of the Company's unrecognized tax benefits if recognized, would favorably affect the Company's effective tax rate. The Company is unable to estimate the range of possible changes in the amounts of unrecognized tax positions that could occur over the next 12 months. A reconciliation of the beginning and ending balance of unrecognized tax benefits for the years ended December 31, 2011 and 2010 is as follows:

<i>(in thousands)</i>	2011	2010
Balance at January 1,	\$ 3,645	\$ -
Additions for current year tax positions	866	3,645
Additions for prior year tax positions	-	-
Decreases for prior year tax positions	(862)	-
Decreases for settlements with tax authorities	-	-
Decreases related to lapse of applicable statute of limitation	-	-
Balance at December 31	\$ 3,649	\$ 3,645

Interest and penalties on income tax uncertainties are included in income tax expense. During 2011, 2010, and 2009, the provision related to interest and penalties was \$0.1 million, \$0.1 million, and \$0.3 million, respectively. The balance of accrued interest and penalties at December 31, 2011 and 2010 was \$0.1 million and \$0.2 million, respectively.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2008 through 2011. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2008 through 2011.

NOTE FIFTEEN

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 at date of grant), and expiration dates are determined at the date of grant and are evidenced by agreements between the Company and the awardee. The exercise price of the option grants equals the market price of the Company's 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

the individual agreement. As of December 31, 2011, 379,250 stock options had been awarded pursuant to the terms of the Plan and 129,575 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 in the following table for the years ended December 31:

	2011		2010		2009	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at January 1	287,393	\$ 33.64	280,605	\$ 33.56	270,455	\$ 33.96
Granted	16,000	35.09	15,500	32.09	17,500	27.98
Exercised	(9,576)	26.63	(7,962)	27.81	(1,350)	21.99
Forfeited	-	-	(750)	33.54	(6,000)	37.90
Outstanding at December 31	<u>293,817</u>	<u>\$ 33.95</u>	<u>287,393</u>	<u>\$ 33.64</u>	<u>280,605</u>	<u>\$ 33.56</u>
Exercisable at end of year	<u>185,317</u>	<u>33.70</u>	<u>178,393</u>	<u>32.75</u>	<u>169,230</u>	<u>32.61</u>
Nonvested at beginning of year	109,000	\$ 35.10	111,375	\$ 35.01	113,250	\$ 35.68
Granted during year	16,000	35.09	15,500	32.09	17,500	27.98
Vested during year	(16,500)	39.34	(17,625)	31.88	(17,875)	31.91
Forfeited during year	-	-	(250)	33.54	(1,500)	40.88
Nonvested at end of year	<u>108,500</u>	<u>\$ 34.38</u>	<u>109,000</u>	<u>\$ 35.10</u>	<u>111,375</u>	<u>\$ 35.01</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Additional information regarding stock options outstanding and exercisable at December 31, 2011, 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
\$26.62 - \$33.90	185,317	\$ 31.55	48	\$ 434,093	132,817	\$ 32.13	32	\$ 234,238
\$35.09 - \$40.88	108,500	38.05	66	-	52,500	37.68	53	-
	<u>293,817</u>	<u>33.95</u>	<u>55</u>	<u>\$ 434,093</u>	<u>185,317</u>	<u>33.70</u>	<u>38</u>	<u>\$ 234,238</u>

Proceeds from stock option exercises were \$0.3 million in 2011, \$0.2 million in 2010, and less than \$0.1 million in 2009. 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 2011, 2010, and 2009, 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 less than \$0.1 million in each of 2011, 2010 and 2009.

Stock-based compensation expense totaled \$0.2 million in 2011 and \$0.3 million in both 2010 and 2009. The total income tax benefit recognized in the accompanying consolidated statements of income related to stock-based compensation was less than \$0.1 million in 2011. Unrecognized stock-based compensation expense related to stock options totaled \$0.5 million at December 31, 2011. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.5 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:

	2011	2010	2009
Risk-free interest rate	3.07%	3.24%	2.52%
Expected dividend yield	3.88%	4.24%	4.86%
Volatility factor	0.411	0.427	0.463
Expected life of option	8 years	8 years	8 years

The Company records compensation expense with respect to restricted shares in an amount equal to the fair value of the common stock covered by each award on the date of grant. The restricted shares awarded become fully vested after various periods of continued employment from the respective dates of grant. The Company is entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are

released and the shares are issued. Compensation is being charged to expense during the respective vesting periods.

Restricted shares are forfeited if officers and employees terminate employment 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 \$0.6 million, \$0.5 million and \$0.4 million of compensation expense for the years ended December 31, 2011, 2010 and 2009, respectively, within salaries and employee benefits in the Company's Consolidated Statements of Income associated with issued restricted stock awards. Unrecognized stock-based compensation expense related to non-vested restricted shares was \$2.0 million at December 31, 2011. At December 31, 2011, this unrecognized expense is expected to be recognized over 5.1 years based on the weighted average-life of the restricted shares.

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

	2011		2010	
	Restricted Awards	Average Market Price At Grant	Restricted Awards	Average Market Price At Grant
Outstanding at January 1	96,060		88,109	
Granted	14,050	\$ 35.08	13,750	\$ 31.47
Vested	(1,901)		(5,799)	
Outstanding at December 31	<u>108,209</u>		<u>96,060</u>	

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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, 2011, there were 17 investment options, including City Holding Company common stock, available under the 401(k) Plan.

The Company's total expense associated with the 401(k) Plan approximated \$0.6 million in 2011, 2010, and 2009, respectively. The total number of shares of the Company's common stock held by the 401(k) Plan as of December 31, 2011 and 2010 is 294,022 and 309,259, 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 a December 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, 2011 and December 31, 2010. The Company has recorded a pension liability of \$4.0 million and \$2.5 million as of December 31, 2011 and 2010, included within Other Liabilities within the Consolidated Balance Sheets, and a \$4.7 million and \$3.8 million, net of tax, underfunded pension liability in Accumulated Other Comprehensive Income within Shareholders' Equity at December 31, 2011 and 2010, respectively. The following table summarizes activity within the Defined Benefit Plan in 2011 and 2010:

(in thousands)	Pension Benefits	
	2011	2010
Change in fair value of plan assets:		
Fair value at beginning of measurement period	\$ 9,668	\$ 9,154
Actual gain (loss) on plan assets	(379)	1,076
Contributions	400	163
Benefits paid	(737)	(725)
Fair value at end of measurement period	8,952	9,668
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(12,202)	(11,604)
Interest cost	(650)	(674)
Actuarial loss	(828)	(649)
Benefits paid	737	725
Benefit obligation at end of measurement period	(12,943)	(12,202)
Funded status	(3,991)	(2,534)
Unrecognized net actuarial gain	7,637	6,164
Other comprehensive loss	(7,637)	(6,164)
Accrued Benefit Cost	\$ (3,991)	\$ (2,534)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	5.06%	5.50%
Expected long-term rate of return	8.00%	8.00%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	5.50%	6.00%
Expected long-term rate of return	8.00%	8.00%

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

(in thousands)	Pension Benefits		
	2011	2010	2009
Components of net periodic benefit:			
Interest cost	\$ 650	\$ 674	\$ 678
Expected return on plan assets	(811)	(812)	(797)
Net amortization and deferral	547	370	319
Net Periodic Pension Cost	\$ 386	\$ 232	\$ 200

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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 target, allowable, and current allocation percentages of plan assets are as follows:

	Target Allocation	Allowable- Allocation Range	Percentage of Plan Assets At December 31	
	2011		2011	2010
Equity securities	60%	40-80%	54%	59%
Debt securities	30%	20-40%	35%	31%
Other	10%	3-10%	11%	10%
Total			100%	100%

The major categories of assets in the Company's Defined Benefit Plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (See Note Twenty).

(in thousands)	Total	Level 1	Level 2	Level 3
2011				
Cash and cash equivalents	\$ 430	\$ 430	\$ -	\$ -
Mutual funds	2,075	1,062	1,013	-
Common stocks	4,320	3,879	441	-
Mortgage-backed securities	445	-	445	-
Government and GSE bonds	1,242	-	1,242	-
Corporate Bonds	440	-	440	-
Total	\$ 8,952	\$ 5,371	\$ 3,581	\$ -
2010				
Cash and cash equivalents	\$ 457	\$ 457	\$ -	\$ -
Mutual funds	1,965	1,112	853	-
Common stocks	5,198	4,834	364	-
Mortgage-backed securities	348	-	348	-
Government and GSE bonds	1,407	-	1,407	-
Corporate Bonds	293	-	293	-
Total	\$ 9,668	\$ 6,403	\$ 3,265	\$ -

Mutual funds include large value and fixed income funds. Common stocks include investments in small to mid cap funds and large cap funds primarily located inside of the United

States. Common stocks also include funds invested in commercial real estate as well as international value funds. Government and GSE bonds include U.S. Treasury notes with varying maturity dates. Corporate bonds include taxable bonds issued by U.S. corporations.

The Company anticipates making a contribution to the plan of \$0.8 million for the year ending December 31, 2012. 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)
2012	\$ 794
2013	809
2014	817
2015	824
2016	838
2017 through 2021	4,416

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). It is the policy of the Company to fund the normal cost of the multiemployer plan on an annual basis. No contributions were required for the years ended December 31, 2011 and 2010. 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 termination 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 four-year service period for each executive and is included in Other Liabilities within the Consolidated Balance Sheets. The liability was \$2.0 million at both December 31, 2011 and 2010. No charge to operations was incurred for the years ended December 31, 2011 and December 31, 2010.

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 during 2011, 2010, and 2009, respectively. The liability for such agreements approximated \$4.2 million and \$4.3 million at December 31, 2011 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

December 31, 2010, respectively and is included within 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 \$7.3 million and \$7.1 million at December 31, 2011 and 2010, respectively, which is included in Other Assets in the accompanying Consolidated Balance Sheets.

NOTE SIXTEEN 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 \$34.7 million at December 31, 2011 and \$39.8 million at December 31, 2010. 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 2011, total principal additions were \$1.1 million and total principal reductions were \$6.2 million.

NOTE SEVENTEEN 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. The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. Overdraft protection commitments, which are included with other commitments below, are uncollateralized and are paid at the Company's discretion. Conditional commitments generally include standby and commercial letters of credit. Standby letters of credit represent an obligation of the Company to a designated third party contingent upon the failure of a customer of the Company to perform under the terms of the underlying contract between the customer and the third party. Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, drafts will be drawn when the underlying transaction is consummated, as intended, between the customer and a third party. The funded portion of these financial instruments is reflected in the Company's balance sheet, while the unfunded portion of these commitments is not reflected in the balance sheet. The table below presents a summary of the contractual obligations of the Company resulting from significant commitments:

<i>(in thousands)</i>	2011	2010
Commitments to extend credit:		
Home equity lines	\$ 143,856	\$ 141,162
Commercial real estate	29,995	29,916
Other commitments	185,602	180,248
Standby letters of credit	20,110	19,864
Commercial letters of credit	412	1,096

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.

City National is currently in a civil action pending in the Circuit Court of Kanawha County, West Virginia. This putative class action asserts that the plaintiffs, and others similarly situated, were wrongfully assessed overdraft fees in connection with City National Bank accounts. The plaintiffs allege that City National Bank's policy of posting debit and check transactions from high to low order was in violation of the West Virginia Consumer Credit and Protection Act, constituted a breach of the implied covenant of good faith and created an unjust enrichment to City National Bank.

On August 5, 2011, City National Bank and the plaintiffs' attorneys submitted a Preliminary Motion to Approve Settlement to the Kanawha County Circuit Court. The motion asked the Court to approve a settlement in which the Company will pay the eligible members of the class a total of \$3.0 million and would forgive and release \$2.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts. The parties have since agreed to revise the Preliminary Motion to Approve Settlement and now City National Bank will pay the eligible members of the class a total of \$3.4 million and will forgive and release \$3.5 million in account balances of accounts of former customers who are no longer customers of the bank, but left overdrawn accounts. The Company has accrued for this probable loss as of December 31, 2011.

In addition, 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.

NOTE EIGHTEEN PREFERRED STOCK

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

stock, without any vote or action by the shareholders. As of December 31, 2011, no such shares are outstanding, nor are any expected to be issued.

NOTE NINETEEN 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. At December 31, 2011, City National could pay dividends up to \$22.7 million plus net profits for 2012, as defined by statute, up to the dividend declaration date without prior regulatory permission.

During 2011, 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, 2011, the Parent Company reported a cash balance of approximately \$2.6 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 2012.

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, 2011, that the Company and City National met all capital adequacy requirements to which they were subject.

As of December 31, 2011, 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:

	2011		2010		Well Capitalized	Minimum
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Ratio	Ratio
Total Capital (to Risk-Weighted Assets):						
Consolidated	\$ 288,156	14.1%	\$ 291,861	14.8%	10.0%	8.0%
City National	262,891	13.0	264,726	13.6	10.0	8.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	268,707	13.1	273,554	13.9	6.0	4.0
City National	243,442	12.0	246,419	12.7	6.0	4.0
Tier I Capital (to Average Assets):						
Consolidated	268,707	10.2	273,554	10.5	5.0	4.0
City National	243,442	9.3	246,419	9.6	5.0	4.0

NOTE TWENTY FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted ASC Topic 820 “Fair Value Measurements and Disclosures”, 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.

ASC Topic 820 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.

ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy established by ASC Topic 820 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

other inputs that are observable or can be corroborated by observable market data.

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

The Company bases fair value of assets and liabilities on quoted market prices, prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. If such information is not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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

The Company has determined that its pooled trust preferred securities are priced using Level 3 inputs in accordance with ASC Topic 820, Fair Value Measurements and Disclosures and guidance issued by the SEC. The Company has determined that there are few observable transactions and

market quotations available for pooled trust preferred securities and they are not reliable for purposes of determining fair value at December 31, 2011. Due to these circumstances, the Company has elected to utilize an income valuation approach produced by a third party pricing source. This third party model utilizes deferral and default probabilities for the underlying issuers, estimated prepayment rates and assumes no future recoveries of any defaults or deferrals. The Company then compares the values provided by the third party model with other external sources. At such time as there are observable transactions or quoted prices that are associated with an orderly and active market for pooled trust preferred securities, the Company will incorporate such market values in its estimate of fair values for these securities.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes a market approach by obtaining dealer quotations to value its customer interest rate swaps.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and 2010:

<i>(in thousands)</i>	Total	Level 1	Level 2	Level 3
2011				
Assets:				
U.S. Government agencies	\$ 6,041	\$ -	\$ 6,041	\$ -
Obligations of states and political subdivisions	56,802	-	56,802	-
Mortgage-backed securities:				
U.S. Government agencies	227,613	-	227,613	-
Private label	5,156	-	5,156	-
Trust preferred securities	45,157	-	43,175	1,982
Corporate securities	14,398	-	14,398	-
Marketable equity securities	3,853	3,853	-	-
Investment funds	1,763	1,763	-	-
Derivative assets	11,541	-	11,541	-
Liabilities:				
Derivative liabilities	11,541	-	11,541	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

2010					
Assets:					
U.S. Government agencies	\$ 8,002	\$ -	\$ 8,002	\$ -	
Obligations of states and political subdivisions	65,926	-	65,926	-	
Mortgage-backed securities:					
U.S. Government agencies	258,815	-	258,815	-	
Private label	8,118	-	8,118	-	
Trust preferred securities	54,610	-	52,106	2,504	
Corporate securities	15,393	-	15,393	-	
Marketable equity securities	4,693	4,693	-	-	
Investment funds	1,610	1,610	-	-	
Derivative assets	2,116	-	2,116	-	
Liabilities:					
Derivative liabilities	2,116	-	2,116	-	

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, 2011 and 2010:

<i>(in thousands)</i>	Investment Securities Available for Sale
Balance, December 31, 2009	\$ 4,005
Total gains/losses (realized and unrealized) :	
Impairment losses on investment securities	(5,358)
Included in other comprehensive income	3,857
Transfers into Level 3	-
Balance, December 31, 2010	\$ 2,504
Total gains/losses (realized and unrealized) :	
Impairment losses on investment securities	(355)
Included in other comprehensive income	208
Called	(375)
Transfers into Level 3	-
Balance, December 31, 2011	\$ 1,982

Beginning January 1, 2010, the Company changed its policy for recording transfers into and out of the fair value hierarchy levels in response to amended U.S. GAAP. All such transfers are now assumed to be as of the end of the quarter in which the transfer occurred, whereas, previously, the Company assumed transfers into levels to occur at the beginning of a period and transfers out of levels to occur at the end of a period. During the year ended December 31, 2011, the Company did not have any transfers between the fair value hierarchy levels.

During 2011, the Company received full repayment on its investment in a single issuer trust preferred security. At December 31, 2010, the fair value of this security was \$0.4 million.

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accounting principles. 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, 2011 and 2010, the Company has \$22.1 million and \$22.2 million, respectively 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.

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

Long-lived assets held for sale. Long-lived assets held for sale include real estate owned. The fair value of real estate owned is determined by utilizing a market based approach based on independent full appraisals and real estate broker's price opinions, less estimated selling costs. Certain properties require assumptions that are not observable in an active market in the determination of fair value. Assets that are acquired through foreclosure, repossession or return are initially recorded at the lower of the loan or lease carrying amount or fair value less estimated selling costs at the time of transfer to real estate owned. At December 31, 2011 and 2010, the Company has \$7.9 million and \$9.3 million, respectively of other real estate owned that is measured at the lower of cost or fair value on a nonrecurring basis. These assets are considered to be measured at Level 2 in the fair value measurement hierarchy. The Company wrote down approximately \$0.2 million and \$0.9 million of other real estate owned to its fair value during the year ended December 31, 2011 and 2010, respectively.

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 ACS Topic 310, "Receivables." 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, 2011 and 2010, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, 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 based on observable inputs, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or inputs, the Company records the impaired loan as nonrecurring Level 3. The Company recorded \$4.2 million and \$0.8 million in fair value losses on impaired loans during the years ended December 31, 2011 and 2010, respectively, based on the estimated fair value of the underlying collateral. This amount is included in the provision for loan losses on the consolidated statements of income.

FASB ASC Topic 825 "Financial Instruments" as amended, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including 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. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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

	Fair Value of Financial Instruments			
	2011		2010	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 146,399	\$ 146,399	\$ 66,379	\$ 66,379
Securities available-for-sale	360,783	360,783	417,167	417,167
Securities held-to-maturity	23,458	23,423	23,865	23,100
Other securities	11,934	11,934	12,553	12,553
Net loans	1,953,694	1,991,335	1,846,776	1,889,986
Accrued interest receivable	7,093	7,093	7,264	7,264
Derivative assets	11,541	11,541	2,116	2,116
Liabilities:				
Deposits	2,221,268	2,189,559	2,171,375	2,091,402
Short-term borrowings	189,050	189,050	112,710	112,722
Long-term debt	16,495	16,456	16,495	16,495
Derivative liabilities	11,541	11,541	2,116	2,116

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

Cash and cash equivalents: Due to their short-term nature, the carrying amounts reported in the Consolidated Balance Sheets approximate fair value.

Securities: The fair value of securities, both available-for-sale and held-to-maturity, are generally based on quoted market prices or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific

securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Net loans: The fair value of the loan portfolio is estimated 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.

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 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.

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CITY HOLDING COMPANY AND SUBSIDIARIES

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

Condensed Balance Sheets

<i>(in thousands)</i>	December 31	
	2011	2010
Assets		
Cash	\$ 2,621	\$ 2,249
Securities available-for-sale	3,852	4,693
Investment in subsidiaries	319,940	321,798
Deferred tax asset	3,785	3,440
Fixed assets	12	13
Other assets	2,939	4,480
Total Assets	\$ 333,149	\$ 336,673
Liabilities		
Junior subordinated debentures	\$ 16,495	\$ 16,495
Dividends payable	5,177	5,272
Accrued interest payable	31	27
Other liabilities	312	18
Total Liabilities	22,015	21,812
Shareholders' Equity	311,134	314,861
Total Liabilities and Shareholders' Equity	\$ 333,149	\$ 336,673

Junior subordinated debentures represent the Parent Company's amounts owed to City Holding Capital Trust III.

Condensed Statements of Income

<i>(in thousands)</i>	Year Ended December 31		
	2011	2010	2009
Income			
Dividends from subsidiaries	\$ 44,600	\$ 17,200	\$ 39,500
Other income	92	156	262
	44,692	17,356	39,762
Expenses			
Interest expense	639	641	757
Investment securities losses	918	3,643	1,720
Other expenses	613	594	571
	2,170	4,878	3,048
Income Before Income Tax Benefit and Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries	42,522	12,478	36,714
Income tax benefit	(704)	(2,066)	(1,172)
Income Before Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries	43,226	14,544	37,886
Equity in undistributed net income (excess dividends) of subsidiaries	(2,548)	24,416	4,759
Net Income	\$ 40,678	\$ 38,960	\$ 42,645

Condensed Statements of Cash Flows

<i>(in thousands)</i>	Year Ended December 31		
	2011	2010	2009
Operating Activities			
Net income	\$ 40,678	\$ 38,960	\$ 42,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment securities losses	918	3,643	1,720
Amortization and accretion	19	19	19
Deferred income tax benefit	(363)	(1,501)	(615)
Depreciation	1	1	4
Change in other assets	1,522	(1,305)	454
Change in other liabilities	(965)	827	573
Excess dividends of subsidiaries (equity in undistributed net income)	2,548	(24,416)	(4,759)
Net Cash Provided by Operating Activities	44,358	16,228	40,041
Investing Activities			
Purchases of available for sale securities	(29)	(248)	(2,753)
Proceeds from sales of available for sale securities	—	—	317
Investment in subsidiaries	—	4,201	2,600
Net Cash (Used in) Provided by Investing Activities	(29)	3,953	164
Financing Activities			
Dividends paid	(20,628)	(21,350)	(21,675)
Purchases of treasury stock	(23,791)	(12,902)	(3,886)
Exercise of stock options	456	221	29
Excess tax benefits from stock-based compensation arrangements	6	15	—
Net Cash Used in Financing Activities	(43,957)	(34,016)	(25,532)
Increase (decrease) in Cash and Cash Equivalents	372	(13,835)	14,673
Cash and cash equivalents at beginning of year	2,249	16,084	1,411
Cash and Cash Equivalents at End of Year	\$ 2,621	\$ 2,249	\$ 16,084

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE TWENTY-TWO SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information for 2011 and 2010 follows:

<i>(in thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
Interest income	\$ 28,754	\$ 28,323	\$ 28,370	\$ 27,441
Taxable equivalent adjustment	248	240	212	215
Interest income (FTE)	29,002	28,563	28,582	27,656
Interest expense	5,940	5,803	4,799	4,216
Net interest income	23,062	22,760	23,783	23,440
Provision for loan losses	1,086	1,286	-	2,229
Investment securities gains (losses)	-	3,128	272	(917)
Noninterest income	12,662	13,409	13,259	13,045
Noninterest expense	19,858	22,912	19,688	18,685
Income before income tax expense	14,780	15,099	17,626	14,654
Income tax expense	4,918	5,029	5,837	4,787
Taxable equivalent adjustment	248	240	212	215
Net income	\$ 9,614	\$ 9,830	\$ 11,577	\$ 9,652

Net earnings available to common shareholders	\$ 9,546	\$ 9,761	\$ 11,494	\$ 9,582
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Basic earnings per common share	\$ 0.62	\$ 0.65	\$ 0.77	\$ 0.65
Diluted earnings per common share	0.62	0.64	0.76	0.65
Average common shares outstanding:				
Basic	15,380	15,120	15,003	14,743
Diluted	15,462	15,193	15,071	14,814

2010				
Interest income	\$ 30,935	\$ 31,770	\$ 29,970	\$ 29,241
Taxable equivalent adjustment	255	246	244	244
Interest income (FTE)	31,190	32,016	30,214	29,485
Interest expense	7,444	7,092	6,810	6,282
Net interest income	23,746	24,924	23,404	23,203
Provision for loan losses	1,080	1,823	1,847	2,343
Investment securities losses	(1,651)	(231)	(1,566)	(1,219)
Noninterest income	13,763	13,509	13,209	13,125
Noninterest expense	20,551	19,965	19,804	18,401
Income before income tax expense	14,227	16,414	13,396	14,365
Income tax expense	4,659	5,453	4,129	4,212
Taxable equivalent adjustment	255	246	244	244
Net income	\$ 9,313	\$ 10,715	\$ 9,023	\$ 9,909

Net earnings available to common shareholders	\$ 9,263	\$ 10,647	\$ 8,970	\$ 9,849
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Basic earnings per common share	\$ 0.59	\$ 0.68	\$ 0.58	\$ 0.64
Diluted earnings per common share	0.58	0.68	0.58	0.64
Average common shares outstanding:				
Basic	15,793	15,656	15,496	15,439
Diluted	15,851	15,721	15,552	15,508

NOTE TWENTY-THREE EARNINGS PER SHARE

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

<i>(in thousands, except per share data)</i>	2011	2010	2009
Distributed earnings allocated to common stock	\$ 20,102	\$ 20,956	\$ 21,481
Undistributed earnings allocated to common stock	20,280	17,767	21,185
Net earnings allocated to common shareholders	\$ 40,382	\$ 38,723	\$ 42,666
Average shares outstanding	15,055	15,589	15,877
Effect of dilutive securities:			
Employee stock options	75	62	55
Shares for diluted earnings per share	15,130	15,651	15,932
Basic earnings per share	\$ 2.68	\$ 2.48	\$ 2.69
Diluted earnings per share	\$ 2.67	\$ 2.47	\$ 2.68

Options to purchase 222,000, 112,500 and 199,418 shares of common stock at exercise prices between \$32.09 and \$40.88, \$33.90 and \$40.88, and \$31.32 and 40.88 per share were outstanding during 2011, 2010, and 2009, 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 anti-dilutive.

NOTE TWENTY-FOUR COMPREHENSIVE INCOME

The following table sets forth the computation of total comprehensive income:

<i>(in thousands)</i>	2011	2010	2009
Net income	\$40,678	\$38,960	\$42,645
Unrealized security gains arising during the period	2,169	44	12,411
Reclassification adjustments for (gains) losses	(2,483)	4,667	6,164
	(314)	4,711	18,575
Unrealized loss on interest rate floors	(473)	(4,494)	(10,104)
Change in underfunded pension liability	(1,473)	(125)	846
Other comprehensive income before income taxes	38,418	39,052	51,962
Tax effect	850	(35)	(3,578)
Total comprehensive income	\$39,268	\$39,017	\$48,384

Subsidiaries of City Holding Company

As of December 31, 2011, the subsidiaries, each wholly-owned, of City Holding Company included:

City National Bank of West Virginia 3601 MacCorkle Avenue S.E. Charleston, West Virginia	National Banking Association	Insured Depository Institution
City Financial Corporation 3601 MacCorkle Avenue S.E. Charleston, West Virginia	West Virginia Corporation	Inactive Securities Brokerage and Investment Advisory Company
City Mortgage Corporation Pittsburgh, Pennsylvania	Pennsylvania Corporation	Inactive Mortgage Banking Company
City Capital Management Company 300 Delaware Avenue Wilmington, Delaware	Delaware Corporation	Capital Management Company
City Holding Capital Trust 25 Gatewater Road Charleston, West Virginia	Delaware Business Trust	Special-purpose Statutory Trust

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of City Holding Company of our reports dated March 15, 2012, with respect to the consolidated financial statements of City Holding Company and the effectiveness of internal control over financial reporting of City Holding Company, included in the 2011 Annual Report to Shareholders of City Holding Company.

We also consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statements (Forms S-8 Nos. 333-115282 and 333-87667) of City Holding Company pertaining to the 2003 Incentive Plan and the 1993 Stock Incentive Plan, and
- 2) Registration Statement (Form S-3 No. 333-155344) of City Holding Company of our reports dated March 15, 2012, with respect to the consolidated financial statements of City Holding Company and the effectiveness of internal control over financial reporting of City Holding Company included in the Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 15, 2012

CERTIFICATION

I, Charles R. Hageboeck certify that:

1. I have reviewed this Annual Report on Form 10-K of City Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2012

/s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief Executive Officer

CERTIFICATION

I, David L. Bumgarner certify that:

1. I have reviewed this annual report on Form 10-K of City Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2012

/s/ David L. Bumgarner

David L. Bumgarner
Senior Vice President, Chief Financial Officer and
Principal Accounting Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of City Holding Company (the “Company”) for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles R. Hageboeck, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2012

/s/ Charles R. Hageboeck
Charles R. Hageboeck
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of City Holding Company (the “Company”) for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Bumgarner, Senior Vice President, Chief Financial Officer and Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2012

/s/ David L. Bumgarner

David L. Bumgarner
Senior Vice President, Chief Financial Officer and
Principal Accounting Officer

CITY HOLDING COMPANY DIRECTORS

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
David W. Hambrick	Self-employed attorney
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	Retired Vice President of Communications, The Greenbrier Resort and Club Management Company (resort hotel) 2005

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 Senior Vice President & Chief Financial Officer	Michael T. Quinlan, Jr. Senior Vice President, Branch Banking	

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