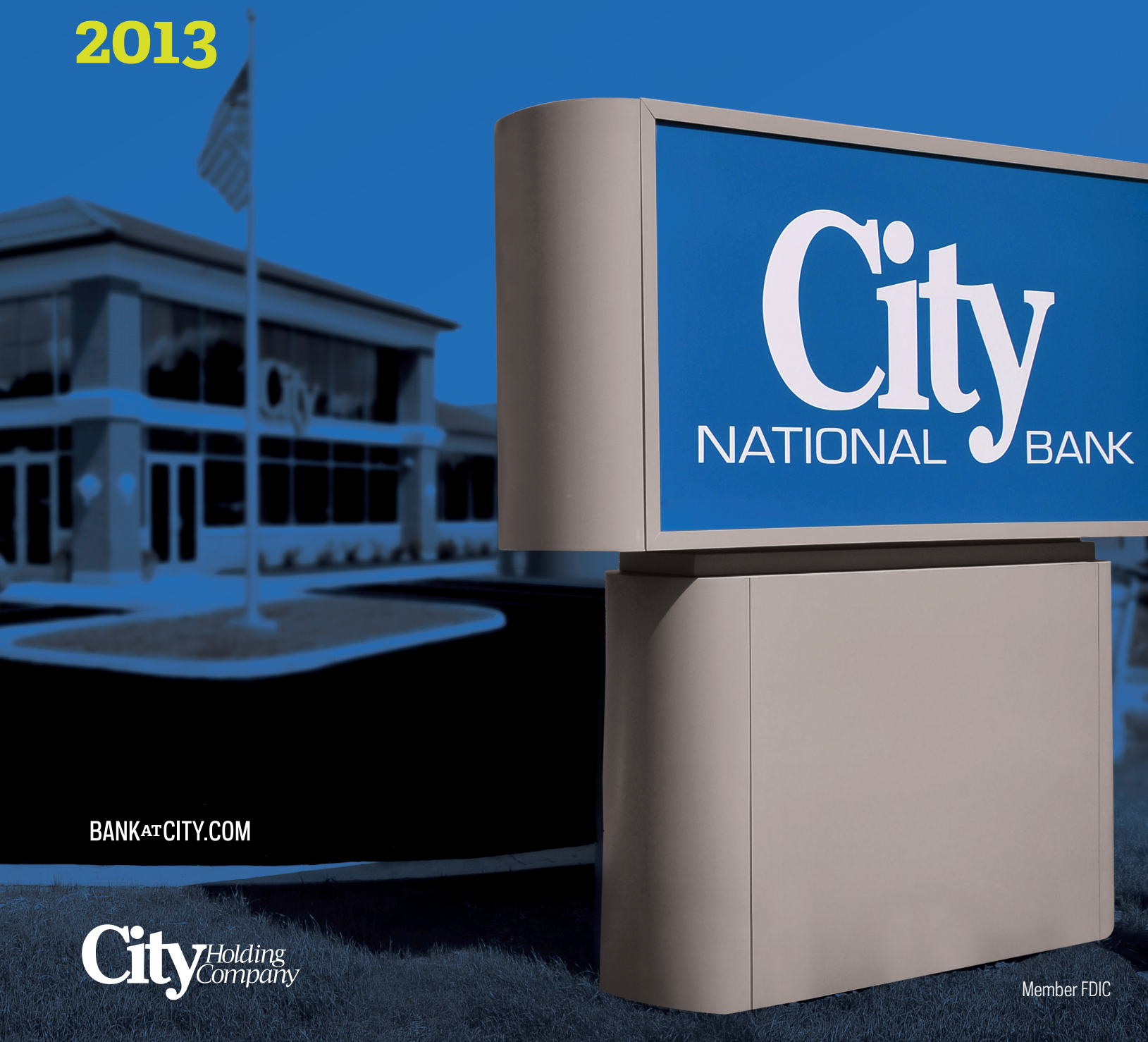


ANNUAL REPORT

2013



BANKATCITY.COM

City Holding
Company

Member FDIC

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For The Fiscal Year Ended December 31, 2013

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

Charleston, West Virginia

(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:

Title of Each Class

Common Stock, \$2.50 par value

Name of Each Exchange on Which Registered:

NASDAQ Global Select Market

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

None

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

Yes ☒ No ☐

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 the 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 definition 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 ☐

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, 2013, 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 \$580.2 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 3, 2014, there were 15,694,224 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, 2013 are incorporated by reference into Part 1, Item 1 and Part II, Items 6, 7, 7A, and 8. Portions of the Proxy Statement for the 2014 annual shareholders' meeting to be held on April 30, 2014 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14.

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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.

PART I

Item 1. Business

City Holding Company (the "Company") is a financial 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 82 banking offices in West Virginia (57 offices), Virginia (14 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, mobile banking, debit 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 financial 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.

On May 31, 2012, the Company acquired 100% of the outstanding common and preferred stock of Virginia Savings Bancorp, Inc. and its wholly owned subsidiary, Virginia Savings Bank (collectively, "Virginia Savings"). As a result of this acquisition, the Company acquired five branches which expanded its footprint into Virginia. At the time of closing, Virginia Savings had total assets of \$132 million, loans of \$82 million, deposits of \$120 million and shareholders' equity of \$11 million. On January 10, 2013, the Company acquired 100% of the outstanding common and preferred stock of Community Financial Corporation and its wholly owned subsidiary Community Bank (collectively, "Community"). As a result of this acquisition, the Company acquired eight branches along the I-81 corridor in western Virginia and two branches in Virginia Beach, Virginia. At the time of closing, Community had total assets of \$460 million, loans of \$410 million, deposits of \$380 million and shareholders' equity of \$53 million.

City National's customer base is diverse and no single depositor 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, 2013, approximately 52% of the Company's loan portfolio was categorized as residential mortgage and home equity-junior lien 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-junior lien, 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 cyclicalities, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. As of December 31, 2013, the Company reported \$164.5 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, 2013, the Company reported \$1.04 billion 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 real estate loans represent loans to consumers for the purchase or refinance of a residence. These loans primarily consist of (i) single family 1, 3, 5 and 10 year adjustable rate mortgages with terms that amortize the loans over periods from 15- to 30- years, and (ii) home equity loans secured by first liens. In most cases, residential mortgage loans 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 its fixed-rate originations in the secondary market. The Company's mortgage products do not include sub-prime, interest only or option adjustable rate mortgage products. As of December 31, 2013, the Company reported \$1.21 billion of loans classified as "Residential Real Estate."

The Company's home equity junior lien loans are underwritten differently than 1-4 family residential mortgages, with typically less documentation but lower loan-to-value ratios and include both home equity loans and lines-of-credit. This type of lending, which is secured by a junior lien 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. Home equity junior lien loans consist of lines of credit, short-term fixed amortizing loans and non-purchase adjustable rate loans. As of December 31, 2013, the Company reported \$143.4 million of loans classified as "Home Equity-Junior Lien."

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, 2013, the Company reported \$46.4 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, 2013, the Company reported \$3.9 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 the Company's 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, 2013, the Company did not have any industry classification that exceeded 10% of total loans.

City National provides a broad range of depository products and services, including retail and business transaction accounts, money market and regular savings accounts and certificates of deposit that provide a stable, core deposit base. City National also provides merchant card services and cash management services for businesses.

Market Area

As of December 2013, West Virginia's unemployment rate was 6.0% as compared to the national average of 6.7% according to Workforce West Virginia. West Virginia's unemployment rate for December of 6.0% decreased from December 2012's rate of 7.5%. According to the U.S. Census Bureau 2013 estimates, West Virginia's population was approximately 1.9 million and has increased 2.4% over the past 10 years. The median home price in the Charleston, WV metropolitan area was \$140,000 for 2013 and \$132,000 for 2012, according to the National Association of Realtors.

Competition

As noted previously, the Company's principal markets are located in West Virginia and contiguous markets in the surrounding states of Kentucky and Ohio and in Virginia. The majority of the Company's banking offices are located in the areas of Charleston, Huntington, Beckley, Lewisburg, Martinsburg and along the I-81 corridor in Virginia 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 deposits, 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 statute regulation.

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 Global Select Market ("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"). The OCC's supervision and regulation of banks is primarily intended to protect the interests of depositors. The

National Bank Act generally requires each national bank to maintain reserves against deposits, restricts the nature and amount of loans that may be made and the interest that may be charged, and restricts investments and other activities.

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 BHCA 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 (“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. Further, the authority of City National to extend credit to the Company’s directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to substantial restrictions and requirements the Federal Reserve Act and Regulation O promulgated thereafter. These statutes and regulations impose specific limits on the amount of loans City National may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts.

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 in 2012.

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;
- Require the OCC 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 the Company, 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 to maintain their status as financial holding companies;
- 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;
- 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 \$250,000 limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000;
- 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 the Company and its non-bank subsidiaries.

On December 10, 2013 the Federal Reserve adopted the final rules implementing the Volcker Rule, which amends the BHCA to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The Volcker Rule became effective on July 21, 2012 and the final rules are effective April 1, 2014, but the Federal Reserve issued an order extending the period during which institutions have to conform their activities and investments to the requirements of the Volcker Rule to July 21, 2015. The Company is continuing to evaluate the impact of the Volcker Rule and the final rules adopted thereunder, the Company does not currently anticipate that the Volcker Rule will have a material effect on the business, results of operations and financial condition of the Company,

Early last year, the Consumer Financial Protection Bureau (the “CFPB”) issued eight final regulations governing mainly consumer mortgage lending. The first of these rules was issued on January 10, 2013, and included the ability to repay and qualified mortgage rule. This rule imposes additional requirements on banks, including rules designed to require banks to ensure borrowers’ ability to repay their mortgage and took effect January 10, 2014. The same day, the CFPB also finalized a rule on escrow accounts for higher priced mortgage loans and a rule expanding the scope of the high-cost mortgage provision in the Truth In Lending Act. On January 17, 2013, the CFPB issued its final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing, which took effect on January 10, 2014. On January 18, 2013, the CFPB issued a final

appraisal rule under the Equal Credit Opportunity Act and six federal agencies including the CFPB, issued an interagency rule on appraisals for higher-priced mortgage loans. On November 20, 2013, the CFPB issued its final rule on integrated mortgage disclosures under the Truth In Lending Act and the Real Estate Settlement Procedures Act, for which compliance is required by August 1, 2015. The Company has and is continuing to evaluate these integrated mortgage disclosure rules to determine their impact on the Company and City National.

Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the "unfair or deceptive acts or practices" ("UDAP") law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices", which has been delegated to the CFPB for supervision.

Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Company'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 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.

These capital adequacy guidelines will change over the next several years as the new Basel III rules are implemented. See "*Basel III*" discussion below.

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,	
	2013	2012
City Holding:		
Tier I Risk-based	13.0%	13.0%
Total	13.8	13.9
Tier I Leverage	9.8	9.8
City National:		
Tier I Risk-based	11.4%	11.5%
Total	12.2	12.4
Tier I Leverage	8.6	8.7

Basel III: On July 2, 2013, the Federal Reserve published the Basel III Capital Rules establishing a new comprehensive capital framework for all U.S. banking organizations. These rules implement the Basel Committee's December 2010 framework ("Basel III") for strengthening international capital standards, as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions as compared to the current U.S. risk-based capital requirements. The Basel III Capital Rules are effective for City Holding and City National on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

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

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 will be as follows:

	Minimum Capital Ratio
CET1 to risk-weighted assets	4.5%
Tier 1 capital to risk-weighted assets	6.0%
Total capital to risk-weighted assets	8.0%

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including City Holding and City National may make a one-time permanent election to continue to exclude these items. City Holding and City National expect to make this election

in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's available-for-sale-portfolio.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Management believes that, as of December 31, 2013, City Holding and City National would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

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 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, 2013, City National could pay dividends up to \$5.2 million without prior regulatory permission. During 2013, 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 the acquisition of Community Financial Corporation. 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 2014.

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 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 during the second quarter of 2013, the remaining balance was refunded back to the Company. FDIC insurance expense totaled \$1.9 million, \$1.6 million and \$2.6 million in 2013, 2012, and 2011, respectively.

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-comment rulemaking if required.

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.

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, 2013, the executive officers of the Company were as follows:

Name	Age	Business Experience
Charles R. Hageboeck, Ph.D.	51	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 2005.
Craig G. Stilwell	58	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	63	Executive Vice President of Commercial Banking, City Holding Company and City National Bank, Charleston, WV since June 2004.
David L. Bumgarner	48	Senior Vice President and Chief Financial Officer, City Holding Company and City National Bank since February 2005.
Jeffrey D. Legge	49	Senior Vice President, Chief Administration Officer and Chief Information Officer, City Holding Company and City National Bank since December 2005.

Employees

The Company had 923 full-time equivalent employees at December 31, 2013.

Available Information

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document the Company files at the Securities and Exchange Commission's ("SEC") Public Reference Room at 100 F Street, N. E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company's SEC filings are also available to the public at the SEC's website at www.sec.gov.

The Company's internet website address is www.bankatcity.com. The Company makes available free of charge through its website its annual report, quarterly reports, current reports 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, 2013 and such pages have been filed as an exhibit to this Form 10-K and are incorporated herein by reference.

Description of Information	Page Reference
1. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	
a. Average Balance Sheets	7
b. Analysis of Net Interest Earnings	8
c. Rate Volume Analysis of Changes in Interest Income and Expense	10
2. Investment Portfolio	
a. Book Value of Investments	15
b. Maturity Schedule of Investments	16
c. Securities of Issuers Exceeding 10% of Stockholders' Equity	15
3. Loan Portfolio	
a. Types of Loans	16
b. Maturities and Sensitivity to Changes in Interest Rates	17
c. Risk Elements	17
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	7
b. Maturity Schedule of Time Certificates of Deposit and Other Time Deposits of \$100,000 or More	23
6. Return on Equity and Assets	6
7. Short-term Borrowings	23

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 and subsequently 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 the business environment in the markets where the Company operates, in the States of West Virginia, 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.

While the business environments in West Virginia, 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 Fluctuates

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, Virginia, Kentucky and Ohio Could Hurt the Company's Business

Because the Company focuses its business in West Virginia, Virginia, Kentucky and Ohio, an economic slowdown in these states could hurt the Company's 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 Value of Real Estate Collateral May Fluctuate Significantly Resulting in an Under-Collateralized Loan Portfolio.

The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for the Company's loan portfolio were to decline materially, a significant part of the Company's loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on the Company's provision for loan losses and the Company's operating results and financial condition.

The Company and City National are Extensively Regulated

The Company operates in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve Board, the OCC and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of the Company's: (i) shares, (ii) acquisition of other companies and businesses, (iii) permissible activities to engage in, (iv) maintenance of adequate capital levels and (v) other operational aspects. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law.

The Dodd-Frank Act, enacted in July 2010, instituted major changes to the bank and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to reduced revenues, additional costs, limit the types of financial services and products the Company may offer and/or increase

the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations.

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, 2013, the Company's goodwill and other identifiable intangible assets were approximately \$75 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, 2013. 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 the Company's 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 the Company's management that would otherwise be directed at developing its existing business. In addition, the Company could discover undisclosed liabilities resulting from any acquisitions for which it may become responsible. Further, the benefits that the Company anticipates from these acquisitions may not develop.

System Failure or Cybersecurity Breaches of the Company's Network Security Could Subject the Company to Increased Operating Costs, as Well as Litigation and Other Potential Losses.

The computer systems and network infrastructure that the Company uses could be vulnerable to unforeseen hardware and cybersecurity issues, including “hacking” and “identity theft.” The Company's operations are dependent upon its ability to protect its computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in the Company's operations could have an adverse effect on its financial condition and results of operations. In addition, the Company's operations are dependent upon its ability to protect the computer systems and network infrastructure utilized by the Company, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the Company's computer systems and network infrastructure, which may result in significant liability to the Company, damage its reputation and inhibit current and potential customers from its Internet banking services.

Furthermore, the Company's customers could incorrectly blame the Company and terminate their accounts with the Company for a cyber-incident which occurred on their own system or with that of an unrelated third party. In addition, a security breach could also subject the Company to additional regulatory scrutiny and expose the Company to civil litigation and possible financial liability.

The Company's Risk Management Practices May Prove to be Inadequate or Not Fully Effective

The Company's risk management framework seeks to mitigate risk and appropriately balance risk and return. The Company has established policies and procedures intended to identify, monitor and manage the types of risk which it is subject to, including credit risk, market risk, liquidity risk, operational risk and reputational risk. Although the Company has devoted significant resources to develop its risk management policies and procedures and expect to continue to do so in the future, these policies and procedures, as well as its risk management techniques, may not be fully effective. In addition, as regulations and markets in which the Company operates continue to evolve, its risk management framework may not always keep sufficient pace with those changes. If the Company's risk management framework does not effectively identify or mitigate its risks, the Company could suffer unexpected losses and could be materially adversely affected. Management of the Company's risks in some cases depends upon the use of analytical and/or forecasting models. If the models the Company uses to mitigate these risks are inadequate, it may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that the Company has not appropriately anticipated, identified or mitigated.

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 its operations. These claims and legal actions, including supervisory actions by its 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 its shareholders' equity and financial results.

The Company Relies Heavily on Its Management Team, and the Unexpected Loss of Key Management May Adversely Affect Its Operations

The Company's success to date has been strongly influenced by its ability to attract and to retain senior management experienced in banking in the markets it serves. The Company's ability to retain executive officers and the current management teams will continue to be important to the successful implementation of its strategies. The Company does not have employment agreements with these key employees other than executive agreements in the event of a change of control and a confidential information, non-solicitation and non-competition agreement related to its stock options. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company's business 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 82 branch offices, with fifty-seven offices in West Virginia, fourteen in 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 sixty-three locations and leases nineteen 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

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 Global Select Market. At March 3, 2014, there were 2,938 shareholders of record.

	Cash Dividends Per Share	Market Value Low	High
2013			
Fourth Quarter	\$ 0.37	\$ 41.87	\$ 49.21
Third Quarter	0.37	40.04	46.13
Second Quarter	0.37	36.87	40.43
First Quarter	0.37	36.07	40.05
2012			
Fourth Quarter	\$ 0.35	\$ 31.78	\$ 36.45
Third Quarter	0.35	32.37	36.43
Second Quarter	0.35	30.96	35.62
First Quarter	0.35	32.59	37.16

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 the Company.

Stock Repurchase Plan

No shares of the Company's common stock were repurchased during the fourth quarter of 2013.

Stock-Based Compensation Plan

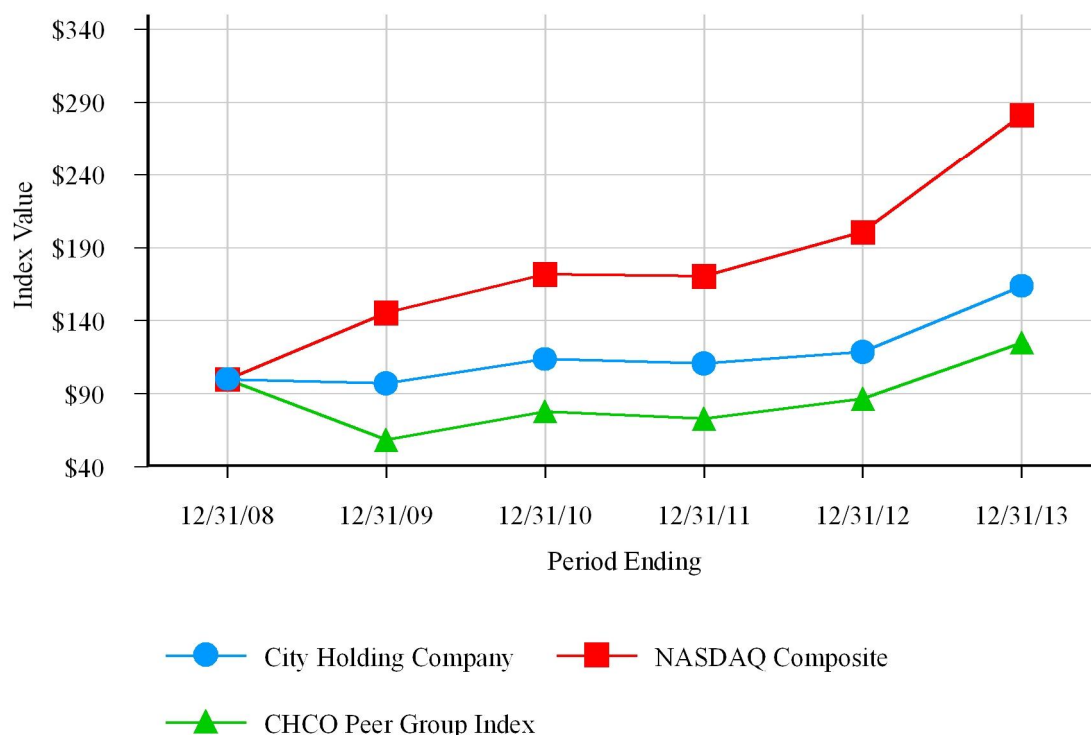
Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2013, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, is presented in the table below. Additional 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	173,601	\$ 35.26	744,200
Plans not approved by shareholders	—	—	—
Total	173,601	\$ 35.26	744,200

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, 2013, as well as an overall stock market index (The Nasdaq Stock Market Index) and the Company's Peer Group ("Peer Group"). The Peer Group consists of twenty banking institutions that (i) are over \$2 billion but less than \$7 billion in assets, (ii) have a return on average assets and a return on average equity performance ratios greater than 0%, (iii) derive at least fifteen percent of their total revenues from non-interest income, (iv) were not a participant in the TARP program, (v) their loan portfolio is comprised of at least eighty-five percent commercial loans, (vi) have more than twenty branches, (vii) located in West Virginia, Indiana, Kentucky, Maryland, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia and New York (excluding New York City), excluding: companies in top 5 metro areas (MSAs), thrifts, thinly traded companies and targets of announced mergers. The trading symbols for such financial institutions include: FCF, WSBC, SCBT, TMP, SRCE, STBA, FRME, SASR, UBSH, CTBI, RBCAA, STEL, THFF, BNCN, CFNL, FISI, MSFG, METR, FCBC, SYBT and UVSP. The stock performance shown on the graph below is not necessarily indicative of future price performance.

Cumulative Total Returns
Assumes Initial Investment of \$100 made of December 31, 2008



	2008	2009	2010	2011	2012	2013
City Holding Company	100.00	97.20	113.72	110.85	118.66	163.64
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
Peer Group	100.00	58.54	77.97	73.08	86.59	124.94

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, 2013, 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 4 through 23 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2013, 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 12-13 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2013, 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 25 through 84 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2013, 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 25 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2013, 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, 2013, 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 2014 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 the 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 Gatewater 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 2014 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 2014 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 2014 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 2014 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 7, 2014

City Holding Company

(Registrant)

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

Charles R. Hageboeck, Ph.D.

President and Chief Executive Officer

(Principal Executive Officer)

By /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 26, 2014. 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/ Jay C. Goldman

Jay C. Goldman
Director

J. Thomas Jones
Director

/s/ David W. Hambrick

David W. Hambrick
Director

/s/ Sharon H. Rowe

Sharon H. Rowe
Director

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

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

/s/ John R. Elliot

John R. Elliot
Director

/s/ Tracy W. Hylton, II

Tracy W. Hylton, II
Director

/s/ Charles W. Fairchilds

Charles W. Fairchilds
Director

/s/ C. Dallas Kayser

C. Dallas Kayser
Director

/s/ William H. File, III

William H. File, III
Director

James L. Rossi

Director

/s/ Robert D. Fisher

Robert D. Fisher
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).
2(b)	Agreement and Plan of Merger , dated August 2, 2012, by and among Community Financial Corporation, Community Bank, City Holding Company and City National Bank of West Virginia (attached to, and incorporated by reference from City Holding Company's Form 8-K dated August 7, 2012, and filed with the Securities and Exchange Commission on August 7, 2012).
3(a)	Articles of Incorporation of City Holding Company (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission).
3(b)	Articles of Amendment to the Articles of Incorporation of City Holding Company , dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7, 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).
- 10(p) **Form of Change of Control Agreement**, dated February 6, 2006, by and between City Holding Company and Jeffrey D. Legge.
- 10(q) **City Holding Company's 2013 Incentive Plan** (attached to, and incorporated by reference from, City Holding Company's Definitive Proxy Statement, filed March 22, 2013 with the Securities and Exchange Commission).
- 13 Portions of City Holding Company Annual Report to Shareholders for Year Ended December 31, 2013.
- 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
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

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

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Selected Financial Data

Exhibit 13

Table One

Five-Year Financial Summary

(in thousands, except per share data)

	2013	2012	2011	2010	2009
Summary of Operations					
Total interest income	\$ 138,539	\$ 112,212	\$ 112,888	\$ 121,916	\$ 132,036
Total interest expense	13,301	14,450	20,758	27,628	36,603
Net interest income	125,238	97,762	92,130	94,288	95,433
Provision for loan losses	6,848	6,375	4,600	7,093	6,994
Total other income	58,006	55,257	54,860	48,939	51,983
Total other expenses	102,906	87,401	81,141	78,721	77,244
Income before income taxes	73,490	59,243	61,249	57,413	63,178
Income tax expense	25,275	20,298	20,571	18,453	20,533
Net income available to common shareholders	48,215	38,945	40,678	38,960	42,645
Per Share Data					
Net income basic	\$ 3.07	\$ 2.63	\$ 2.68	\$ 2.48	\$ 2.69
Net income diluted	3.04	2.61	2.67	2.47	2.68
Cash dividends declared	1.48	1.40	1.37	1.36	1.36
Book value per share	24.61	22.47	21.05	20.31	19.45
Selected Average Balances					
Total loans	\$ 2,523,755	\$ 2,041,876	\$ 1,899,388	\$ 1,820,588	\$ 1,797,115
Securities	360,860	409,431	454,513	507,915	501,475
Interest-earning assets	2,905,783	2,489,072	2,391,484	2,348,258	2,304,053
Deposits	2,821,573	2,338,891	2,221,414	2,190,324	2,136,949
Long-term debt	16,495	16,495	16,495	16,876	18,286
Shareholders' equity	373,102	325,073	316,161	316,030	294,583
Total assets	3,378,351	2,837,234	2,701,720	2,654,497	2,608,750
Selected Year-End Balances					
Net loans	\$ 2,585,622	\$ 2,127,560	\$ 1,953,694	\$ 1,846,776	\$ 1,773,893
Securities	370,120	402,039	396,175	453,585	513,931
Interest-earning assets	2,986,194	2,574,684	2,374,804	2,334,921	2,309,884
Deposits	2,785,133	2,409,316	2,221,268	2,171,375	2,163,722
Long-term debt	16,495	16,495	16,495	16,495	16,959
Shareholders' equity	387,623	333,274	311,134	314,861	308,902
Total assets	3,368,238	2,917,466	2,777,109	2,637,295	2,622,620
Performance Ratios					
Return on average assets	1.43%	1.37%	1.51%	1.47%	1.63%
Return on average equity	12.92	11.98	12.87	12.33	14.48
Return on average tangible common equity	16.20	14.74	15.66	15.02	17.95
Net interest margin	4.33	3.96	3.89	4.06	4.18
Efficiency ratio	55.82	57.16	55.87	52.93	49.99
Dividend payout ratio	48.21	53.23	51.12	54.84	50.56

Asset Quality

Net charge-offs to average loans	0.20%	0.34%	0.18%	0.41%	0.59%
Provision for loan losses to average loans	0.27	0.31	0.24	0.39	0.39
Allowance for loan losses to nonperforming loans	90.25	96.59	87.76	156.39	132.02
Allowance for loan losses to total loans	0.79	0.88	0.98	0.98	1.03

Consolidated Capital Ratios

Total	13.84%	13.85%	14.07%	14.81%	14.44%
Tier I Risk-based	13.00	12.97	13.12	13.88	13.46
Tier I Leverage	9.80	9.82	10.18	10.54	10.10
Average equity to average assets	11.04	11.46	11.70	11.91	11.29
Tangible equity to tangible assets (end of period)	9.49	9.40	9.37	10.01	9.82
Full-time equivalent employees	923	843	795	805	809

TWO-YEAR SUMMARY OF COMMON STOCK PRICES AND DIVIDENDS

	Cash Dividends Per Share		Market Low	High
2013				
Fourth Quarter	\$ 0.37	\$	41.87	\$ 49.21
Third Quarter	0.37		40.04	46.13
Second Quarter	0.37		36.87	40.43
First Quarter	0.37		36.07	40.05
2012				
Fourth Quarter	\$ 0.35	\$	31.78	\$ 36.45
Third Quarter	0.35		32.37	36.43
Second Quarter	0.35		30.96	35.62
First Quarter	0.35		32.59	37.16

*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").

The Company's common stock trades on the NASDAQ Global Select Market under the symbol CHCO. The above 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 March 3, 2014, there were 2,938 shareholders of record.

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

CITY HOLDING COMPANY

City Holding Company (the "Company"), a West Virginia corporation headquartered in Charleston, West Virginia, is a financial holding company and a bank holding company that provides diversified financial products and services to consumers and local businesses. Through its network of 82 banking offices in West Virginia (57), Virginia (14), 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.

On January 10, 2013, the Company acquired Community Financial Corporation and its wholly owned subsidiary, Community Bank (collectively, "Community"). As a result of this acquisition, the Company acquired eight branches along the I-81 corridor in western Virginia and two branches in Virginia Beach, Virginia. On May 31, 2012, the Company acquired Virginia Savings Bancorp, Inc. and its wholly owned subsidiary, Virginia Savings Bank (collectively, "Virginia Savings"). As a result of this acquisition, the Company acquired five branches which expanded its footprint into Virginia.

CRITICAL ACCOUNTING POLICIES

The accounting policies of the Company conform to U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management's estimates. As this information changes, management's estimates and assumptions used to prepare the Company's financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One of 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, other-than-temporary impairment on investment securities and purchased credit-impaired loans 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 18-20 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 appropriateness of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions, and other relevant factors. This determination is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance for loan losses related to loans considered to be impaired is generally evaluated based on the discounted cash flows using the impaired loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

Pages 11-12 of this Annual Report to Shareholders provide management's analysis of the Company's income taxes. The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The 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, 2010 through 2012. 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, 2009 through 2012.

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.

The Company values purchased credit-impaired loans at fair value in accordance with ASC Topic 310-30. In determining the estimated fair value, management considers several factors, such as estimated future credit losses, estimated prepayments, remaining lives of the acquired loans, estimated value of the underlying collateral and the net present value of the cash flows expected to be received. For these loans, the expected cash flows that exceed the fair value of the loan represent the accretable yield, which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans. The non-accretable difference represents the difference between the contractually required principal and interest payments and the cash flows expected to be collected based upon management's estimation. Subsequent decreases in the expected cash flows will require the Company to evaluate the need for additions to the Company's allowance for loan losses. Subsequent increases in the expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges with a corresponding adjustment to the accretable yield, which will result in the recognition of additional interest income over the remaining lives of the loans.

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, 2013, approximately 10.6% of total assets, or \$356 million, consisted of financial instruments recorded at fair value. Of this total, approximately 98.9% or \$352 million of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 1.1% or \$4 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, 2013, approximately \$4 million of derivative liabilities were recorded at fair value using methodologies involving observable market data. The Company does not believe that any changes in the 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:

	2013	2012	2011
Net income (<i>in thousands</i>)	\$ 48,215	\$ 38,945	\$ 40,678
Earnings per share, basic	\$ 3.07	\$ 2.63	\$ 2.68
Earnings per share, diluted	\$ 3.04	\$ 2.61	\$ 2.67
ROA*	1.43%	1.37%	1.51%
ROE*	12.92%	11.98%	12.87%
ROATCE*	16.20%	14.74%	15.66%

*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 tax equivalent net interest income increased \$27.4 million, or 27.8%, from \$98.5 million in 2012 to \$125.9 million in 2013. This increase is due primarily to loan growth from the acquisition of Community as of January 9, 2013 and accretion of the fair value adjustments related to the acquisitions of Virginia Savings and Community. The Company's reported net interest margin increased from 3.96% for the year ended December 31, 2012 to 4.33% for the year ended December 31, 2013 (see *Net Interest Income*). The Company's provision for loan losses increased \$0.5 million from \$6.4 million in 2012 to \$6.8 million in 2013 (see *Allowance and Provision for Loan Losses*).

BALANCE SHEET ANALYSIS

Selected balance sheet fluctuations are summarized in the following table (in millions):

	December 31, 2013	2012	\$ Change	% Change
Gross loans	\$ 2,606.2	\$ 2,146.4	\$ 459.8	21.4%
Investment securities	370.1	402.0	(31.9)	(7.9)
Premises and equipment, net	82.5	72.7	9.8	13.5
Goodwill and other intangible assets	75.1	65.1	10.0	15.4
Total deposits	2,785.1	2,409.3	375.8	15.6
Short-term borrowings	137.8	114.6	23.2	20.2
Long-term debt	16.5	16.5	—	—
Total shareholders' equity	387.6	333.3	54.3	16.3

Gross loans increased \$460 million, or 21.4%, from December 31, 2012 to \$2.61 billion at December 31, 2013, primarily due to the Company's acquisition of Community (\$372 million). Excluding the Community acquisition, loans increased \$88 million (4.1%) from December 31, 2012 to December 31, 2013. Increases in residential real estate loans of \$59 million (5.8%), commercial real estate loans of \$33 million (4.0%) and commercial and industrial ("C&I") loans of \$10 million (9.2%) were partially offset by a decrease in consumer loans (\$14 million). The majority of this decrease is attributable to the Company's decision to strategically reduce the portfolio of indirect auto loans with unsatisfactory credit quality metrics associated with the Community acquisition.

Investment securities decreased \$32 million, or 7.9%, from \$402 million at December 31, 2012, to \$370 million at December 31, 2013.

Premises and equipment, net increased \$10 million, or 13.5%, from \$73 million at December 31, 2012 to \$83 million at December 31, 2013. The increase was primarily attributable to the acquisition of Community (\$9 million).

Goodwill and other intangible assets increased \$10 million as a result of the Community acquisition. In connection with this acquisition, the Company recorded a core deposit intangible of \$2.7 million and goodwill of \$8.3 million.

Total deposits increased \$376 million, or 15.6%, from \$2.41 billion at December 31, 2012 to \$2.79 billion at December 31, 2013, primarily due to the Community acquisition (\$383 million).

Short-term borrowings increased \$23 million, or 20.2%, from December 31, 2012 to December 31, 2013. All of the Company's short-term borrowings are customer repurchase agreements.

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

Shareholders' equity increased \$54.3 million from December 31, 2012 to December 31, 2013 (see Capital Resources).

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

	2013			2012			2011		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets									
Loan portfolio ⁽¹⁾ :									
Residential real estate ^{(2),(3)}	\$ 1,304,741	55,165	4.23%	\$ 1,114,653	49,000	4.40%	\$ 1,040,460	48,948	4.70%
Commercial, financial, and agriculture ^{(4),(5)}	1,154,637	62,679	5.43	880,502	40,815	4.64	812,401	37,955	4.67
Installment loans to individuals ^{(6),(7)}	64,377	6,219	9.66	46,721	3,311	7.09	46,167	3,375	7.31
Previously securitized loans ⁽⁸⁾	—	2,531	—	—	3,306	—	360	3,136	871.11
Total loans	2,523,755	126,594	5.02	2,041,876	96,432	4.72	1,899,388	93,414	4.92
Securities:									
Taxable	330,225	10,697	3.24	371,092	14,285	3.85	408,472	17,729	4.34
Tax-exempt ⁽⁹⁾	30,635	1,885	6.15	38,339	2,218	5.79	46,041	2,611	5.67
Total securities	360,860	12,582	3.49	409,431	16,503	4.03	454,513	20,340	4.48
Deposits in depository institutions	8,116	—	—	7,258	—	—	7,655	—	—
Federal funds sold	13,052	22	0.17	30,507	53	0.17	29,928	48	0.16
Total interest-earning assets	2,905,783	139,198	4.79	2,489,072	112,988	4.54	2,391,484	113,802	4.76
Cash and due from banks	154,983			74,193			58,247		
Bank premises and equipment	82,168			69,772			64,678		
Other assets	255,544			223,783			206,724		
Less: allowance for loan losses	(20,127)			(19,586)			(19,413)		
Total assets	\$ 3,378,351			\$ 2,837,234			\$ 2,701,720		
Liabilities									
Interest-bearing demand deposits	\$ 603,844	712	0.12%	\$ 534,211	697	0.13%	\$ 493,433	895	0.18%
Savings deposits	599,574	864	0.14	479,760	759	0.16	420,212	1,023	0.24
Time deposits ⁽¹⁰⁾	1,103,945	10,782	0.98	909,951	12,021	1.32	927,789	17,876	1.93
Short-term borrowings	127,679	325	0.25	121,780	312	0.26	123,569	325	0.26
Long-term debt	16,495	618	3.75	16,495	661	4.01	16,495	639	3.87
Total interest-bearing liabilities	2,451,537	13,301	0.54	2,062,197	14,450	0.70	1,981,498	20,758	1.05
Noninterest-bearing demand deposits	514,210			414,969			379,980		
Other liabilities	39,502			34,995			24,081		
Stockholders' equity	373,102			325,073			316,161		
Total liabilities and stockholders' equity	\$ 3,378,351			\$ 2,837,234			\$ 2,701,720		
Net interest income		125,897			98,538			93,044	
Net yield on earning assets			4.33%			3.96%			3.89%

- (1) For purposes of this table, non-accruing loans have been included in average balances and loan fees, which are immaterial, have been included in interest income.
- (2) Includes the Company's residential real estate and home equity-junior lien loan categories.
- (3) For 2013, interest income on residential real estate loans includes \$0.8 million and \$1.0 million of accretion related to the fair value adjustments due to the acquisitions of Community and Virginia Savings. For 2012, interest income includes \$0.7 million of accretion related to the fair value adjustments due to the acquisition of Virginia Savings. For 2011, interest income includes \$0.6 million from interest rate floors.
- (4) Includes the Company's commercial and industrial and commercial real estate loan categories.
- (5) For 2013, interest income on commercial, financial and agricultural loans includes \$7.9 million and \$2.4 million of accretion related to the fair value adjustments due to the acquisitions of Community and Virginia Savings. For 2012, interest income includes \$1.6 million of accretion related to the fair value adjustments due to the acquisition of Virginia Savings. For 2011, interest income includes \$0.5 million from interest rate floors.
- (6) Includes the Company's consumer and DDA overdrafts loan categories.
- (7) For 2013, interest income on installment loans to individuals includes \$1.2 million and \$0.1 million of accretion related to the fair value adjustments due to the acquisitions of Community and Virginia Savings. For 2012, interest income includes \$0.1 million of accretion related to the fair value adjustments due to the acquisition of Virginia Savings.
- (8) Effective January 1, 2012, the carrying value of the Company's previously securitized loans was reduced to \$0.
- (9) Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 35%.
- (10) For 2013, interest expense on time deposits includes \$0.7 million and \$0.5 million of accretion related to the fair value adjustments due to the acquisitions of Community and Virginia Savings. For 2012, interest expense includes \$0.2 million of accretion related to the fair value adjustments due to the acquisition of Virginia Savings.

NET INTEREST INCOME

2013 vs. 2012

The Company's tax equivalent net interest income increased \$27.4 million, or 27.8%, from \$98.5 million in 2012 to \$125.9 million in 2013. This increase is due primarily to loan growth from the acquisition of Community as of January 9, 2013 and accretion of the fair value adjustments related to the acquisitions of Community and Virginia Savings. In addition, the average rate paid on interest bearing deposits decreased from 0.70% during 2012 to 0.54% during 2013, which was largely attributable to the average rate paid on time deposits declining from 1.32% during 2012 to 0.98% during 2013.

The Company's reported net interest margin increased from 3.96% for the year ended December 31, 2012 to 4.33% for the year ended December 31, 2013. Excluding the positive impact of accretion relating to the Company's acquisitions, the net interest margin decreased slightly from 3.85% in 2012 and 3.83% for the year ended December 31, 2013.

Excluding the impact of the Community acquisition, average interest-earning assets increased \$85 million from 2012 to 2013, as increases attributable to residential real estate (\$85 million) and commercial loans (\$67 million) were partially offset by a decrease in investment securities (\$49 million) and federal funds sold (\$17 million). Excluding the impact of the Community acquisition, average interest-bearing liabilities increased \$90 million from 2012 due to increases in savings deposits (\$47 million), interest-bearing demand deposits (\$23 million) and time deposits (\$15 million).

The following table presents the actual and forecasted accretion related to the fair value adjustments on net interest income recorded as a result of the Community and Virginia Savings acquisitions (in thousands). The amounts in the table below require management to make significant assumptions based on estimated future default, prepayment and discount rates. Actual performance could be significantly different from that assumed, which could result in the actual results being materially different than those estimated below.

Year Ended	Virginia Savings		Community		Total
	Loan Accretion	Certificates of Deposit	Loan Accretion	Certificates of Deposit	
2012	\$ 2,415	\$ 179	\$ —	\$ —	2,594
2013	3,512	542	9,907	682	14,643
2014	922	536	4,104	250	5,812
2015	564	518	3,040	160	4,282
2016	325	497	1,477	44	2,343

2012 vs. 2011

The Company's tax equivalent net interest income increased \$5.5 million, or 5.9%, from \$93.0 million in 2011 to \$98.5 million in 2012. This increase is due primarily to the acquisition of Virginia Savings as of May 31, 2012, an increase in loan balances outstanding and a decline in the average rate paid on interest bearing deposits. The acquisition of Virginia Savings increased the Company's net interest income by \$4.5 million, which included \$2.6 million of accretion related to the fair value adjustments recorded as a result of the acquisition. Excluding the Virginia Savings acquisition, the average balance of loans outstanding increased \$71 million, or 3.73%, from the year ended December 31, 2011. The average rate paid on interest bearing deposits decreased from 1.07% during 2011 to 0.70% during 2012 and was largely attributable to the average rate paid on time deposits declining from 1.93% during 2011 to 1.32% during 2012. These increases were partially offset by a decrease in investment income as approximately \$38 million of higher yielding trust preferred securities were called during the third quarter of 2012.

The Company's reported net interest margin increased from 3.89% for the year ended December 31, 2011 to 3.96% for the year ended December 31, 2012. Excluding the favorable impact of the accretion from the fair value adjustments, the net interest margin for the year ended December 31, 2012 would have been 3.85%.

Average interest-earning assets increased \$98 million from 2011 to 2012, as increases attributable to residential real estate (\$74 million) and commercial loans (\$68 million) were partially offset by a decrease in investment securities (\$45 million). Average interest-bearing liabilities increased \$81 million from 2011 as increases in savings deposits (\$60 million) and interest-bearing demand deposits (\$41 million) were partially offset by a decrease in time deposits (\$18 million).

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

	2013 vs. 2012 Increase (Decrease) Due to Change In:			2012 vs. 2011 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Loan portfolio						
Residential real estate	\$ 8,356	\$ (2,191)	\$ 6,165	\$ 3,490	\$ (3,438)	52
Commercial, financial, and agriculture	12,707	9,157	21,864	3,182	(322)	2,860
Installment loans to individuals	1,251	1,657	2,908	40	(104)	(64)
Previously securitized loans	—	(775)	(775)	(3,136)	3,306	170
Total loans	22,314	7,848	30,162	3,576	(558)	3,018
Securities:						
Taxable	(1,573)	(2,015)	(3,588)	(1,622)	(1,822)	(3,444)
Tax-exempt ⁽¹⁾	(446)	113	(333)	(437)	44	(393)
Total securities	(2,019)	(1,902)	(3,921)	(2,059)	(1,778)	(3,837)
Federal funds sold	(30)	(1)	(31)	1	4	5
Total interest-earning assets	\$ 20,265	\$ 5,945	\$ 26,210	\$ 1,518	\$ (2,332)	(814)
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 91	\$ (76)	\$ 15	\$ 74	\$ (272)	(198)
Savings deposits	190	(85)	105	145	(409)	(264)
Time deposits	2,563	(3,802)	(1,239)	(344)	(5,511)	(5,855)
Short-term borrowings	15	(2)	13	(5)	(8)	(13)
Long-term debt	—	(43)	(43)	—	22	22
Total interest-bearing liabilities	\$ 2,859	\$ (4,008)	\$ (1,149)	\$ (130)	\$ (6,178)	(6,308)
Net Interest Income	\$ 17,406	\$ 9,953	\$ 27,359	\$ 1,648	\$ 3,846	5,494

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

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

2013 vs. 2012

Selected income statement fluctuations are summarized in the following table (in millions):

	For the year ended December 31,			
	2013	2012	\$ Change	% Change
Net investment security gains	\$ 0.8	\$ 1.0	\$ (0.2)	(20.0)%
Non-interest income, excluding net investment securities gains	57.2	54.3	2.9	5.3
Non-interest expense	102.9	87.4	15.5	17.7

During the year ended December 31, 2013, the Company realized investment gains of \$0.8 million associated with the calls of trust preferred securities and from the sale of certain equity positions related to community banks and bank holding companies.

Exclusive of net investment securities gains and losses, non-interest income increased \$2.9 million to \$57.2 million for the year ended December 31, 2013 as compared to \$54.3 million for the year ended December 31, 2012. Service charges

increased \$1.2 million, or 4.5%, to \$27.6 million and bankcard revenues increased \$1.1 million, or 9.0%, to \$13.5 million for the year ended December 31, 2013. These increases were primarily due to the acquisition of Community.

During 2013, the Company recognized \$5.5 million of acquisition and integration expenses associated with the completed acquisition of Community. In comparison, during 2012, the Company recorded \$4.7 million of acquisition and integration expenses associated with the completed acquisition of Virginia Savings and the impending acquisition of Community. Excluding these expenses, non-interest expenses increased \$14.7 million from \$82.7 million for the year ended December 31, 2012 to \$97.4 million for the year ended December 31, 2013. Salaries and employee benefits increased \$7.9 million due primarily to additional employees associated with the acquisition of Community. Normal annual salary increases, increased pension costs and increased incentive compensation accruals also contributed to the increase in salaries and employee benefits. In addition, other expenses increased \$2.0 million, occupancy and equipment expenses increased \$1.7 million and depreciation expense increased \$1.2 million. These increases were primarily attributable to the acquisition of Community and were in line with the Company's expectations. These increases were partially offset by a decrease in repossessed asset losses as a result of losses recognized in 2012.

2012 vs. 2011

Selected income statement fluctuations are summarized in the following table (in millions):

	For the year ended December 31,			
	2012	2011	\$ Change	% Change
Net investment security gains	\$ 1.0	\$ 2.5	\$ (1.5)	(60.0)%
Non-interest income, excluding net investment securities gains	54.3	52.4	1.9	3.6
Non-interest expense	87.4	81.1	6.3	7.8

During the year ended December 31, 2012, the Company realized investment gains of \$1.2 million from the sale of certain equity positions related to community banks and bank holding companies. In addition, the Company also recognized gains of \$0.3 million associated with the calls of trust preferred securities. These gains were partially offset by \$0.6 million in credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferred securities with a remaining carrying value of \$3.5 million at December 31, 2012. 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.

Exclusive of net investment securities gains and losses, non-interest income increased \$1.9 million to \$54.3 million for the year ended December 31, 2012 as compared to \$52.4 million for the year ended December 31, 2011. Bankcard revenue increased \$1.3 million, or 11.3%, to \$12.4 million for the year ended December 31, 2012. This increase was primarily due to increased transaction volumes. In addition, trust and investment management fee income increased \$0.7 million, or 21.5%, to \$3.8 million due to core growth as Virginia Savings did not offer these services. Other income increased \$0.6 million, or 30.8%, to \$2.7 million due largely to an increase in mortgage related lending activity.

During 2012, the Company recognized \$4.7 million of acquisition and integration expenses associated with the completed acquisition of Virginia Savings and the upcoming acquisition of Community. In comparison, during 2011, the Company recorded a \$3.0 million litigation reserve accrual (which was subsequently paid in 2012). Excluding these expenses, non-interest expenses increased \$4.6 million from \$78.1 million for the year ended December 31, 2011 to \$82.7 million for the year ended December 31, 2012. Included in this increase are expenses of \$1.8 million related to the operation of the acquired Virginia Savings facilities. Salaries and employee benefits increased \$2.8 million due primarily to additional employees associated with the acquisition of Virginia Savings (\$1.0 million) and increased health insurance costs (\$1.0 million). Repossessed asset losses increased \$1.1 million due to the decline in estimated fair values of several residential properties located in the eastern panhandle of West Virginia and at the Greenbrier Resort located in southern West Virginia. The Company continually reevaluates the estimated fair value of properties that it has repossessed by obtaining updated appraisals on at least an annual basis. In addition, other expenses increased \$0.8 million, advertising expenses increased \$0.6 million and bankcard expenses increased \$0.4 million. These increases were partially offset by a decrease in FDIC insurance expense of \$1.0 million due to a change in the assessment base methodology during the third quarter of 2011.

INCOME TAXES

The Company recorded income tax expense of \$25.3 million, \$20.3 million and \$20.6 million in 2013, 2012 and 2011, respectively. The Company's effective tax rates for 2013, 2012 and 2011 were 34.4%, 34.3% and 33.6%, 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 \$32.7 million at December 31, 2012 to \$42.2 million at December 31, 2013. 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 ("IRS") 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, 2013 and 2012, the Company had a deferred tax asset of \$1.2 million and a deferred tax liability of \$2.1 million, respectively, associated with unrealized securities losses and 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, 2013 would be realized if the unrealized gains and/or losses on the Company's securities were realized from sales or maturities of the related securities. At December 31, 2013 and 2012, the Company had a deferred tax asset of \$9.5 million and \$9.8 million, respectively, associated with other-than-temporarily impaired securities. The deferred tax asset at December 31, 2013 would be realized if the Company's other-than-temporarily impaired securities were sold, or were deemed by the IRS to be "worthless." The deferred tax asset associated with the allowance for loan losses increased slightly from \$7.1 million at December 31, 2012 to \$7.6 million at December 31, 2013. 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 decreased from \$5.9 million at December 31, 2012 to \$5.2 million at December 31, 2013. The deferred tax asset associated with the Company's intangible assets increased to \$8.1 million at December 31, 2013, primarily due to the acquisition of Community. 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, 2013 or 2012.

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 result in similar changes in LIBOR interest rates, prime rates, and other benchmark interest rates that could affect the estimated fair value of the Company's investment securities portfolio, interest paid on the Company's short-term and long-term borrowings, interest earned on the Company's loan portfolio and interest paid on its deposit accounts.

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

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

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase or decrease of 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 the fourth quarter of 2012, the Company revised its sensitivity analysis to consider the impact of rising interest rates on its deposit balance mix. Prior to interest rates declining in 2007, the Company's deposit account composition included more balances as a percentage of total deposit balances in higher yielding deposit accounts, primarily time deposits. As interest rates have fallen over the last five years, and as the higher yielding time deposits have matured, these balances have shifted to lower yielding transactional deposit accounts such as demand deposits and savings accounts. The Company revised its interest rate sensitivity model at December 31, 2012 to reflect its belief that as interest rates increase, transactional deposit balances will begin to shift back to higher yielding time deposits and the benefit to rising interest rates for the Company will be reduced from our previous models which had not reflected this modification.

The following table summarizes the sensitivity of the Company's net income to various interest rate scenarios. The results of the sensitivity analyses presented below differ from the results used internally by ALCO in that, in the analyses below, interest rates are assumed to have an immediate and sustained parallel shock. The Company recognizes that rates are volatile, but rarely move with immediate and parallel effects. Internally, the Company considers a variety of interest rate scenarios that are deemed to be possible while considering the level of risk it is willing to assume in "worst-case" scenarios such as shown by the following:

Immediate Basis Point Change in Interest Rates	Implied Federal Funds Rate Associated with Change in Interest Rates	Estimated Increase (Decrease) in Net Income Over 12 Months	Estimated Increase (Decrease) in Economic Value of Equity
December 31, 2013			
+400	4.25%	+3.3%	-6.4%
+300	3.25	+4.3	-2.0
+200	2.25	+3.3	+0.6
+100	1.25	+0.6	+0.4
December 31, 2012			
+400	4.25 %	+4.2 %	+4.8 %
+300	3.25	+3.8	+5.4
+200	2.25	+2.5	+3.9
+100	1.25	-0.3	+1.6

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 savings deposit accounts reprice in different interest rate scenarios, changes in the composition of deposit balances, pricing behavior of competitors, prepayments of loans and deposits under alternative rate environments, and new business volumes and pricing. As a result, there can be no assurance that the estimates above will be achieved in the event that interest rates increase during 2014 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 the banking subsidiary level. At the Parent Company level, the principal source of cash is dividends from its banking subsidiary, City National Bank. Dividends paid by City National Bank 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 Bank in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At December 31, 2013, City National Bank could pay dividends up to \$5.2 million without prior regulatory permission.

During 2013, 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 the acquisition of Community. 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.

Over the next 12 months, the Parent Company has an obligation to remit interest payments approximating \$0.6 million on the junior subordinated debentures held by City Holding Capital Trust III. Additionally, The Parent Company anticipates continuing the payment of dividends, which are expected to approximate \$23.3 million on an annualized basis for 2014 based on common shareholders of record at December 31, 2013 and a dividend rate of \$1.48 for 2014. However, interest payments on the debentures can be deferred for up to five years under certain circumstances and dividends to shareholders can, if necessary, be suspended. In addition to these anticipated cash needs, the Parent Company has operating expenses and other contractual obligations, which are estimated to require \$0.7 million of additional cash over the next 12 months. As of December 31, 2013, the Parent Company reported a cash balance of \$28.4 million and management believes that the Parent Company's available cash balance, together with cash dividends from City National Bank 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 2014 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 Bank or the issuance of other debt, to fully repay the debentures at their maturity.

City National Bank 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 Bank from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the FHLB and other financial institutions. As of December 31, 2013, City National Bank's assets are significantly funded by deposits and capital. Additionally, City National Bank maintains borrowing facilities with the FHLB and other financial institutions that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of December 31, 2013, City National Bank has the capacity to borrow an additional \$1.4 billion from the FHLB and other financial institutions under existing borrowing facilities. City National Bank maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systemic financial industry crisis. Also, although it has no current intention to do so, City National could liquidate its unpledged securities, if necessary, to provide an additional funding source. City National Bank 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 \$75.9 million of cash from operating activities during 2013, 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 investment security balances with carrying values that totaled \$370.1 million at December 31, 2013, and that greatly exceeded the Company's non-deposit sources of borrowing which totaled \$154.3 million.

The Company's net loan to asset ratio is 76.8% as of December 31, 2013 and deposit balances fund 82.7% of total assets as compared to 64.7% for its peers. Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 50.7% of the Company's total assets. And, the Company uses time deposits over \$100,000 to fund 11.7% of total assets compared to its peers, which fund 8.9% 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 \$402 million at December 31, 2012 to \$370 million at December 31, 2013.

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.

The Company's municipal bond portfolio of \$41.5 million as of December 31, 2013 has an average tax equivalent yield of 5.75% with an average maturity of 6.4 years. The average dollar amount of each security is \$0.4 million. The portfolio has 24% rated "A" or better, 10% rated "BBB" and the remaining portfolio is unrated, as the issuances represented small issuances of special revenue bonds. Additional credit support has been purchased for 27% of the portfolio, while 73% has no additional credit support. Management does underwrite 100% of the portfolio on an annual basis, using the same guidelines that are used to underwrite its commercial loans. Revenue bonds were 94% of the portfolio, while the remaining 6% were general obligation bonds. Geographically, the portfolio supports the Company's footprint, with 70% of the portfolio being from municipalities throughout West Virginia, and the remainder from communities in Ohio, Indiana and Kentucky.

TABLE FOUR INVESTMENT PORTFOLIO

The carrying value of the Company's securities are presented in the following table (in thousands):

	Carrying Values as of December 31,		
	2013	2012	2011
Securities available-for-sale:			
U.S. Treasuries and U.S. government agencies	\$ 2,365	\$ 3,888	\$ 6,041
Obligations of states and political subdivisions	41,548	48,929	56,802
Mortgage-backed securities:			
U.S. government agencies	278,108	286,482	227,613
Private label	2,197	3,272	5,156
Trust preferred securities	13,156	12,645	45,157
Corporate securities	9,128	15,947	14,398
Total Debt Securities available-for-sale	346,502	371,163	355,167
Marketable equity securities	4,673	4,185	3,853
Investment funds	1,485	1,774	1,763
Total Securities Available-for-Sale	352,660	377,122	360,783
Securities held-to-maturity:			
Trust preferred securities	4,117	13,454	23,458
Total Securities Held-to-Maturity	4,117	13,454	23,458
Other investment securities:			
Non-marketable equity securities	13,343	11,463	11,934
Total Other Investment Securities	13,343	11,463	11,934
Total Securities	\$ 370,120	\$ 402,039	\$ 396,175

Included in non-marketable equity securities in the table above at December 31, 2013 are \$5.3 million of Federal Home Loan Bank stock and \$8.1 million of Federal Reserve Bank stock. At December 31, 2013, there were no securities of any non-governmental issuers whose aggregate carrying or market value exceeded 10% of shareholders' equity.

The weighted average yield of the Company's investment portfolio is presented in the following table (dollars in thousands):

	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:								
Obligations of states and political subdivisions	\$ 2,681	2.90%	\$ 17,164	5.69%	\$ 12,292	5.97%	\$ 9,411	7.50%
U.S. Treasuries and U.S. government agencies	—	—	2,359	2.57	6	1.26	—	—
Mortgage-backed securities:								
U.S. government agencies	81	1.76	6,524	3.81	15,804	2.91	255,699	2.72
Private label	—	—	706	4.51	—	—	1,491	2.55
Trust preferred securities	—	—	—	—	—	—	13,156	5.52
Corporate securities	1,911	2.13	—	—	4,102	5.55	3,115	5.55
Total Debt Securities available-for-sale	4,673	2.56	26,753	4.80	32,204	4.42	282,872	3.04
Securities held-to-maturity:								
Trust preferred securities	—	—	—	—	—	—	4,117	9.34
Total Securities Held-to-Maturity	—	—	—	—	—	—	4,117	9.34
Total debt securities	\$ 4,673	2.56%	\$ 26,753	4.80%	\$ 32,204	4.42%	\$ 286,989	3.13%

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 as of the dates indicated follows (in thousands):

	2013	2012	2011	2010	2009
Residential real estate	\$ 1,207,150	\$ 1,031,435	\$ 929,788	\$ 882,780	\$ 851,659
Home equity – junior liens	143,390	143,110	141,797	143,761	142,771
Commercial and industrial	164,484	108,739	130,899	134,612	137,093
Commercial real estate	1,040,866	821,970	732,146	661,758	614,959
Consumer	46,402	36,564	35,845	38,424	41,684
DDA overdrafts	3,905	4,551	2,628	2,876	2,555
Previously securitized loans	—	—	—	789	1,713
Gross loans	\$ 2,606,197	\$ 2,146,369	\$ 1,973,103	\$ 1,865,000	\$ 1,792,434

Loan balances increased \$460 million from December 31, 2012 to December 31, 2013, with the acquisition of Community contributing \$372 million. Excluding the Community acquisition, residential real estate loans increased \$59 million, or 5.8%, from \$1.03 billion at December 31, 2012 to \$1.09 billion at December 31, 2013. Residential real estate loans represent loans to consumers for the purchase or refinance of a residence. These loans primarily consist of: (i) single-family 1, 3, 5 and 10 year adjustable rate mortgages with terms that amortize the loans over periods from 15-30 years and (ii) home equity loans secured by first liens. The Company's mortgage products do not include sub-prime, interest only, or option adjustable rate mortgage products. The Company's home equity loans are underwritten differently than 1-4 family residential mortgages with typically less documentation but lower loan-to-value ratios. Home equity loans consist of lines of credit, short-term fixed amortizing loans and non-purchase adjustable rate loans. At December 31, 2013, \$17 million of the residential real estate loans were for properties under construction.

Junior lien home equity loans remained flat at \$143 million during 2013. The Company's junior lien home equity loans are underwritten differently than 1-4 family residential mortgages, with typically less documentation but lower loan-to-value ratios and include both home equity loans and lines-of-credit. This type of lending, which is secured by a junior lien 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. Junior lien home equity loans consist of lines-of-credit, short-term fixed amortizing loans and non-purchase adjustable rate loans.

The C&I 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. C&I loans are considered to contain a higher level of risk than other loan types, although care is taken to minimize these risks. Numerous risk factors impact this portfolio, including industry specific risks such as economy, new technology, labor rates and cyclicalities, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. C&I loans increased \$10 million, or 9.2%, from \$109 million at December 31, 2012 to \$119 million at December 31, 2013.

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 ("C&I"). Excluding the Community acquisition, commercial real estate loans increased \$33 million, or 4.0%, from \$822 million at December 31, 2012 to \$855 million at December 31, 2013. At December 31, 2013, \$24 million of the commercial real estate loans were for commercial properties under construction.

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. Excluding the Community acquisition, consumer loans decreased \$14 million during 2013. The majority of this decrease is attributable to the Company's decision to strategically reduce the portfolio of indirect automobile loans with unsatisfactory credit quality metrics associated with the Community acquisition. The consumer loan portfolio primarily consists of new and used automobile loans, personal loans secured by cash and cash equivalents, unsecured revolving credit products, and other similar types of credit facilities.

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, 2013, the Company did not have an industry classification that exceeded 10% of total loans.

The following table shows the scheduled maturity of loans outstanding as of December 31, 2013 (in thousands):

	Within One Year	After One But Within Five Years	After Five Years	Total
Residential real estate	\$ 184,861	\$ 514,999	\$ 507,290	\$ 1,207,150
Home equity – junior liens	31,465	70,166	41,759	143,390
Commercial and industrial	83,729	77,025	3,730	164,484
Commercial real estate	333,608	508,114	199,144	1,040,866
Consumer	27,118	22,644	545	50,307
Total loans	<u>\$ 660,781</u>	<u>\$ 1,192,948</u>	<u>\$ 752,468</u>	<u>\$ 2,606,197</u>

Loans maturing after one year with interest rates that are:

Fixed until maturity	\$ 430,268
Variable or adjustable	1,515,148
Total	<u>\$ 1,945,416</u>

ALLOWANCE AND PROVISION FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the appropriateness of the allowance for loan losses ("ALLL") on a quarterly basis to provide for probable losses incurred in the portfolio. Management assesses the risk in each loan type based on historical 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 appropriateness of the allowance. Due to the nature of commercial lending, evaluation of the appropriateness of the allowance as it relates to these loan types is often based more upon specific credit review, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for general economic conditions and other inherent risk factors. Conversely, due to the homogeneous nature of the real estate and installment portfolios, the portions of the allowance allocated to those portfolios are primarily based on prior loss history of each portfolio, adjusted for general economic conditions and other inherent risk factors.

In evaluating the appropriateness 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 appropriateness 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 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.

As a result of the Company's quarterly analysis of the appropriateness of the ALLL, the Company recorded a provision for loan losses of \$6.8 million, \$6.4 million and \$4.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. Changes in the allowance for loan losses is based on the Company's detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company's loan portfolio. The Company believes its methodology for determining its ALLL adequately provides for probable losses incurred in the loan portfolio and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

The provision for loan losses recorded during 2013 reflects difficulties encountered by certain commercial borrowers of the Company during the year, the downgrade of their related credits and management's assessment of the impact of these difficulties on the ultimate collectability of the loans. In addition, the Company re-estimated the expected cash flows from its purchased credit impaired loans, which resulted in a \$0.6 million addition to the ALLL. The Company had net charge-offs of \$5.1 million for the year ended December 31, 2013 compared to \$7.0 million for the year ended December 31, 2012. Net charge-offs on residential real estate, commercial real estate and commercial and industrial loans were \$1.9 million, \$1.4 million and \$1.0 million, respectively, for the year ended December 31, 2013. Net charge-offs in the prior year were primarily related to two specific borrowers and related impaired credits that had been appropriately considered in establishing the allowance for loan losses in the prior year.

The Company's ratio of non-performing assets to total loans and other real estate owned decreased from 1.28% at December 31, 2012 to 1.20% at December 31, 2013. Excluded from this ratio are purchased credit-impaired loans in which the Company estimated cash flows and estimated a credit mark. These loans are considered performing loans provided that the loan is performing in accordance with the estimated expectations. Such loans would be considered non-performing loans if the loan's performance deteriorates below the initial expectations. Total past due loans increased from \$13.0 million, or 0.60% of loans outstanding, at December 31, 2012 to \$19.5 million, or 0.75% of loans outstanding, at December 31, 2013. Acquired past due loans represent approximately 64% of the total past due loans.

The allowance allocated to the commercial real estate loan portfolio increased \$0.3 million, or 3.2%, from \$10.4 million at December 31, 2012 to \$10.8 million at December 31, 2013.

The allowance related to the commercial and industrial loan portfolio increased from \$0.5 million at December 31, 2012 to \$1.1 million at December 31, 2013. The increase is primarily attributable to the growth in the portfolio, as well as an increase in the historical loss rate associated with this portfolio.

The allowance allocated to the residential real estate portfolio increased \$0.8 million from \$5.2 million at December 31, 2012 to \$6.1 million at December 31, 2013. The increase is primarily attributable to the growth in the portfolio, as well as an increase in the historical loss rate associated with this portfolio.

The allowance allocated to the home equity, consumer and overdraft loan portfolios at December 31, 2013 did not significantly change from December 31, 2012.

Based on the Company's analysis of the appropriateness 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, 2013, is adequate to provide for probable losses inherent in the Company's loan portfolio. Future provisions for loan losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

TABLE SIX
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

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

	2013	2012	2011	2010	2009
Balance at beginning of period	\$ 18,809	\$ 19,409	\$ 18,224	\$ 18,541	\$ 22,164
Charge-offs:					
Commercial and industrial	1,040	226	522	73	530
Commercial real estate	2,187	4,604	1,989	3,304	7,219
Residential real estate	2,181	1,030	1,367	1,607	1,195
Home equity	295	1,355	1,089	930	721
Consumer	454	190	164	86	265
DDA overdrafts	1,483	1,522	1,712	3,638	2,886
Total charge-offs	7,640	8,927	6,843	9,638	12,816
Recoveries:					
Commercial and industrial	84	32	23	27	102
Commercial real estate	785	289	1,981	415	133
Residential real estate	234	22	29	74	102
Home equity	—	18	7	26	20
Consumer	327	135	136	129	222
DDA overdrafts	1,128	1,456	1,252	1,557	1,620
Total recoveries	2,558	1,952	3,428	2,228	2,199
Net charge-offs	5,082	6,975	3,415	7,410	10,617
Provision for loan losses	6,251	6,375	4,600	7,093	6,994
Provision for acquired loans	597	—	—	—	—
Balance at end of period	\$ 20,575	\$ 18,809	\$ 19,409	\$ 18,224	\$ 18,541
As a Percent of Average Total Loans:					
Net charge-offs	0.20%	0.34%	0.18%	0.41%	0.59%
Provision for loan losses	0.27%	0.31%	0.24%	0.39%	0.39%
As a Percent of Non-Performing Loans:					
Allowance for loan losses	90.25%	96.59%	87.76%	156.39%	132.02%

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

Nonperforming assets at December 31 follows (in thousands):

	2013	2012	2011	2010	2009
Non-accrual loans	\$ 22,361	\$ 19,194	\$ 21,951	\$ 10,817	\$ 13,583
Accruing loans past due 90 days or more	436	280	166	782	382
Previously securitized loans past due 90 days or more	—	—	—	54	79
Total non-performing loans	\$ 22,797	\$ 19,474	\$ 22,117	\$ 11,653	\$ 14,044

On non-accrual and impaired loans, approximately \$0.6 million, \$1.0 million, and \$0.8 million of interest income would have been recognized during 2013, 2012 and 2011, 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, 2013 and 2012.

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 is included in the following table (in thousands):

	2013	2012
Impaired loans with a valuation allowance	\$ 3,416	\$ —
Impaired loans with no valuation allowance	9,178	10,679
Total impaired loans	<u>\$ 12,594</u>	<u>\$ 10,679</u>
Allowance for loan losses allocated to impaired loans	<u>\$ 880</u>	<u>\$ —</u>

The impaired loans with a valuation allowance were comprised of two commercial borrowing relationships that were evaluated during the year and determined that an allowance was necessary.

During the third quarter of 2012, regulatory guidance was clarified to require loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged by the bankruptcy court and the borrower has not reaffirmed the debt. The filing of bankruptcy is deemed to be evidence that the borrower is in financial difficulty and the discharge of the debt by the bankruptcy court is deemed to be a concession granted to the borrower. The impact on the allowance for loan losses of this reclassification was insignificant. Prior to the this reclassification, the Company's TDRs were insignificant. Since the time of this change, TDRs have increased from \$21.5 million at September 30, 2012 to \$25.1 million at December 31, 2013. More than 90% of these loans are current with principal and interest payments.

The following table sets forth the Company's TDRs at December 31, 2013 and 2012 (in thousands):

	Accruing	Non-Accruing	Total
December 31, 2013			
Commercial and industrial	\$ 88	\$ —	\$ 88
Commercial real estate	1,783	—	1,783
Residential real estate	18,651	1,693	20,344
Home equity	2,859	14	2,873
Consumer	—	—	—
	<u>\$ 23,381</u>	<u>\$ 1,707</u>	<u>\$ 25,088</u>
December 31, 2012			
Commercial and industrial	\$ 101	\$ —	\$ 101
Commercial real estate	734	—	734
Residential real estate	18,826	162	18,988
Home equity	3,325	418	3,743
Consumer	142	—	142
	<u>\$ 23,128</u>	<u>\$ 580</u>	<u>\$ 23,708</u>

TABLE EIGHT
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

The allocation of the allowance for loan losses and the percent of loans in each category to total loans is shown in the table below (dollars in thousands):

	2013		2012		2011		2010		2009	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Commercial and industrial	\$ 1,139	6%	\$ 498	5%	\$ 590	7%	\$ 1,864	7%	\$ 2,069	8%
Commercial real estate	10,775	40%	10,440	38%	11,666	37%	8,488	35%	8,961	34%
Residential real estate	6,057	46%	5,229	48%	4,839	47%	5,337	48%	4,233	48%
Home equity - junior liens	1,672	6%	1,699	7%	1,525	7%	1,452	8%	1,282	8%
Consumer	77	2%	81	2%	88	2%	95	2%	191	2%
DDA overdrafts	855	—%	862	—%	701	—%	988	—%	1,805	—%
Allowance for Loan Losses	\$ 20,575	100%	\$ 18,809	100%	\$ 19,409	100%	\$ 18,224	100%	\$ 18,541	100%

PREVIOUSLY SECURITIZED LOANS

As of December 31, 2013, the carrying value of the remaining previously securitized loans was zero, while the actual contractual balances of these loans were \$6.2 million. The Company accounted for the difference between the carrying value and the total expected cash flows of previously securitized loans as an adjustment of the yield earned on these loans over their remaining lives. The discount was accreted to income over the period during which payments were probable of collection and were reasonably estimable. During the years ended December 31, 2013, 2012 and 2011, the Company recognized \$2.5 million, \$3.3 million and \$3.1 million, respectively, of interest income on its previously securitized loans.

GOODWILL

The Company evaluates the recoverability of goodwill and indefinite lived intangible assets annually as of November 30th, 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 had \$71.4 million and \$63.0 million of goodwill at December 31, 2013 and 2012, respectively, and no impairment was required to be recognized in 2013 or 2012 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, 2013, are summarized in Table Nine (in thousands). The Company has time certificates of deposit of \$100,000 or more totaling \$393.5 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

	Amounts	Percentage
Three months or less	\$ 71,031	18%
Over three months through six months	54,996	14%
Over six months through twelve months	81,620	21%
Over twelve months	185,817	47%
Total	<u>\$ 393,464</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, 2013.

TABLE TEN
CONTRACTUAL OBLIGATIONS

The composition of the Company's contractual obligations as of December 31, 2013 is presented in the following table (in thousands):

	Contractual Maturity in				Total
	Less than One Year	Between One and Three Years	Between Three and Five Years	Greater than Five Years	
Noninterest-bearing demand deposits	\$ 493,228	\$ —	\$ —	\$ —	493,228
Interest-bearing demand deposits ⁽¹⁾	601,553	—	—	—	601,553
Savings deposits ⁽¹⁾	612,781	—	—	—	612,781
Time deposits ⁽¹⁾	617,676	327,831	150,648	56	1,096,211
Short-term borrowings ⁽¹⁾	138,150	—	—	—	138,150
Long-term debt ⁽¹⁾	619	1,238	1,238	28,875	31,970
Total Contractual Obligations	\$ 2,464,007	\$ 329,069	\$ 151,886	\$ 28,931	\$ 2,973,893

- (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, 2013. 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, 2013 was \$4.7 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, 2013 and 2012. As a result of the Company's off-balance sheet arrangements for 2013 and 2012, 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, 2013 and 2012.

CAPITAL RESOURCES

During 2013, Shareholders' Equity increased \$54 million, or 16.3%, from \$333 million at December 31, 2012 to \$388 million at December 31, 2013. This increase was primarily due to net income of \$48 million and the acquisition of Community of \$29 million, partially offset by dividends declared of \$24 million.

During July 2011, the Board of Directors authorized the Company to buy back up to 1,000,000 shares of its common shares in open market transactions at prices that are accretive to the earnings per share of continuing shareholders. No time limit was placed on the duration of the share repurchase program. As of December 31, 2013, the Company may repurchase an additional 454,000 shares from time to time depending on market conditions under the authorization.

Regulatory guidelines require the Company to maintain a minimum total capital to risk-adjusted assets ratio of 8.0%, with at least one-half of capital consisting of tangible common stockholders' equity and a minimum Tier I leverage ratio of 4.0%. Similarly, City National Bank is also required to maintain minimum capital levels as set forth by various regulatory agencies. Under capital adequacy guidelines, City National Bank is required to maintain minimum total capital, Tier I capital, and leverage ratios of 8.0%, 4.0%, and 4.0%, respectively. To be classified as "well capitalized," City National Bank must maintain total capital, Tier I capital, and leverage ratios of 10.0%, 6.0%, and 5.0%, respectively.

The Company's regulatory capital ratios for both City Holding and City National Bank are illustrated in the following table:

	Minimum	Capitalized	Actual	
			December 31,	
			2013	2012
City Holding:				
Total	8.0%	10.0%	13.8%	13.9%
Tier I Risk-based	4.0%	6.0%	13.0%	13.0%
Tier I Leverage	4.0%	5.0%	9.8%	9.8%
City National Bank:				
Total	8.0%	10.0%	12.2%	12.4%
Tier I Risk-based	4.0%	6.0%	11.4%	11.5%
Tier I Leverage	4.0%	5.0%	8.6%	8.7%

As of December 31, 2013, management believes that City Holding Company, and its banking subsidiary, City National Bank, were "well capitalized." City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National Bank is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). Regulatory agencies can initiate certain mandatory actions if either City Holding or City National Bank fails to meet the minimum capital requirements, as shown above. As of December 31, 2013, management believes that City Holding and City National Bank meet all capital adequacy requirements.

LEGAL ISSUES

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.

RECENT ACCOUNTING PROCOUNCEMENTS 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.

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, 2013 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (1992 Framework). Based on our assessment, management believes that, as of December 31, 2013, the Company's system of internal control over financial reporting is effective based on those criteria. Ernst & Young, LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting. This report appears on page 24.

March 7, 2014

s/ Charles R. Hageboeck

Charles R. Hageboeck

President & 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, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (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, 2013, 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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of City Holding Company and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 7, 2014

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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 7, 2014

PART I, ITEM 1 – FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
CITY HOLDING COMPANY AND SUBSIDIARIES
(in thousands)

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	\$ 75,999	\$ 58,718
Interest-bearing deposits in depository institutions	9,877	16,276
Federal funds sold	—	10,000
Cash and Cash Equivalents	85,876	84,994
Investment securities available for sale, at fair value	352,660	377,122
Investment securities held-to-maturity, at amortized cost (approximate fair value at December 31, 2013 and 2012 - \$5,335 and \$13,861, respectively)	4,117	13,454
Other securities	13,343	11,463
Total Investment Securities	370,120	402,039
Gross loans	2,606,197	2,146,369
Allowance for loan losses	(20,575)	(18,809)
Net Loans	2,585,622	2,127,560
Bank owned life insurance	92,047	81,901
Premises and equipment, net	82,548	72,728
Accrued interest receivable	6,866	6,692
Net deferred tax asset	42,165	32,737
Goodwill and other intangible assets	75,142	65,057
Other assets	27,852	43,758
Total Assets	\$ 3,368,238	\$ 2,917,466
Liabilities		
Deposits:		
Noninterest-bearing	\$ 493,228	\$ 429,969
Interest-bearing:		
Demand deposits	601,527	553,132
Savings deposits	612,772	506,869
Time deposits	1,077,606	919,346
Total Deposits	2,785,133	2,409,316
Short-term borrowings:		
Customer repurchase agreements	137,798	114,646
Long-term debt	16,495	16,495
Other liabilities	41,189	43,735
Total Liabilities	2,980,615	2,584,192

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, 2013 and December 31, 2012, less 2,748,922 and 3,665,999, shares in treasury, respectively	46,249	46,249
Capital surplus	107,596	103,524
Retained earnings	333,970	309,270
Cost of common stock in treasury	(95,202)	(124,347)
Accumulated other comprehensive income (loss):		
Unrealized (loss) gain on securities available-for-sale	(2,110)	3,573
Underfunded pension liability	(2,880)	(4,995)
Total Accumulated Other Comprehensive Loss	(4,990)	(1,422)
Total Shareholders' Equity	387,623	333,274
Total Liabilities and Shareholders' Equity	\$ 3,368,238	\$ 2,917,466

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
CITY HOLDING COMPANY AND SUBSIDIARIES
(in thousands, except earnings per share data)

	Year Ended December 31		
	2013	2012	2011
Interest Income			
Interest and fees on loans	\$ 126,594	\$ 96,432	\$ 93,414
Interest on investment securities:			
Taxable	10,697	14,285	17,729
Tax-exempt	1,226	1,442	1,697
Interest on federal funds sold	22	53	48
Total Interest Income	138,539	112,212	112,888
Interest Expense			
Interest on deposits	12,358	13,477	19,794
Interest on short-term borrowings	325	312	325
Interest on long-term debt	618	661	639
Total Interest Expense	13,301	14,450	20,758
Net Interest Income	125,238	97,762	92,130
Provision for loan losses	6,848	6,375	4,600
Net Interest Income After Provision for Loan Losses	118,390	91,387	87,530
Non-interest Income			
Total investment securities impairment losses	—	(878)	(2,767)
Noncredit impairment losses recognized in other comprehensive income	—	302	1,494
Net investment securities impairment losses	—	(576)	(1,273)
Gains on sale of investment securities	764	1,530	3,756
Net investment securities gains	764	954	2,483
Service charges	27,596	26,409	26,959
Bankcard revenue	13,521	12,406	11,150
Insurance commissions	5,832	6,071	5,946
Trust and investment management fee income	3,986	3,774	3,106
Bank owned life insurance	3,391	2,983	3,183
Other income	2,916	2,660	2,033
Total Non-interest Income	58,006	55,257	54,860

Non-interest Expense

Salaries and employee benefits	51,430	43,509	40,717
Occupancy and equipment	9,910	8,186	8,013
Depreciation	5,757	4,605	4,508
FDIC insurance expense	1,852	1,590	2,576
Advertising	2,673	2,589	2,007
Bankcard expenses	2,870	2,662	2,258
Postage, delivery, and statement mailings	2,220	2,079	2,099
Office supplies	1,728	1,669	1,911
Legal and professional fees	3,028	1,786	4,913
Telecommunications	2,212	1,614	1,605
Reposessed asset losses, net of expenses	646	1,346	272
Merger related costs	5,526	4,708	—
Other expenses	13,054	11,058	10,262
Total Non-interest Expense	102,906	87,401	81,141
Income Before Income Taxes	73,490	59,243	61,249
Income tax expense	25,275	20,298	20,571
Net Income Available to Common Shareholders	\$ 48,215	\$ 38,945	\$ 40,678

Total comprehensive income	\$ 44,647	\$ 41,430	\$ 39,268
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Average common shares outstanding	15,564	14,714	15,055
Effect of dilutive securities:			
Employee stock options and warrant	144	82	75
Shares for diluted earnings per share	15,708	14,796	15,130
Basic earnings per common share	\$ 3.07	\$ 2.63	\$ 2.68
Diluted earnings per common share	\$ 3.04	\$ 2.61	\$ 2.67
Dividends declared per common share	\$ 1.48	\$ 1.40	\$ 1.37

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
CITY HOLDING COMPANY AND SUBSIDIARIES
(in thousands)

	Year Ended December 31		
	2013	2012	2011
Net income	\$ 48,215	\$ 38,945	\$ 40,678
<i>Available-for-Sale Securities</i>			
Unrealized (loss) gain on available-for-sale securities arising during period	(8,244)	5,370	2,169
Reclassification adjustment for net gains	(764)	(954)	(2,483)
	(9,008)	4,416	(314)
<i>Derivatives</i>			
Unrealized loss on interest rate floors	—	—	(473)
<i>Defined Benefit Pension Plan</i>			
Amortization of actuarial net gains	895	696	547
Recognition of unrealized gains (losses)	2,457	(1,119)	(2,020)
Change in underfunded pension liability	3,352	(423)	(1,473)
Other comprehensive (loss) income before income taxes	(5,656)	3,993	(2,260)
Tax effect	2,088	(1,508)	850
Other comprehensive (loss) income, net of tax	(3,568)	2,485	(1,410)
Comprehensive income, net of tax	\$ 44,647	\$ 41,430	\$ 39,268

See notes to consolidated financial statements.

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

(dollars in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2010	\$ 46,249	\$ 103,057	\$ 270,905	\$ (102,853)	(2,497)	\$ 314,861
Net income			40,678			40,678
Other comprehensive loss					(1,410)	(1,410)
Cash dividends declared (\$1.37 per share)			(20,533)			(20,533)
Stock-based compensation expense, net		283		783		1,066
Exercise of 9,576 stock options		(5)		267		262
Purchase of 755,501 treasury shares				(23,790)		(23,790)
Balances at December 31, 2011	\$ 46,249	\$ 103,335	\$ 291,050	\$ (125,593)	(3,907)	\$ 311,134

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2011	\$ 46,249	\$ 103,335	\$ 291,050	\$ (125,593)	(3,907)	\$ 311,134
Net income			38,945			38,945
Other comprehensive income					2,485	2,485
Acquisition of Virginia Savings Bancorp, Inc.		276		7,447		7,723
Cash dividends declared (\$1.40 per share)			(20,725)			(20,725)
Stock-based compensation expense, net		34		1,049		1,083
Exercise of 18,899 stock options		(121)		665		544
Purchase of 237,535 treasury shares				(7,915)		(7,915)
Balances at December 31, 2012	\$ 46,249	\$ 103,524	\$ 309,270	\$ (124,347)	(1,422)	\$ 333,274

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2012	\$ 46,249	\$ 103,524	\$ 309,270	\$ (124,347)	(1,422)	\$ 333,274
Net income			48,215			48,215
Other comprehensive loss					(3,568)	(3,568)
Acquisition of Community Financial Corporation		4,236		24,272		28,508
Cash dividends declared (\$1.48 per share)			(23,515)			(23,515)
Stock-based compensation expense, net		(37)		1,319		1,282
Exercise of 126,168 stock options		(127)		3,554		3,427
Balances at December 31, 2013	\$ 46,249	\$ 107,596	\$ 333,970	\$ (95,202)	(4,990)	\$ 387,623

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CITY HOLDING COMPANY AND SUBSIDIARIES
(in thousands)

	Year Ended December 31		
	2013	2012	2011
Net income	\$ 48,215	\$ 38,945	\$ 40,678
Adjustments to reconcile net income to net cash provided by operating			
Amortization and accretion	(11,294)	728	1,894
Provision for loan losses	6,848	6,375	4,600
Depreciation of premises and equipment	5,757	4,605	4,508
Deferred income tax expense (benefit)	4,686	2,530	(2,290)
Accretion of gain from sale of interest rate floors	—	—	(295)
Net periodic employee benefit cost	903	521	386
Realized investment securities gains	(764)	(1,530)	(3,756)
Net investment securities impairment losses	—	576	1,273
Stock-compensation expense	1,281	1,083	1,066
Increase in value of bank-owned life insurance	(3,211)	(2,940)	(3,183)
Loans originated for sale	(23,280)	(44,032)	(23,792)
Proceeds from the sale of loans originated for sale	27,830	42,324	27,682
Gain on sale of loans	(608)	(960)	(461)
Change in accrued interest receivable	1,220	852	171
Change in other assets	22,497	2,163	(4,592)
Change in other liabilities	(4,187)	2,575	15,547
Net Cash Provided by Operating Activities	75,893	53,815	59,436
Proceeds from sales of securities available-for-sale	19,210	27,471	674,065
Proceeds from maturities and calls of securities available-for-sale	91,096	145,097	115,884
Proceeds from maturities and calls of securities held-to-maturity	10,223	10,402	1,080
Purchases of securities available-for-sale	(80,778)	(171,200)	(732,552)
Net increase in loans	(83,962)	(102,802)	(115,353)
Purchases of premises and equipment	(6,622)	(7,509)	(4,615)
Acquisition of Community Financial Corporation, net of cash acquired of \$8,888	(21,853)	—	—
Acquisition of Virginia Savings Bancorp, Inc., net of cash acquired of \$24,943	—	20,272	—
Net Cash Used in Investing Activities	(72,686)	(78,269)	(61,491)
Net increase in noninterest-bearing deposits	20,423	49,146	31,098
Net (decrease) increase in interest-bearing deposits	(26,450)	16,388	18,795
Net increase (decrease) in short-term borrowings	23,153	(74,404)	76,340
Purchases of treasury stock	—	(7,915)	(23,790)
Proceeds from exercise of stock options	3,427	544	262
Dividends paid	(22,878)	(20,710)	(20,630)
Net Cash (Used in) Provided by Financing Activities	(2,325)	(36,951)	82,075
Increase (decrease) in Cash and Cash Equivalents	882	(61,405)	80,020
Cash and cash equivalents at beginning of period	84,994	146,399	66,379
Cash and Cash Equivalents at End of Period	\$ 85,876	\$ 84,994	\$ 146,399

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE ONE – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Summary of Significant Accounting and Reporting Policies: The accounting and reporting policies of City Holding Company and its subsidiaries (the “Company”) conform with U. S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. Actual results could differ from management’s estimates. The following is a summary of the more significant policies.

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

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

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 82 offices in West Virginia, Virginia, Kentucky and Ohio. 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, mobile banking, debit cards, interactive voice response systems and internet technology. 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 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 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 the 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 junior lien 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: 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. Effective January 1, 2012, the carrying value of the remaining previously securitized loans was reduced to zero.

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 appropriateness 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 off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the appropriateness of the allowance after considering factors noted above, among others.

In evaluating the appropriateness 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 junior lien, 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 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, 2013 and 2012, the amount of OREO included in Other Assets was \$8.5 million and \$8.2 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, federal agency, and municipal securities pledged as collateral under these financing arrangements and cannot be replugged 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, 2013 or 2012.

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. As of December 31, 2013 and 2012, the Company has derivative 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 change in the fair value of these derivative instruments is reflected in the statements of income.

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 \$1.3 million and \$1.8 million at December 31, 2013 and 2012, 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 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 and the outstanding warrant were 144,000, 82,000, and 75,000 in 2013, 2012, and 2011, respectively.

Recent Accounting Pronouncements: In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-01, "*Balance Sheet (Topic 210) - Clarifying the Scope of Disclosures*

about Offsetting Assets and Liabilities." This ASU requires an entity to disclose both the gross and net information about financial instruments, such as derivatives, that are eligible for offset in the balance sheet. ASU No. 2013-01 became effective for the Company on January 1, 2013. The adoption of ASU No. 2013-01 did not have a material impact on the Company's financial statements. See Note 13 - Derivative Instruments for applicable disclosures.

In February 2013, the FASB issued ASU No. 2013-02, "*Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.*" This ASU requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amounts reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU No. 2013-02 became effective for the Company beginning on January 1, 2013. The adoption of ASU No. 2013-02 did not have a material impact on the Company's financial statements. See Note 24 - Accumulated Other Comprehensive Loss for applicable disclosures.

In July 2013, the FASB issued ASU No. 2013-10, "*Derivatives and Hedging (Topic 815) - Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.*" This ASU permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). ASU 2013 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and did not have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.*" This ASU requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to certain exceptions. This ASU will become effective for the Company beginning on January 1, 2014. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-01, "*Accounting for Investments in Qualified Affordable Housing Projects,*" to revise the accounting for investments in qualified affordable housing projects. This ASU modifies the conditions that must be met to present the pretax effects and related tax benefits of such investments as a component of income taxes ("net" within income tax expense). It is expected that the new guidance will enable more investors to use a "net" presentation for investments in qualified affordable housing projects. Investors that do not qualify for "net" presentation under the new guidance will continue to account for such investments under the equity method or cost method, which results in losses recognized in pretax income and tax benefits recognized in income taxes ("gross" presentation of investment results). For investments that qualify for the "net" presentation of investment performance, the guidance introduces a "proportional amortization method" that can be elected to amortize the investment basis. If elected, the method is required for all eligible investments in qualified affordable housing projects. The requirements of this ASU are effective for the Company on January 1, 2015, with early adoption permitted. The adoption of ASU No. 2014-01 is not expected to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-04, "*Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,*" to clarify when an in-substance repossession or foreclosure occurs; that is, when a creditor should be considered to have physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and OREO recognized. This update requires a creditor to reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. This ASU will become effective for the Company beginning on January 1, 2015. The adoption of ASU No. 2014-04 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 \$13.4 million, \$14.9 million, and \$21.7 million in 2013, 2012, and 2011, respectively. During 2013, 2012 and 2011, the Company paid \$16.6 million, \$14.7 million, and \$19.0 million, respectively, for income taxes.

NOTE TWO – ACQUISITIONS

On May 31, 2012, the Company acquired 100% of the outstanding common and preferred stock of Virginia Savings Bancorp, Inc. and its wholly owned subsidiary, Virginia Savings Bank (collectively, “Virginia Savings”). As a result of this acquisition, the Company acquired five branches which expanded its footprint into Virginia. At the time of closing, Virginia Savings had total assets of \$132 million, loans of \$82 million, deposits of \$120 million and shareholders’ equity of \$11 million. The total transaction was valued at \$12.4 million, consisting of cash of \$4.7 million and approximately 240,000 shares of common stock valued at \$7.7 million. The common stock was valued based on the closing price of \$32.18 for the Company’s common shares on May 31, 2012.

On January 10, 2013, the Company acquired 100% of the outstanding common and preferred stock of Community Financial Corporation and its wholly owned subsidiary, Community Bank (collectively, "Community"). As a result of this acquisition, the Company acquired eight branches along the I-81 corridor in western Virginia and two branches in Virginia Beach, Virginia. At the time of closing, Community had total assets of \$460 million, loans of \$410 million, deposits of \$380 million and shareholders' equity of \$53 million. Community shareholders received 0.1753 shares of the Company's common stock for each share of the Community Financial Corporation stock, resulting in the issuance of approximately 767,000 shares of the Company's common stock valued at \$27.8 million. The common stock value was based on the closing price of \$36.23 for the Company's common stock on January 9, 2013. In conjunction with this acquisition, the Company repurchased \$12.7 million of Community preferred stock previously issued to the U.S. Department of Treasury ("Treasury Department"). A related warrant issued by Community to the Treasury Department has been converted into a warrant to purchase 61,565 shares of the Company's common stock, with an exercise price of \$30.80 per share and an expiration period of ten years, which was subsequently reduced to six years.

The purchase price of both acquisitions has been allocated as follows (in thousands):

	Virginia Savings	Community	Total
Date of acquisition	May 31, 2012	January 10, 2013	
Consideration:			
Cash	\$ 4,672	\$ 12,738	\$ 17,410
Common stock	7,723	27,783	35,506
Warrant issued	—	725	725
	<u>\$ 12,395</u>	<u>\$ 41,246</u>	<u>\$ 53,641</u>
Identifiable assets:			
Cash and cash equivalents	\$ 24,943	\$ 8,888	\$ 33,831
Investment securities	14,082	17,659	31,741
Loans	73,463	372,169	445,632
Bank owned life insurance	—	6,935	6,935
Premises and equipment	5,158	8,950	14,108
Deferred tax asset, net	4,173	15,228	19,401
Other assets	4,626	7,989	12,615
Total identifiable assets	<u>126,445</u>	<u>437,818</u>	<u>564,263</u>
Identifiable liabilities:			
Deposits	122,723	383,070	505,793
Other liabilities	841	24,484	25,325
Total identifiable liabilities	<u>123,564</u>	<u>407,554</u>	<u>531,118</u>
Net identifiable assets	2,881	30,264	33,145
Goodwill	8,241	8,271	16,512
Core deposit intangible	1,273	2,711	3,984
	<u>\$ 12,395</u>	<u>\$ 41,246</u>	<u>\$ 53,641</u>

Acquired Loans

In determining the estimated fair value of the acquired loans, management considered several factors, such as estimated future credit losses, estimated prepayments, remaining lives of the acquired loans, estimated value of the underlying collateral and the net present value of the cash flows expected to be received. For smaller loans not specifically reviewed, management grouped the loans into their respective homogeneous loan pool and applied a loss estimate accordingly.

Acquired loans are accounted for using one of the two following accounting standards:

- (1) ASC Topic 310-20 is used to value loans that do not have evidence of credit quality deterioration. For these loans, the difference between the fair value of the loan and the amortized cost of the loan is amortized or accreted into income using the interest method.
- (2) ASC Topic 310-30 is used to value loans that have evidence of credit quality deterioration. For these loans, the expected cash flows that exceed the fair value of the loan represent the accretable yield, which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans. The non-accretable difference represents the difference between the contractually required principal and interest payments and the cash flows expected to be collected based upon management's estimation. Subsequent decreases in the expected cash flows will require the Company to evaluate the need for additions to the Company's allowance for loan losses. Subsequent increases in the expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges with a corresponding adjustment to the accretable yield, which will result in the recognition of additional interest income over the remaining lives of the loans.

The following table presents information regarding the purchased credit-impaired and noncredit-impaired loans acquired in conjunction with both acquisitions (in thousands):

	Virginia		
	Savings	Community	Total
<i>Acquired Credit-Impaired</i>			
Contractually required principal and interest	\$ 11,567	\$ 55,983	\$ 67,550
Contractual cash flows not expected to be collected (non-accretable difference)	(3,973)	(19,758)	(23,731)
Expected cash flows	7,594	36,225	43,819
Interest component of expected cash flows (accretable difference)	(954)	(5,469)	(6,423)
Estimated fair value of purchased credit impaired loans acquired	<u>\$ 6,640</u>	<u>\$ 30,756</u>	<u>\$ 37,396</u>
<i>Acquired NonCredit-Impaired</i>			
Outstanding balance	\$ 72,476	\$ 356,822	\$ 429,298
Less: fair value adjustment	(5,653)	(15,409)	(21,062)
Fair value of acquired noncredit-impaired loans	<u>\$ 66,823</u>	<u>\$ 341,413</u>	<u>\$ 408,236</u>

Acquired Deposits

The fair values of non-time deposits approximated their carrying value at the acquisition date. For time deposits, the fair values were estimated based on discounted cash flows, using interest rates that are currently being offered compared to the contractual interest rates. Based on this analysis, management recorded a premium on time deposits acquired of \$2.3 million and \$1.1 million, for the Virginia Savings and Community acquisitions, respectively, each of which is being amortized over 5 years.

Core Deposit Intangible

The Company believes that the customer relationships with the deposits acquired have an intangible value. In connection with the acquisitions, the Company recorded a core deposit intangible asset of \$1.3 million and \$2.7 million, for Virginia Savings and Community, respectively. Each of the core deposit intangible assets represent the value that the acquiree had with their deposit customers. The fair value was estimated based on a discounted cash flow methodology that considered type of deposit, deposit retention and the cost of the deposit base. The core deposit intangibles are being

amortized over 10 years, with an annual charge of less than \$0.7 million per year. The following table presents a rollforward of the Company's intangible assets from the beginning of the year (in thousands):

	Intangible Assets
Beginning balance	\$ 2,069
Core deposit intangible acquired in conjunction with the acquisition of Community	2,711
Amortization expense	(1,039)
Ending balance	<u>\$ 3,741</u>

Goodwill

Under GAAP, management has up to twelve months following the date of the acquisition to finalize the fair values of acquired assets and liabilities. The measurement period ends as soon as the Company receives information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is not obtainable. Any subsequent adjustments to the fair value of the acquired assets and liabilities, intangible assets or other purchase accounting adjustments will result in adjustments to the goodwill recorded. The measurement period is limited to one year from the acquisition date. The goodwill recorded in conjunction with the Virginia Savings and Community acquisitions is not expected to be deductible for tax purposes. The following table presents a rollforward of goodwill from the beginning of the year (in thousands):

	Goodwill
Beginning balance	\$ 62,988
Adjustments to goodwill acquired in conjunction with the acquisition of Virginia Savings	142
Goodwill acquired in conjunction with the acquisition of Community	8,271
Ending balance	<u>\$ 71,401</u>

The goodwill acquired in conjunction with the acquisition of Community includes the initial goodwill that was recorded at acquisition date, along with adjustments made during the measurement period based on information that became available subsequent to the acquisition date, but pertained to facts and circumstances prior to the acquisition date (for instance, fair value adjustment on purchased credit-impaired loans, income taxes, etc.).

Merger Related Costs

During the year ended December 31, 2013, the Company incurred \$5.5 million of merger-related costs in connection with the Community acquisition. These costs were primarily for severance (\$2.5 million), professional fees (\$1.4 million) and data processing costs (\$1.1 million).

During the year ended December 31, 2012, the Company incurred \$4.7 million of merger-related costs primarily in connection with the Virginia Savings acquisition. These costs were primarily for severance (\$0.9 million), professional fees (\$1.2 million) and data processing costs (\$2.4 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, 2013 was approximately \$19.5 million.

NOTE FOUR – INVESTMENTS

The aggregate carrying and approximate market values of securities follow (in thousands). 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.

	December 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Securities available-for-sale:</i>								
U.S. Treasuries and U.S.								
government agencies	\$ 2,317	\$ 48	\$ —	\$ 2,365	\$ 3,792	\$ 96	\$ —	\$ 3,888
Obligations of states and								
political subdivisions	41,027	627	106	41,548	47,293	1,651	15	48,929
Mortgage-backed securities:								
U.S. government agencies	282,653	2,765	7,310	278,108	279,336	7,231	85	286,482
Private label	2,184	16	3	2,197	3,235	37	—	3,272
Trust preferred								
securities	12,943	2,113	1,900	13,156	15,402	55	2,812	12,645
Corporate securities	9,788	183	843	9,128	16,152	207	412	15,947
Total Debt Securities	350,912	5,752	10,162	346,502	365,210	9,277	3,324	371,163
Marketable equity securities	3,334	1,339	—	4,673	3,381	804	—	4,185
Investment funds	1,525	—	40	1,485	1,724	50	—	1,774
Total Securities								
Available-for-Sale	\$ 355,771	\$ 7,091	\$ 10,202	\$ 352,660	\$ 370,315	\$ 10,131	\$ 3,324	\$ 377,122

	December 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Securities held-to-maturity</i>								
Trust preferred securities	\$ 4,117	\$ 1,218	\$ —	\$ 5,335	\$ 13,454	\$ 465	\$ 58	\$ 13,861
Total Securities								
Held-to-Maturity	\$ 4,117	\$ 1,218	\$ —	\$ 5,335	\$ 13,454	\$ 465	\$ 58	\$ 13,861
<i>Other investment securities:</i>								
Non-marketable equity securities	\$ 13,343	\$ —	\$ —	\$ 13,343	\$ 11,463	\$ —	\$ —	\$ 11,463
Total Other Investment								
Securities	\$ 13,343	\$ —	\$ —	\$ 13,343	\$ 11,463	\$ —	\$ —	\$ 11,463

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 non-marketable equity securities in the table above.

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of December 31, 2013 and 2012. The following table shows the gross unrealized losses and fair value of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

December 31, 2013

	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>Securities available-for-sale:</i>						
Obligations of states and political subdivisions	\$ 5,600	\$ 87	\$ 243	\$ 19	\$ 5,843	106
Mortgage-backed securities:						
U.S. Government agencies	195,661	7,113	5,040	197	200,701	7,310
Private label	1,491	3	—	—	1,491	3
Trust preferred securities	—	—	4,400	1,900	4,400	1,900
Corporate securities	5,881	843	—	—	5,881	843
Investment funds	1,460	40	—	—	1,460	40
Total	\$ 210,093	\$ 8,086	\$ 9,683	\$ 2,116	\$ 219,776	10,202

December 31, 2012

	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>Securities available-for-sale:</i>						
Obligations of states and political subdivisions	\$ 1,163	\$ 15	\$ —	\$ —	\$ 1,163	15
Mortgage-backed securities:						
U.S. Government agencies	16,225	85	—	—	16,225	85
Trust preferred securities	348	51	5,836	2,761	6,184	2,812
Corporate securities	1,950	49	4,344	363	6,294	412
Total	\$ 19,686	\$ 200	\$ 10,180	\$ 3,124	\$ 29,866	3,324

Securities held-to-maturity:

Trust preferred securities	\$ —	\$ —	\$ 3,380	\$ 58	\$ 3,380	58
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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: First National Corporation and First United Corporation.

During the year ended December 31, 2013, the Company did not record any credit-related net investment impairment losses. During the year ended December 31, 2012, the Company recorded \$0.6 million in credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferred securities with a remaining carrying value of \$3.5 million at December 31, 2012. 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. During the year ended December 31, 2011, the Company recorded \$1.3 million in credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferred securities (\$0.4 million credit-related net impairment losses for the full year) with a remaining carrying 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 for the full year) with a remaining carrying 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.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary would be reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less

than cost, (ii) the financial condition, capital strength, and near-term (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 that the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holdings. Although the regional community bank stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.1% of each respective company being traded on a daily basis. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2013, 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, 2013, management believes the unrealized losses detailed in the table above are temporary and no additional impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss will be recognized in net income in the period the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

At December 31, 2013, the book value of the Company's five pooled trust preferred securities totaled \$3.2 million with a carrying value of \$3.7 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 ASC 320, *"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 ASC 320, *"Investments-Debt and Equity Securities"*. There is a risk that continued collateral deterioration could cause the Company to recognize additional OTTI charges in earnings in the future.

Under the Volcker regulations, as originally adopted on December 10, 2013, insured depository institutions and their affiliates are prohibited from engaging in certain types of proprietary trading and it restricts their ability to sponsor or invest in private equity or hedge funds. On January 14, 2014, the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission adopted an interim final rule ("IFR") on the treatment of certain pooled trust preferred securities for the purposes of the Volcker rule. This final rule exempted the Company's pooled trust preferred securities from the Volcker rule. Had the interim final rule not been issued, the Company could have been forced to sell these investments that could have resulted in the Company receiving less value than it would otherwise have received.

When evaluating pooled trust preferred securities for OTTI, the Company determines a credit related portion and a noncredit related portion. 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, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. For issuing banks that have defaulted, management generally assumes no recovery. For issuing banks that have deferred 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 prepayments 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 one of the banks currently deferring or in default will cure such positions. 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 and equity securities recognized in earnings (in thousands). The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security. The credit component of OTTI recognized in earnings during a period is presented in two parts based upon whether the credit impairment in the current period is the first time the security was credit impaired (initial credit impairment) or if there is additional credit impairment on a security that was credit impaired in previous periods.

	Debt Securities	Equity Securities	Total
Balance, January 1, 2012	\$ 20,610	\$ 6,048	\$ 26,658
Additions:			
Additional credit impairment	576	—	576
Deductions:			
Sold	—	(1,235)	(1,235)
Balance, December 31, 2012	21,186	4,813	25,999
Additions:			
Additional credit impairment	—	—	—
Deductions:			
Sold	—	(115)	(115)
Balance, December 31, 2013	<u>\$ 21,186</u>	<u>\$ 4,698</u>	<u>\$ 25,884</u>

The following table presents additional information about the Company's trust preferred securities with a credit rating of below investment grade as of December 31, 2013 (dollars in thousands):

Deal Name	Type	Class	Original Cost	Amortized Cost	Fair Value	Difference (1)	Lowest Credit Rating	# of issuers currently performing	Actual deferrals/ defaults (as a % of original dollar)	Expected deferrals/ defaults (as a % of remaining of performing collateral)	Excess Subordination as a Percentage of Current Performing Collateral (4)
Pooled trust preferred securities:											
Available for Sale:											
P1	Pooled	Mezz	\$ 827	\$ 191	\$ 667	\$ 476	Caa3	7	19.5%	21.0 % (2)	52.5%
P2	Pooled	Mezz	2,535	—	—	—	Ca	6	22.3	— (2)	—
P3 (5)	Pooled	Mezz	2,962	1,419	645	(774)	Caa3	22	24.1	8.2 (2)	18.1
P4 (6)	Pooled	Mezz	4,060	400	155	(245)	Ca	9	19.2	7.1 (3)	23.7
P5	Pooled	Mezz	6,228	826	2,280	1,454	Ca	9	26.0	21.0 (2)	34.3
Held-to-Maturity:											
P6	Pooled	Mezz	1,599	117	1,334	1,217	Caa3	7	19.5	21.0 (2)	52.5
P7	Pooled	Mezz	3,367	—	—	—	Ca	6	22.3	— (2)	—
Single issuer trust preferred securities											
Available for sale:											
S5	Single		261	235	305	70	NR	1	—	—	
Held-to-Maturity:											
S9	Single		4,000	4,000	4,000	—	NR	1	—	—	

- (1) The differences noted consist of unrealized losses recorded at December 31, 2013 and noncredit other-than-temporary impairment losses 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 one of the banks that are currently deferring will cure. 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 recognized during the year ended December 31, 2013. Other-than-temporary impairment losses of \$11,000 were recognized during the year ended December 31, 2012.
- (6) No other-than-temporary impairment losses were recognized during the year ended December 31, 2013. Other-than-temporary impairment losses of \$565,000 were recognized during the year ended December 31, 2012.

The amortized cost and estimated fair value of debt securities at December 31, 2013, by contractual maturity, are shown in the following table (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

	Cost	Estimated Fair Value
Securities Available-for-Sale		
Due in one year or less	\$ 4,752	\$ 4,673
Due after one year through five years	26,203	26,753
Due after five years through ten years	31,808	32,205
Due after ten years	288,149	282,871
	<u>\$ 350,912</u>	<u>\$ 346,502</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	4,117	5,335
	<u>\$ 4,117</u>	<u>\$ 5,335</u>

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

	For the year ended December 31,		
	2013	2012	2011
Gross realized gains	\$ 764	\$ 1,776	\$ 3,763
Gross realized losses	—	(246)	(7)
Investment security gains (losses)	<u>\$ 764</u>	<u>\$ 1,530</u>	<u>\$ 3,756</u>

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$278 million and \$228 million at December 31, 2013 and 2012, respectively.

NOTE FIVE –LOANS

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

	December 31, 2013	December 31, 2012
Residential real estate	\$ 1,207,150	\$ 1,031,435
Home equity – junior liens	143,390	143,110
Commercial and industrial	164,484	108,739
Commercial real estate	1,040,866	821,970
Consumer	46,402	36,564
DDA overdrafts	3,905	4,551
Gross loans	2,606,197	2,146,369
Allowance for loan losses	(20,575)	(18,809)
Net loans	<u>\$ 2,585,622</u>	<u>\$ 2,127,560</u>

Construction loans of \$17.3 million and \$15.4 million are included within residential real estate loans at December 31, 2013 and December 31, 2012, respectively. Construction loans of \$24.0 million and \$15.4 million are included within commercial real estate loans at December 31, 2013 and December 31, 2012, 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.

The following table details the loans acquired in conjunction with the Virginia Savings and Community acquisitions (in thousands):

	Virginia Savings	Community	Total
December 31, 2013			
Outstanding loan balance	\$ 48,833	\$ 279,890	\$ 328,723
<i>Credit-impaired loans:</i>			
Carrying value	3,182	26,330	29,512
Contractual principal and interest	3,932	38,566	42,498
December 31, 2012			
Outstanding loan balance	\$ 65,219	\$ —	\$ 65,219
<i>Credit-impaired loans:</i>			
Carrying value	7,018	—	7,018
Contractual principal and interest	10,759	—	10,759

Changes in the accretable yield and the carrying amount of the credit-impaired loans for the year December 31, 2013 is as follows (in thousands):

	Virginia Savings		Community		Total	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at the beginning of the period	\$ 1,823	\$ 7,018	\$ —	\$ —	\$ 1,823	\$ 7,018
Acquired	—	—	5,469	30,756	5,469	30,756
Additions	9	17	596	5,281	605	5,298
Accretion	(901)	901	(2,575)	2,575	(3,476)	3,476
Net reclassifications to accretable from non-accretable	1,088	—	7,358	—	8,446	—
Payments received, net	—	(4,725)	—	(12,282)	—	(17,007)
Disposals	(1,321)	(29)	(459)	—	(1,780)	(29)
Balance at the end of period	\$ 698	\$ 3,182	\$ 10,389	\$ 26,330	\$ 11,087	\$ 29,512

Increases in expected cash flow subsequent to the acquisition are recognized first as a reduction of any previous impairment, then prospectively through adjustment of the yield on the loans or pools over its remaining life, while decreases in expected cash flows are recognized as impairment through a provision for loan loss and an increase in the allowance for purchased credit-impaired loans.

NOTE SIX –ALLOWANCE FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the appropriateness 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 appropriateness of the allowance. Due to the nature of commercial lending, evaluation of the appropriateness of the allowance as it relates to these types of loan types is often based more upon specific credit reviews, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for economic conditions and other inherent risk factors.

The following summarizes the activity in the allowance for loan loss, by portfolio segment (in thousands). The following also presents the balance in the allowance for loan loss disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment (in thousands).

	Commercial and industrial	Commercial real estate	Residential real estate	Home equity	Consumer	DDA overdrafts	Total
December 31, 2013							
<i>Allowance for loan loss</i>							
Beginning balance	\$ 498	\$ 10,440	\$ 5,229	\$ 1,699	\$ 81	\$ 862	\$ 18,809
Charge-offs	1,040	2,187	2,181	295	454	1,483	7,640
Recoveries	84	785	234	—	327	1,128	2,558
Provision	1,308	1,431	2,775	266	123	348	6,251
Provision for acquired loans with deteriorated credit quality	289	306	—	2	—	—	597
Ending balance	\$ 1,139	\$ 10,775	\$ 6,057	\$ 1,672	\$ 77	\$ 855	\$ 20,575

December 31, 2012

Allowance for loan loss

Beginning balance	\$	590	\$	11,666	\$	4,839	\$	1,525	\$	88	\$	701	\$	19,409
Charge-offs		226		4,604		1,030		1,355		190		1,522		8,927
Recoveries		32		289		22		18		135		1,456		1,952
Provision		102		3,089		1,398		1,511		48		227		6,375
Ending balance	\$	498	\$	10,440	\$	5,229	\$	1,699	\$	81	\$	862	\$	18,809

As of December 31, 2013

Allowance for loan loss

Evaluated for impairment:

Individually	\$	—	\$	880	\$	—	\$	—	\$	—	\$	—	\$	880
Collectively		827		9,615		6,054		1,672		77		855		19,100
Acquired with deteriorated credit quality		312		280		3		—		—		—		595
Total	\$	1,139	\$	10,775	\$	6,057	\$	1,672	\$	77	\$	855	\$	20,575

Loans

Evaluated for impairment:

Individually	\$	—	\$	11,837	\$	459	\$	298	\$	—	\$	—	\$	12,594
Collectively		162,500		1,004,475		1,204,594		142,325		46,292		3,905		2,564,091
Acquired with deteriorated credit quality		1,984		24,554		2,097		767		110		—		29,512
Total	\$	164,484	\$	1,040,866	\$	1,207,150	\$	143,390	\$	46,402	\$	3,905	\$	2,606,197

As of December 31, 2012

Allowance for loan loss

Evaluated for impairment:

Individually	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Collectively		498		10,440		5,229		1,699		81		862		18,809
Acquired with deteriorated credit quality		—		—		—		—		—		—		—
Total	\$	498	\$	10,440	\$	5,229	\$	1,699	\$	81	\$	862	\$	18,809

Loans

Evaluated for impairment:

Individually	\$	—	\$	9,912	\$	469	\$	298	\$	—	\$	—	\$	10,679
Collectively		108,739		805,365		1,030,840		142,724		36,453		4,551		2,128,672
Acquired with deteriorated credit quality		—		6,693		126		88		111		—		7,018
Total	\$	108,739	\$	821,970	\$	1,031,435	\$	143,110	\$	36,564	\$	4,551	\$	2,146,369

All commercial loans within the portfolio are subject to internal risk grading. All non-commercial loans are evaluated based on payment history. The Company's internal risk ratings for commercial loans are: 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 its risk ratings:

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

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

	Commercial and industrial	Commercial real estate	Total
December 31, 2013			
Pass	\$ 158,000	\$ 958,186	\$ 1,116,186
Special mention	648	20,072	20,720
Substandard	5,416	62,139	67,555
Doubtful	420	469	889
Total	<u>\$ 164,484</u>	<u>\$ 1,040,866</u>	<u>\$ 1,205,350</u>
December 31, 2012			
Pass	\$ 105,690	\$ 771,617	\$ 877,307
Special mention	878	15,015	15,893
Substandard	2,171	35,338	37,509
Doubtful	—	—	—
Total	<u>\$ 108,739</u>	<u>\$ 821,970</u>	<u>\$ 930,709</u>

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

	Performing	Non-Performing	Total
December 31, 2013			
Residential real estate	\$ 1,204,331	\$ 2,819	\$ 1,207,150
Home equity - junior lien	143,112	278	143,390
Consumer	46,353	49	46,402
DDA overdrafts	3,900	5	3,905
Total	<u>\$ 1,397,696</u>	<u>\$ 3,151</u>	<u>\$ 1,400,847</u>
December 31, 2012			
Residential real estate	\$ 1,029,142	\$ 2,293	\$ 1,031,435
Home equity - junior lien	141,961	1,149	143,110
Consumer	36,564	—	36,564
DDA overdrafts	4,548	3	4,551
Total	<u>\$ 1,212,215</u>	<u>\$ 3,445</u>	<u>\$ 1,215,660</u>

Aging Analysis of Accruing and Non-Accruing Loans

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding, using methods that generally result in level rates of return. Loan origination fees, and certain direct costs, are deferred and amortized as an adjustment to the yield over the term of the loan. The accrual of interest generally is discontinued when a loan becomes 90 days past due as to principal or interest for all loan types. However, any loan may be placed on non-accrual if the Company receives information that indicates a borrower is unable to meet the contractual terms of 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 net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in the process of collection. Generally for all loan classes, interest income during the period the loan is non-performing is recorded on a cash basis after recovery of principal is reasonably assured. Cash payments received on nonperforming loans are typically applied directly against the outstanding principal balance until the loan is fully repaid. Generally, loans are restored to accrual status when the obligation is brought current, 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 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.

The following presents an aging analysis of the Company's accruing and non-accruing loans, by class (in thousands). The purchased credit-impaired loan column represents the purchased credit-impaired loans that the Company acquired that are contractually past due; however, are still performing in accordance with the Company's initial expectations.

Originated Loans							
December 31, 2013							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	\$ 1,096,911	\$ 4,123	\$ 495	\$ 231	\$ —	\$ 1,905	\$ 1,103,665
Home equity - junior lien	141,967	880	—	42	—	236	143,125
Commercial and industrial	144,197	—	—	—	—	79	144,276
Commercial real estate	835,908	668	—	—	—	13,097	849,673
Consumer	32,647	172	7	4	—	—	32,830
DDA overdrafts	3,511	374	15	5	—	—	3,905
Total	\$ 2,255,141	\$ 6,217	\$ 517	\$ 282	\$ —	\$ 15,317	\$ 2,277,474

Acquired Loans							
December 31, 2013							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	\$ 101,789	\$ 842	\$ 172	\$ —	\$ —	\$ 682	\$ 103,485
Home equity - junior lien	265	—	—	—	—	—	265
Commercial and industrial	18,253	—	80	—	—	1,875	20,208
Commercial real estate	176,018	2,772	273	109	7,534	4,487	191,193
Consumer	12,876	622	29	45	—	—	13,572
DDA overdrafts	—	—	—	—	—	—	—
Total	\$ 309,201	\$ 4,236	\$ 554	\$ 154	\$ 7,534	\$ 7,044	\$ 328,723

Total Loans							
December 31, 2013							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	\$ 1,198,700	\$ 4,965	\$ 667	\$ 231	\$ —	\$ 2,587	\$ 1,207,150
Home equity - junior lien	142,232	880	—	42	—	236	143,390
Commercial and industrial	162,450	—	80	—	—	1,954	164,484
Commercial real estate	1,011,926	3,440	273	109	7,534	17,584	1,040,866
Consumer	45,523	794	36	49	—	—	46,402
DDA overdrafts	3,511	374	15	5	—	—	3,905
Total	\$ 2,564,342	\$ 10,453	\$ 1,071	\$ 436	\$ 7,534	\$ 22,361	\$ 2,606,197

Originated Loans							
December 31, 2012							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased- Credit Impaired	Non-accrual	Total
Residential real estate	\$ 1,008,190	\$ 4,910	\$ 599	\$ 239	\$ —	\$ 2,054	\$ 1,015,992
Home equity - junior lien	132,847	2,379	477	37	—	1,112	136,852
Commercial and industrial	105,989	260	236	—	—	98	106,583
Commercial real estate	766,404	433	199	1	—	15,930	782,967
Consumer	34,084	113	8	—	—	—	34,205
DDA overdrafts	4,270	270	8	3	—	—	4,551
Total	\$ 2,051,784	\$ 8,365	\$ 1,527	\$ 280	\$ —	\$ 19,194	\$ 2,081,150

Acquired Loans							
December 31, 2012							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased- Credit Impaired	Non-accrual	Total
Residential real estate	\$ 15,443	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 15,443
Home equity - junior lien	6,258	—	—	—	—	—	6,258
Commercial and industrial	1,152	—	—	—	1,004	—	2,156
Commercial real estate	37,210	9	47	—	1,737	—	39,003
Consumer	2,359	—	—	—	—	—	2,359
DDA overdrafts	—	—	—	—	—	—	—
Total	\$ 62,422	\$ 9	\$ 47	\$ —	\$ 2,741	\$ —	\$ 65,219

Total Loans							
December 31, 2012							
Accruing							
	Current	30-59 days	60-89 days	Over 90 days	Purchased- Credit Impaired	Non-accrual	Total
Residential real estate	\$ 1,023,633	\$ 4,910	\$ 599	\$ 239	\$ —	\$ 2,054	\$ 1,031,435
Home equity - junior lien	139,105	2,379	477	37	—	1,112	143,110
Commercial and industrial	107,141	260	236	—	1,004	98	108,739
Commercial real estate	803,614	442	246	1	1,737	15,930	821,970
Consumer	36,443	113	8	—	—	—	36,564
DDA overdrafts	4,270	270	8	3	—	—	4,551
Total	\$ 2,114,206	\$ 8,374	\$ 1,574	\$ 280	\$ 2,741	\$ 19,194	\$ 2,146,369

The following presents the Company's impaired loans, by class (in thousands):

	December 31, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<i>With no related allowance recorded:</i>						
Residential real estate	\$ 459	\$ 459	\$ —	\$ 469	\$ 469	\$ —
Home equity - junior liens	298	298	—	298	298	—
Commercial and industrial	—	—	—	—	—	—
Commercial real estate	8,421	8,361	—	9,912	14,781	—
Consumer	—	—	—	—	—	—
DDA overdrafts	—	—	—	—	—	—
Total	\$ 9,178	\$ 9,118	\$ —	\$ 10,679	\$ 15,548	\$ —
<i>With an allowance recorded</i>						
Residential real estate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Home equity - junior liens	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial real estate	3,416	3,416	880	—	—	—
Consumer	—	—	—	—	—	—
DDA overdrafts	—	—	—	—	—	—
Total	\$ 3,416	\$ 3,416	\$ 880	\$ —	\$ —	\$ —

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

	For the year ended			
	December 31, 2013		December 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>With no related allowance recorded:</i>				
Residential real estate	\$ 463	\$ —	\$ —	\$ —
Home equity - junior liens	298	—	—	—
Commercial and industrial	—	—	—	—
Commercial real estate	9,006	57	13,124	—
Consumer	—	—	—	—
DDA overdrafts	—	—	—	—
Total	\$ 9,767	\$ 57	\$ 13,124	\$ —
<i>With an allowance recorded</i>				
Residential real estate	\$ —	\$ —	\$ —	\$ —
Home equity - junior liens	—	—	—	—
Commercial and industrial	—	—	—	—
Commercial real estate	3,324	—	—	—
Consumer	—	—	—	—
DDA overdrafts	—	—	—	—
Total	\$ 3,324	\$ —	\$ —	\$ —

On non-accrual and impaired loans, approximately \$0.6 million, \$1.0 million and \$0.8 million of interest income would have been recognized during the year ended December 31, 2013, 2012 and 2011, 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, 2013.

Loan Modifications

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-2, whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the 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.

During the third quarter of 2012, regulatory guidance was clarified to require loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged by the bankruptcy court and the borrower has not reaffirmed the debt. The filing of bankruptcy is deemed to be evidence that the borrower is in financial difficulty and the discharge of the debt by the bankruptcy court is deemed to be a concession granted to the borrower. The impact on the allowance for loan losses of this reclassification was insignificant. Prior to this reclassification, the Company's TDRs were insignificant.

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

	December 31, 2013			December 31, 2012		
	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial and industrial \$	88	—	88	101	—	101
Commercial real estate	1,783	—	1,783	734	—	734
Residential real estate	18,651	1,693	20,344	18,826	162	18,988
Home equity	2,859	14	2,873	3,325	418	3,743
Consumer	—	—	—	142	—	142
\$	23,381	1,707	25,088	23,128	580	23,708

	New TDRs For the year ended December 31, 2013			New TDRs For the year ended December 31, 2012		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Commercial and industrial	1	\$ 88	\$ 88	1	\$ 101	\$ 101
Commercial real estate	3	1,564	1,559	1	184	179
Residential real estate	36	4,041	4,041	7	899	899
Home equity	17	473	473	15	973	973
Consumer	—	—	—	1	142	142
	57	\$ 6,166	\$ 6,161	25	\$ 2,299	\$ 2,294

NOTE SEVEN – PREVIOUSLY SECURITIZED LOANS

Between 1997 and 1999, the Company completed six securitization transactions involving approximately \$760 million in 125% of fixed rate, junior-lien underlying mortgages. The Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to investors were evidenced by securities ("Notes"). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed,

the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio.

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, 2013, there was no carrying value remaining on these loans; while the actual contractual balance of these loans was \$6.2 million. During the years ended December 31, 2013, 2012 and 2011, the Company recognized \$2.5 million, \$3.3 million and \$3.1 million, respectively, of interest income from its previously securitized loans.

NOTE EIGHT – PREMISES AND EQUIPMENT

A summary of premises and equipment and related accumulated depreciation is summarized as follows (in thousands):

	Estimated Useful Life	2013	2012
Land		\$ 31,499	\$ 29,383
Buildings and improvements	10 to 30 yrs.	85,879	76,892
Equipment	3 to 7 yrs.	39,418	38,539
		<u>156,796</u>	<u>144,814</u>
Less: accumulated depreciation		(74,248)	(72,086)
		<u>\$ 82,548</u>	<u>\$ 72,728</u>

NOTE NINE – GOODWILL AND OTHER INTANGIBLE ASSETS

The amount of goodwill approximated \$71.4 million and \$63.0 million at December 31, 2013 and 2012, respectively. The Company completed its annual assessment of the carrying value of goodwill during 2013 and concluded that its carrying value was not impaired.

The following table summarizes core deposit intangibles, which are subject to amortization (in thousands):

	2013	2012
Gross carrying amount	\$ 8,387	\$ 5,677
Accumulated amortization	(4,646)	(3,608)
	<u>\$ 3,741</u>	<u>\$ 2,069</u>

During 2013, 2012 and 2011, the Company recognized pre-tax amortization expense of \$1.0 million, \$0.5 million and \$0.4 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 (in thousands):

2014	\$ 944
2015	652
2016	440
2017	386
2018	341
Thereafter	978
	<u>\$ 3,741</u>

NOTE TEN – SCHEDULED MATURITIES OF TIME DEPOSITS

Scheduled maturities of time deposits outstanding at December 31, 2013 are summarized as follows (in thousands):

2014	\$	607,729
2015		207,203
2016		114,163
2017		64,390
2018		84,066
Over five years		55
	\$	<u>1,077,606</u>

Scheduled maturities of time deposits of \$100,000 or more outstanding, are summarized as follows (in thousands):

	2013	2012
Within one year	\$ 207,647	\$ 166,285
Over one through two years	71,440	58,320
Over two through three years	47,789	28,490
Over three through four years	26,745	39,004
Over four through five years	39,843	9,704
Over five years	—	—
	<u>\$ 393,464</u>	<u>\$ 301,803</u>

NOTE ELEVEN – SHORT-TERM DEBT

A summary of short-term borrowings are as follows (dollars in thousands):

	2013	2012	2011
Balance at end of year:			
Securities repurchase agreements	\$ 137,798	\$ 114,646	\$ 114,050
Federal Funds purchased	—	—	75,000
Total	\$ 137,798	\$ 114,646	\$ 189,050
Avg. outstanding during the year:			
Securities repurchase agreements	\$ 127,616	\$ 121,270	\$ 122,693
Federal Funds purchased	63	510	576
FHLB advances	—	—	300
Max. outstanding at any month end:			
Securities repurchase agreements	\$ 150,943	\$ 131,971	\$ 139,607
Federal Funds purchased	—	—	75,000
FHLB advances	—	—	367
Weighted-average interest rate:			
During the year:			
Securities repurchase agreements	0.25%	0.26%	0.25%
Federal Funds purchased	0.31%	0.28%	0.28%
FHLB advances	—	—	4.36%
End of the year:			
Securities repurchase agreements	0.25%	0.26%	0.25%
Federal Funds purchased	0.31%	0.28%	0.28%
FHLB advances	—	—	—

Through City National, the Company has purchased 52,784 shares of Federal Home Loan Bank (“FHLB”) stock at par value as of December 31, 2013. 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, 2013 and 2012, collateral pledged to the FHLB included approximately \$1.7 billion and \$1.5 billion, respectively, in investment securities and one-to-four-family residential property loans. In addition to the short-term financing discussed above and long-term financing (see Note Twelve), at December 31, 2013 and 2012, City National had an additional \$1.4 billion and \$1.1 billion, respectively, available from unused portions of lines of credit with the FHLB and other financial institutions.

NOTE TWELVE – LONG-TERM DEBT

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

	2013	2012
Junior subordinated debentures owed to City Holding Capital Trust III, due 2038, interest at a rate of 3.74% and 3.89%, respectively	\$ 16,495	\$ 16,495

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

Distributions on the Debentures are cumulative and will be payable quarterly at an interest rate of 3.50% over the three month LIBOR rate, reset quarterly. Interest payments are due in March, June, September and December. The Debentures are redeemable prior to maturity at the option of the Company (i) in whole 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, 2013 and 2012, 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 instruments (in thousands):

	2013	2012
Fair Value:		
Other Assets	\$ 3,538	\$ 14,012
Other Liabilities	3,538	14,012

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

	Year Ended December 31,		
	2013	2012	2011
Change in Fair Value:			
Other income - derivative asset	\$ (10,148)	\$ 1,921	\$ 8,241
Other income - derivative liability	10,148	(1,921)	(8,241)

Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company’s derivative transactions with financial institution

counterparties are generally executed under International Swaps and Derivative Association ("ISDA") master agreements which include "right of setoff" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset financial instruments for financial reporting purposes. Information about financial instruments that are eligible for offset in the consolidated balance sheet as of December 31, 2013 is presented in the following tables (in thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Fair Value of Financial Collateral	Total of Gross Amounts Not Offset in the Statement of Financial Position Including Applicable Netting Agreement and Fair Value of Collateral	Net Amount
				Netting Adjustment per Applicable Master Netting Arrangements				
	(a)	(b)	(c)=(a)-(b)				(d)	(c)-(d)

Derivative assets:

Interest rate swap agreements	\$ 3,538	\$ —	\$ 3,538	\$ —		\$ 3,538	\$ 3,538	\$ —
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Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Fair Value of Financial Collateral	Total of Gross Amounts Not Offset in the Statement of Financial Position Including Applicable Netting Agreement and Fair Value of Collateral	Net Amount
				Netting Adjustment per Applicable Master Netting Arrangements				
	(a)	(b)	(c)=(a)-(b)				(d)	(c)-(d)

Derivative liabilities:

Interest rate swap agreements	\$ 3,538	\$ —	\$ 3,538	\$ —		\$ 11,376	\$ 11,376	\$ —
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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 (in thousands):

	2013	2012
Deferred tax assets:		
Previously securitized loans	\$ 5,166	\$ 5,921
Allowance for loan losses	7,566	7,100
Deferred compensation payable	3,774	2,812
Underfunded pension liability	1,675	3,029
Accrued expenses	2,830	1,869
Impaired assets	1,028	1,086
Impaired securities losses	9,519	9,814
Unrealized securities losses	1,230	—
Intangible assets	8,081	2,928
Other	3,109	2,963
Total Deferred Tax Assets	43,978	37,522
Deferred tax liabilities:		
Unrealized securities gains	—	2,145
Other	1,813	2,640
Total Deferred Tax Liabilities	1,813	4,785
Net Deferred Tax Assets	\$ 42,165	\$ 32,737

No valuation allowance for deferred tax assets was recorded at December 31, 2013 and 2012 as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

Significant components of the provision for income taxes are as follows (in thousands):

	2013	2012	2011
Current:			
Federal	\$ 18,808	\$ 15,509	\$ 20,052
State	1,781	2,259	2,809
Total current tax expense	20,589	17,768	22,861
Total deferred tax expense (benefit)	4,686	2,530	(2,290)
Income tax expense	\$ 25,275	\$ 20,298	\$ 20,571

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

	2013	2012	2011
Computed federal taxes at statutory rate	\$ 25,722	\$ 20,735	\$ 21,437
State income taxes, net of federal tax benefit	1,982	1,591	1,654
Tax effects of:			
Tax-exempt interest income	(616)	(712)	(785)
Bank-owned life insurance	(1,187)	(1,044)	(1,172)
Tax reserve adjustment	24	8	(70)
Other items, net	(650)	(280)	(493)
Income tax expense	\$ 25,275	\$ 20,298	\$ 20,571

The entire amount of the Company's unrecognized tax benefits if recognized, would favorably affect the Company's effective tax rate. The Company anticipates that it will release \$2.6 million over the next 12 months. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows (in thousands):

	2013	2012
Balance at January 1,	\$ 4,376	\$ 3,649
Additions for current year tax positions	341	727
Additions for prior year tax positions	—	—
Decreases for prior year tax positions	—	—
Decreases for settlements with tax authorities	—	—
Decreases related to lapse of applicable statute of limitation	—	—
Balance at December 31	\$ 4,717	\$ 4,376

Interest and penalties on income tax uncertainties are included in income tax expense. During 2013, 2012 and 2011, the provision related to interest and penalties was \$0.1 million, \$0.2 million, and \$0.1 million, respectively. The balance of accrued interest and penalties at December 31, 2013 and 2012 was \$0.3 million and \$0.3 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, 2010 through 2012. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2009 through 2012.

NOTE FIFTEEN – EMPLOYEE BENEFIT PLANS

Pursuant to the terms of the City Holding Company 2003 Incentive Plan and the City Holding Company 2013 Incentive Plan (the "2003 Plan" and "2013 Plan", respectively), the Compensation Committee of the Board of Directors, or its delegate, may, from time-to-time, grant stock options, stock appreciation rights ("SARs"), or stock awards to employees, directors and individuals who provide service to the Company (collectively, "Plan Participants"). The 2003 Plan expired in April of 2013 and the 2013 Plan was approved by the shareholders in April 2013. A maximum of 750,000 shares of the Company's common stock may be issued under the 2013 plan upon the exercise of stock options, SARs and stock awards, subject to certain limitations. 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 10 years from the date granted and all options and SARs are exercisable for the period specified in the individual agreement. As of December 31, 2013, under both Plans, 411,601 stock options had been awarded and 188,994 stock awards had been awarded.

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 the grant. Options granted expire at such time as the Compensation Committee, or its delegate, determines at the date of the grant and in no event does the exercise period exceed a maximum of ten years. Upon a change-in-control of the Company, as defined in the Plan, all outstanding options and awards shall immediately vest.

Stock Options

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

	2013		2012		2011	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at January 1	289,544	\$ 34.38	293,817	\$ 33.95	287,393	\$ 33.64
Granted	15,475	37.74	16,876	35.39	16,000	35.09
Exercised	(126,168)	33.57	(18,899)	28.78	(9,576)	26.63
Forfeited	(5,250)	34.56	(2,250)	33.28	—	—
Outstanding at December 31	173,601	35.26	289,544	34.38	293,817	33.95
Exercisable at end of year	76,832	37.97	183,584	34.70	185,317	33.70
Nonvested at beginning of year	105,960	33.81	108,500	34.38	109,000	35.10
Granted during the year	15,475	37.74	16,876	35.39	16,000	35.09
Vested during the year	(23,166)	39.64	(18,166)	38.87	(16,500)	39.34
Forfeited during the year	(1,500)	30.38	(1,250)	30.38	—	—
Nonvested at end of year	96,769	\$ 33.10	105,960	\$ 33.81	108,500	\$ 34.38

Additional information regarding stock options outstanding and exercisable at December 31, 2013, is provided in the following table:

Ranges of Exercise Prices	No. of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Months)	Aggregate Intrinsic Value (in thousands)	No. of Options Currently Exercisable	Weighted-Average Exercise Price of Options Currently Exercisable	Weighted-Average Remaining Contractual Life (Months)	Aggregate Intrinsic Value of Options Currently Exercisable (in thousands)
26.62 - 33.90	58,750	30.23	57	\$ 946	10,332	\$ 30.52	21	\$ 163
35.09 - 40.88	114,851	37.83	63	976	66,500	39.13	37	479
	173,601			\$ 1,922	76,832			\$ 642

Proceeds from stock option exercises were \$4.2 million in 2013, \$0.5 million in 2012, and \$0.3 million in 2011. 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 2013, 2012 and 2011, 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 \$0.9 million in 2013, \$0.1 million in 2012 and less than \$0.1 million in 2011, respectively.

Stock-based compensation expense related to stock options totaled \$0.2 million for each of the years ended December 31, 2013, 2012 and 2011. The total income tax benefit recognized in the accompanying consolidated statements of income related to stock-based compensation was \$0.3 million in 2013 and less than \$0.1 million in 2012 and 2011. Unrecognized stock-based compensation expense related to stock options approximated \$0.4 million at December 31, 2013. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.6 years.

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

	2013	2012	2011
Risk-free interest rate	1.88%	2.51%	3.07%
Expected dividend yield	3.70%	3.90%	3.88%
Volatility factor	41.35%	48.40%	41.12%
Expected life of option	8.0 years	5.0 years	8.0 years

Restricted Shares

The Company measures 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 charged to expense over the respective vesting periods.

Restricted shares are generally forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases and any compensation cost previously recognized is reversed in the period of forfeiture. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. Stock-based compensation expense related to restricted shares was approximately \$0.8 million for the year ended December 31, 2013 and \$0.6 million for each of the years ended December 31, 2012 and 2011. Unrecognized stock-based compensation expense related to non-vested restricted shares was \$2.7 million at December 31, 2013. At December 31, 2013, this unrecognized expense is expected to be recognized over 3.9 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:

	2013		2012		2011	
	Restricted Awards	Average Market Price at Grant	Restricted Awards	Average Market Price at Grant	Restricted Awards	Average Market Price at Grant
Outstanding at January 1	116,711		108,209		96,060	
Granted	35,083	\$ 38.07	23,336	\$ 34.94	14,050	\$ 35.08
Forfeited/Vested	(9,325)		(14,834)		(1,901)	
Outstanding at December 31	142,469		116,711		108,209	

Benefit Plans

The Company provides retirement benefits to its employees through the City Holding Company 401(k) Plan and Trust ("the 401(k) Plan"), which is intended to be compliant with Employee Retirement Income Security Act (ERISA) section 404(c). The Company's total expense associated with the retirement benefit plan approximated \$0.8 million in 2013 and \$0.6 million in both 2012 and 2011. The total number of shares of the Company's common stock held by the 401(k) Plan as of December 31, 2013 and 2012 is 271,749 and 293,703, respectively.

The Company maintains two defined benefit pension plan (“the Defined Benefit Plans”), which were inherited from the Company’s acquisition of the plan sponsors (Horizon Bancorp, Inc. and Community Financial Corporation). The Horizon Defined Benefit Plan was frozen in 1999 and maintains a December 31st year-end for purposes of computing its benefit obligations. The Community Defined Benefit Plan was frozen as of December 31, 2012 and maintains a March 31st year-end for purposes of computing its benefit obligations.

Primarily as a result of the interest rate environment over the past several years, the benefit obligation exceeded the estimated fair value of plan assets as of December 31, 2013 and December 31, 2012. The Company has recorded a pension liability of \$2.8 million and \$4.2 million as of December 31, 2013 and 2012, included within Other Liabilities within the Consolidated Balance Sheets, and a \$2.9 million and \$5.0 million, net of tax, underfunded pension liability in Accumulated Other Comprehensive Income within Shareholders’ Equity at December 31, 2013 and 2012, respectively. The following table summarizes activity within the Defined Benefit Plans (dollars in thousands):

	Pension Benefits	
	2013	2012
Change in fair value of plan assets:		
Fair value at beginning of measurement period	\$ 9,663	\$ 8,952
Acquisition	4,558	—
Actual gain (loss) on plan assets	1,412	734
Contributions	538	736
Benefits paid	(1,445)	(759)
Fair value at end of measurement period	14,726	9,663
Change in benefit obligation:		
Benefit obligation at beginning of measurement period	(13,827)	(12,943)
Acquisition	(6,297)	—
Interest cost	(776)	(635)
Actuarial loss	1,931	(1,008)
Benefits paid	1,445	759
Benefit obligation at end of measurement period	(17,524)	(13,827)
Funded status	(2,798)	(4,164)
Unrecognized net actuarial gain	4,555	8,024
Other comprehensive loss	(4,555)	(8,024)
Accrued Benefit Cost	\$ (2,798)	\$ (4,164)
Weighted-average assumptions for balance sheet liability at end of year:		
Discount rate	4.89%	4.31%
Expected long-term rate of return	7.35%	7.46%
Weighted-average assumptions for benefit cost at beginning of year:		
Discount rate	4.31%	5.06%
Expected long-term rate of return	7.46%	8.00%

The following table presents the components of the net periodic pension cost of the Defined Benefit Plans (in thousands):

	Pension Benefits		
	2013	2012	2011
Components of net periodic benefit:			
Interest cost	\$ 776	\$ 635	\$ 650
Expected return on plan assets	(979)	(810)	(811)
Net amortization and deferral	1,106	696	547
Net Periodic Pension Cost	\$ 903	\$ 521	\$ 386

The Horizon 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 years moving average basis. Allowable assets include cash equivalents, fixed income securities, equity securities, alternative investments, mutual funds, exchange-traded funds, managed separate accounts, investment partnerships and commingled funds. Prohibited investments include, but are not limited to, private placements, limited partnerships, venture capital investments, direct investment in private real estate properties and residual remics. Unless explicitly authorized by the Pension Committee, the use of leverage or speculative use of derivatives is prohibited unless as part of an alternative asset program or as means for real asset managers to hedge investment risk or replicate investment positions at a lower cost than would otherwise be created in a cash market. Managers using derivatives must have systems in place to rigorously analyze and monitor duration, liquidity and counter-party credit risk in order to minimize the risk associated with the use of derivatives.

In order to achieve a prudent level of portfolio diversification, the securities of any one company are not to exceed more than 15% 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 agencies thereof). Additionally, no more than 25% of plan assets shall be invested in foreign securities (both equity and fixed), if any. Exchange traded index funds are allowable investments and are not subject to these restrictions.

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 2013	Allowable-Allocation Range	Percentage of Plan Assets At December 31	
			2013	2012
Equity securities	58%	40-100%	53%	39%
Fixed income securities	30%	20-40%	28%	36%
Cash and cash equivalents	2%	3-10%	7%	25%
Alternative investments	10%	0-15%	12%	—%
Total	100%		100%	100%

The Community Defined Benefit Plan is administered by the Virginia Bankers Association ("VBA") and all investment policies are established by the Board of Directors of the VBA Benefits Corporation. The investment goal is to provide asset allocation models with varying degrees of investment return and risk consistent with each bank's funding objectives and participant demographics. The Board of Directors shall at least annually review the overall investment program, and each investment alternative, to ensure the current investment mix will achieve the goals of the Plan and participating banks.

The performance goal for the investments of the Plan is to exceed the investment benchmarks over the most recent three and five year periods while taking less risk than the market. Approved asset classes include equity securities, fixed income securities and cash equivalents.

Allocations to the equity and fixed income asset classes may vary within a range of + or - 5% of the noted Target, as detailed in the table below. The minimum and maximum allocations for each sub-asset class within the equity and fixed classes are equity to 50% and 150%, respectively, of its long-term strategy target allocation.

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 2013	Allowable- Allocation Range	Percentage of Plan Assets at December 31, 2013
Equity securities	25%	20%-30%	26%
Fixed income securities	75%	70%-80%	74%
	<u>100%</u>		<u>100%</u>

The major categories of assets in the Company's Defined Benefit Plans as of year-end are presented in the following table (in thousands). 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).

	Total	Level 1	Level 2	Level 3
2013				
Cash and cash equivalents	\$ 714	\$ 714	\$ —	—
Mutual funds	5,991	5,267	724	—
Investment funds	1,305	—	809	496
Common stocks	4,399	3,477	922	—
Mortgage-backed securities	151	—	151	—
Government and GSE bonds	1,367	—	1,367	—
Corporate Bonds	799	—	799	—
Total	<u>\$ 14,726</u>	<u>\$ 9,458</u>	<u>\$ 4,772</u>	<u>496</u>
2012				
Cash and cash equivalents	\$ 2,023	\$ 2,023	\$ —	—
Mutual funds	2,220	1,139	1,081	—
Common stocks	3,034	2,552	482	—
Mortgage-backed securities	524	—	524	—
Government and GSE bonds	1,344	—	1,344	—
Corporate Bonds	518	—	518	—
Total	<u>\$ 9,663</u>	<u>\$ 5,714</u>	<u>\$ 3,949</u>	<u>—</u>

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 contributions to the plan of \$0.4 million for the year ending December 31, 2014. 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 <i>(in thousands)</i>	Expected Benefits to be Paid
2014	\$ 970
2015	990
2016	1,005
2017	1,023
2018	1,056
2019 through 2023	5,501

In addition, the Company and its subsidiary participate in the Pentegra Defined Benefit Plan for Financial Institutions ("The Pentegra DB Plan"), a tax-qualified defined benefit pension plan. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan. The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers. The funded status as of July 1, 2013 (the latest available valuation report) was 100.42%. It is the policy of the Company to fund the normal cost of the Pentegra DB Plan on an annual basis. Other than for normal plan expenses, no contributions were required for the years ended December 31, 2013, 2012 and 2011. The benefits of the Pentegra DB 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 years 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, 2013 and 2012 and is fully vested, so there was no charge to operations was incurred for the years ended December 31, 2013 and December 31, 2012.

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 2013, 2012, and 2011, respectively. The liability for such agreements approximated \$7.0 million and \$3.9 million at December 31, 2013 and December 31, 2012, 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 \$7.6 million and \$7.4 million at December 31, 2013 and 2012, 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 \$18.6 million at December 31, 2013 and \$16.7 million at December 31, 2012. 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 2013, total principal additions were \$8.0 million and total principal reductions were \$6.1 million.

NOTE SEVENTEEN – COMMITMENTS AND CONTINGENCIES

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The Company has entered into agreements with 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 (in thousands):

	December 31, 2013	December 31, 2012
Commitments to extend credit:		
Home equity lines	\$ 174,417	\$ 156,274
Commercial real estate	42,209	33,869
Other commitments	201,065	171,670
Standby letters of credit	14,122	16,743
Commercial letters of credit	1,555	425

Loan commitments and standby 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.

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.

NOTE EIGHTEEN – PREFERRED STOCK

The Company's Board of Directors has the authority to issue preferred stock, and to the designation, preferences, rights, dividends and all other attributes of such preferred stock, without any vote or action by the shareholders. As of December 31, 2013, no such shares were outstanding, nor were 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, 2013, City National could pay dividends up to \$5.2 million without prior regulatory permission.

During 2013, 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 the acquisition of Community Financial Corporation. As of December 31, 2013, the Parent Company reported a cash balance of approximately \$28.4 million. Management believes that the Parent Company's available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2014.

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, 2013, that the Company and City National met all capital adequacy requirements to which they were subject.

As of December 31, 2013, the most recent notifications from banking regulatory agencies categorized the Company and City National as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since these notifications that management believes have changed the institutions' categories. The Company's and City National's actual capital amounts and ratios are presented in the following table (dollars in thousands):

	2013		2012		Well Capitalized Ratio	Minimum Ratio
	Amount	Ratio	Amount	Ratio		
Total Capital (to Risk-Weighted Assets):						
Consolidated	\$ 346,039	13.8%	\$ 298,321	13.9%	10.0%	8.0%
City National	302,817	12.2%	264,126	12.4%	10.0%	8.0%
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	\$ 324,859	13.0%	\$ 279,106	13.0%	6.0%	4.0%
City National	282,221	11.4%	245,273	11.5%	6.0%	4.0%
Tier I Capital (to Average Assets):						
Consolidated	\$ 324,859	9.8%	\$ 279,106	9.8%	5.0%	4.0%
City National	282,221	8.6%	245,273	8.7%	5.0%	4.0%

NOTE TWENTY –FAIR VALUE MEASUREMENTS

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

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

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

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

The Company bases fair value of assets and liabilities on quoted market prices, prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. If such information is not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's

creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amount presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Liabilities

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

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

The Company utilizes a third party pricing service provider to value its Level 1 and Level 2 investment securities. Annually, the Company obtains an independent auditor's report from its third party pricing service provider regarding its controls over investment securities. Although no control deficiencies were noted, the report did contain caveats and disclaimers regarding the pricing information, such as the Company should review fair values for reasonableness. On a quarterly basis, the Company selects a sample of its debt securities and reprices those securities with a third party that is independent of the primary pricing service provider to verify the reasonableness of the fair values. In addition, the Company selects a sample of securities and reviews the underlying support from the primary pricing service provider.

The Company has determined that its pooled trust preferred securities should be priced using Level 3 inputs in accordance with ASC Topic 820 and guidance issued by the SEC. The Company 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, 2013. 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 Company's derivatives are included within its Other Assets and Other Liabilities in the accompanying consolidated balance sheets. Derivative assets are typically secured through securities with financial counterparties or cross collateralization with a borrowing customer. Derivative liabilities are typically secured through the Company pledging securities to financial counterparties or, in the case of a borrowing customer, by the right of setoff. The Company considers such factors such as the likelihood of default by itself and its counterparties, right of setoff, and remaining maturities in determining the appropriate fair value adjustments. All derivative counterparties approved by the Company's Asset and Liability Committee ("ALCO") are regularly reviewed, and appropriate business action is taken to adjust the exposure to certain counterparties, if necessary. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of marketable collateral securing the position. This approach used to estimate impacted exposures to counterparties is also used by the Company to estimate its own credit risk in derivative liability positions. To date, no material losses have been incurred due to a counterparty's inability to pay any undercollateralized position. There was no significant change in the value of derivative assets and liabilities attributed to credit risk during the year ended December 31, 2013.

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

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
December 31, 2013					
Recurring fair value measurements					
<i>Financial Assets</i>					
U.S. Government agencies	\$ 2,365	\$ —	\$ 2,365	\$ —	
Obligations of states and political subdivisions	41,548	—	41,548	—	
Mortgage-backed securities:					
U.S. Government agencies	278,108	—	278,108	—	
Private label	2,197	—	2,197	—	
Trust preferred securities	13,156	—	9,269	3,887	
Corporate securities	9,128	—	9,128	—	
Marketable equity securities	4,673	4,673	—	—	
Investment funds	1,485	1,485	—	—	
Derivative assets	3,538	—	3,538	—	
<i>Financial Liabilities</i>					
Derivative liabilities	3,538	—	3,538	—	
Nonrecurring fair value measurements					
<i>Financial Assets</i>					
Impaired loans	\$ 11,714	\$ —	\$ —	\$ 11,714	(880)
Other real estate owned	8,470	—	—	8,470	(1,108)
December 31, 2012					
Recurring fair value measurements					
<i>Financial Assets</i>					
U.S. Government agencies	\$ 3,888	\$ —	\$ 3,888	\$ —	
Obligations of states and political subdivisions	48,929	—	48,929	—	
Mortgage-backed securities:					
U.S. Government agencies	286,482	—	286,482	—	
Private label	3,272	—	3,272	—	
Trust preferred securities	12,645	—	10,260	2,385	
Corporate securities	15,947	—	15,947	—	
Marketable equity securities	4,185	4,185	—	—	
Investment funds	1,774	1,774	—	—	
Derivative assets	14,012	—	14,012	—	
<i>Financial Liabilities</i>					
Derivative liabilities	14,012	—	14,012	—	
Nonrecurring fair value measurements					
<i>Financial Assets</i>					
Impaired loans	\$ 10,679	\$ —	\$ —	\$ 10,679	2,666
Other real estate owned	8,162	—	—	8,162	(1,021)
Other assets	1,000	—	1,000	—	(288)

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

	December 31,	
	2013	2012
Beginning balance	\$ 2,385	\$ 1,982
Impairment losses on investment securities	—	(576)
Included in other comprehensive income	4,280	979
Dispositions	(2,778)	—
Transfers into Level 3	—	—
Ending Balance	<u>\$ 3,887</u>	<u>\$ 2,385</u>

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, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. For issuing banks that have defaulted, management generally assumes no recovery. For issuing banks that have deferred 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 prepayments 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 one of the banks currently deferring or in default will cure such positions.

The table below presents a reconciliation of the Company's financial assets and liabilities measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3), which solely relates to impaired loans that were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral (in thousands). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to discounts applied to the customers' reported amount of collateral. The amount of collateral discount depends upon the marketability of the underlying collateral. During December 31, 2013 and 2012, collateral discounts ranged from 20% to 30%. During December 31, 2013 and 2012, the Company had no Level 2 financial assets and liabilities that were measured on a nonrecurring basis.

	Year ended December 31,	
	2013	2012
Beginning balance	\$ 10,679	\$ 13,500
Loans classified as impaired during the period	3,030	—
Specific valuation allowance allocations	(750)	—
	<u>2,280</u>	<u>—</u>
(Additional) reduction in specific valuation allowance allocations	(130)	2,666
Paydowns, payoffs, other activity	(1,115)	(5,487)
Ending balance	<u>\$ 11,714</u>	<u>\$ 10,679</u>

Non-Financial Assets and Liabilities

The Company has no non-financial assets or liabilities measured at fair value on a recurring basis. Certain non-financial assets measured at fair value on a non-recurring basis include other real estate owned (“OREO”), which is measured at the lower of cost or fair value, and goodwill and other intangible assets, which are measured at fair value and evaluated at least annually for impairment. The table below presents OREO that was remeasured and reported at fair value based on significant unobservable inputs (Level 3) (in thousands):

	2013	2012
Beginning Balance, January 1	\$ 8,162	\$ 7,948
OREO remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	7,012	5,685
Charge-offs recognized in the allowance for loan losses	(1,565)	(1,656)
Fair value	5,447	4,029
OREO remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	2,832	3,659
Fair value	1,724	2,638
Write-downs included in other non-interest expense	(1,108)	(1,021)
Acquired	3,492	728
Disposals	(7,523)	(3,522)
Ending Balance, December 31	\$ 8,470	\$ 8,162

Based on the Company's annual assessment for impairment in the recorded value of goodwill and indefinite lived intangible assets, no impairment was recorded during the years ended December 31, 2013 and 2012.

ASC Topic 825 “Financial Instruments” as amended, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions were used in estimating fair value for financial instruments:

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

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

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

Deposits: The fair values of demand deposits (e.g., interest and noninterest-bearing checking, regular savings, and other money market demand accounts) are, by definition, equal to their carrying values. The fair values of time deposits were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits

with similar remaining maturities. The fair values of the time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

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

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

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

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2013					
Assets:					
Cash and cash equivalents	\$ 85,876	\$ 85,876	\$ 85,876	\$ —	\$ —
Securities available-for-sale	352,660	352,660	6,158	342,615	3,887
Securities held-to-maturity	4,117	5,335	—	5,335	—
Other securities	13,343	13,343	—	13,343	—
Net loans	2,585,622	2,609,524	—	—	2,609,524
Accrued interest receivable	6,866	6,866	6,866	—	—
Derivative assets	3,538	3,538	—	3,538	—
Liabilities:					
Deposits	2,785,133	2,793,620	1,707,527	1,086,093	—
Short-term debt	137,798	137,801	—	137,801	—
Long-term debt	16,495	16,495	—	16,495	—
Derivative liabilities	3,538	3,538	—	3,538	—
December 31, 2012					
Assets:					
Cash and cash equivalents	\$ 84,994	\$ 84,994	\$ 84,994	\$ —	\$ —
Securities available-for-sale	377,122	377,122	5,959	368,778	2,385
Securities held-to-maturity	13,454	13,861	—	13,861	—
Other securities	11,463	11,463	—	11,463	—
Net loans	2,127,560	2,162,856	—	—	2,162,856
Accrued interest receivable	6,692	6,692	6,692	—	—
Derivative assets	14,012	14,012	—	14,012	—
Liabilities:					
Deposits	2,409,316	2,423,511	1,489,970	933,541	—
Short-term debt	114,646	114,648	—	114,648	—
Long-term debt	16,495	16,462	—	16,462	—
Derivative liabilities	14,012	14,012	—	14,012	—

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

Condensed Balance Sheets

The following table presents the condensed balance sheets of City Holding Company, parent company only (in thousands):

	December 31	
	2013	2012
Assets		
Cash	\$ 28,423	\$ 14,349
Securities available-for-sale	4,673	4,186
Investment in subsidiaries	373,886	332,156
Deferred tax asset	2,990	3,247
Fixed assets	10	11
Other assets	519	2,180
Total Assets	\$ 410,501	\$ 356,129
Liabilities		
Junior subordinated debentures	\$ 16,495	\$ 16,495
Dividends payable	5,828	5,192
Accrued interest payable	25	24
Other liabilities	530	1,144
Total Liabilities	22,878	22,855
Shareholders' Equity	387,623	333,274
Total Liabilities and Shareholders' Equity	\$ 410,501	\$ 356,129

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

Condensed Statements of Comprehensive Income

The following table presents the condensed statements of comprehensive income of City Holding Company, parent company only (in thousands):

	Year Ended December 31		
	2013	2012	2011
Income			
Dividends from subsidiaries	\$ 46,317	\$ 41,422	\$ 44,600
Investment securities gains	89	1,134	—
Other income	66	65	92
	46,472	42,621	44,692
Expenses			
Interest expense	617	661	639
Investment securities losses	—	—	918
Other expenses	2,352	533	613
	2,969	1,194	2,170
Income Before Income Tax (Benefit) Expense and Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries	43,503	41,427	42,522
Income tax (benefit) expense	(1,050)	2	(704)
Income Before Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries	44,553	41,425	43,226
Equity in undistributed net income (excess dividends) of subsidiaries	3,662	(2,480)	(2,548)
Net Income	\$ 48,215	\$ 38,945	\$ 40,678
 Total Comprehensive Income	 \$ 44,647	 \$ 41,430	 \$ 39,268

Condensed Statements of Cash Flows

The following table presents the condensed statements of cash flows of City Holding Company, parent company only (in thousands):

	Year Ended December 31		
	2013	2012	2011
Operating Activities			
Net income	\$ 48,215	\$ 38,945	\$ 40,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment securities (gains) losses	(89)	(1,134)	918
Amortization and accretion	5	19	19
Deferred income tax benefit	—	—	(363)
Stock based compensation	205	224	—
Depreciation	1	1	1
Change in other assets	1,656	740	1,522
Change in other liabilities	(236)	1,136	(965)
(Equity in undistributed net income) excess dividends of subsidiaries	(3,662)	2,480	2,548
Net Cash Provided by Operating Activities	46,095	42,411	44,358
Investing Activities			
Purchases of available for sale securities	—	(403)	(29)
Proceeds from sales of available for sale securities	137	2,473	—
Acquisition of Community Financial Corporation	(12,708)	—	—
Acquisition of Virginia Savings Bank	—	(4,672)	—
Net Cash Used in Investing Activities	(12,571)	(2,602)	(29)
Financing Activities			
Dividends paid	(22,878)	(20,710)	(20,630)
Purchases of treasury stock	—	(7,915)	(23,790)
Exercise of stock options	3,428	544	463
Net Cash Used in Financing Activities	(19,450)	(28,081)	(43,957)
Increase in Cash and Cash Equivalents	14,074	11,728	372
Cash and cash equivalents at beginning of year	14,349	2,621	2,249
Cash and Cash Equivalents at End of Year	\$ 28,423	\$ 14,349	\$ 2,621

NOTE TWENTY-TWO – SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information is presented below (in thousands, except for per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013				
Interest income	\$ 33,026	\$ 34,724	\$ 35,674	\$ 35,115
Taxable equivalent adjustment	174	167	161	158
Interest income (FTE)	33,200	34,891	35,835	35,273
Interest expense	3,455	3,427	3,304	3,115
Net interest income	29,745	31,464	32,531	32,158
Provision for loan losses	1,738	2,011	1,154	1,945
Investment securities gains	84	9	—	671
Noninterest income	14,242	14,243	14,480	14,277
Noninterest expense	29,403	23,959	24,665	24,879
Income before income tax expense	12,930	19,746	21,192	20,282
Income tax expense	4,769	6,573	7,056	6,877
Taxable equivalent adjustment	174	167	161	158
Net income	\$ 7,987	\$ 13,006	\$ 13,975	\$ 13,247
Net earnings available to common shareholders	\$ 7,922	\$ 12,890	\$ 13,848	\$ 13,127
Basic earnings per common share	\$ 0.51	\$ 0.83	\$ 0.89	\$ 0.84
Diluted earnings per common share	0.51	0.82	0.88	0.83
Average common shares outstanding:				
Basic	15,473	15,582	15,608	15,636
Diluted	15,627	15,752	15,790	15,799
2012				
Interest income	\$ 27,430	\$ 27,466	\$ 28,432	\$ 28,884
Taxable equivalent adjustment	208	198	185	183
Interest income (FTE)	27,638	27,664	28,617	29,067
Interest expense	3,908	3,625	3,557	3,360
Net interest income	23,730	24,039	25,060	25,707
Provision for loan losses	1,950	1,675	975	1,775
Investment securities losses	(31)	528	458	—
Noninterest income	13,149	13,262	13,621	14,266
Noninterest expense	19,515	24,763	21,846	21,273
Income before income tax expense	15,383	11,391	16,318	16,925
Income tax expense	5,144	3,780	5,526	5,848
Taxable equivalent adjustment	208	198	185	183
Net income	\$ 10,031	\$ 7,413	\$ 10,607	\$ 10,894
Net earnings available to common shareholders	\$ 9,955	\$ 7,354	\$ 10,523	\$ 10,809
Basic earnings per common share	\$ 0.68	\$ 0.50	\$ 0.71	\$ 0.73
Diluted earnings per common share	0.67	0.50	0.71	0.73
Average common shares outstanding:				
Basic	14,679	14,680	14,751	14,755
Diluted	14,759	14,759	14,834	14,837

Subsequent to the Company's fourth quarter 2013 earnings release (which was released on January 28, 2014), the Company entered into a settlement agreement in the amount of \$0.7 million on February 14, 2014. The Company accrued for this settlement as of December 31, 2013.

NOTE TWENTY-THREE – EARNINGS PER SHARE

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

	For the Year Ended December 31,		
	2013	2012	2011
Distributed earnings allocated to common stock	\$ 23,100	\$ 20,603	\$ 20,102
Undistributed earnings allocated to common stock	24,678	18,034	20,280
Net earnings allocated to common shareholders	<u>\$ 47,778</u>	<u>\$ 38,637</u>	<u>\$ 40,382</u>
Average shares outstanding	15,564	14,714	15,055
Effect of dilutive securities:			
Warrant outstanding	60	—	—
Employee stock options	84	82	75
Shares for diluted earnings per share	<u>15,708</u>	<u>14,796</u>	<u>15,130</u>
Basic earnings per share	\$ 3.07	\$ 2.63	\$ 2.68
Diluted earnings per share	<u>\$ 3.04</u>	<u>\$ 2.61</u>	<u>\$ 2.67</u>

Options to purchase approximately 124,000 and 222,000 shares of common stock at an exercise price between \$35.09 and \$40.88, and \$32.09 and \$40.88 per share were outstanding during 2012, and 2011, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and therefore, the effect would have been anti-dilutive. During the year ended December 31, 2013, there were no anti-dilutive options outstanding.

NOTE TWENTY-FOUR – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Accumulated Other Comprehensive Loss		
	Defined Benefit Pension Plans	Unrealized Gains (Losses) on Securities Available-for-Sale	Total
Balance at December 31, 2011	\$ (4,732)	\$ 825	\$ (3,907)
Other comprehensive income before reclassifications	62	3,343	3,405
Amounts reclassified from other comprehensive loss	(325)	(595)	(920)
	(263)	2,748	2,485
Balance at December 31, 2012	\$ (4,995)	\$ 3,573	\$ (1,422)
Other comprehensive income before reclassifications	2,685	(5,201)	(2,516)
Amounts reclassified from other comprehensive loss	(570)	(482)	(1,052)
	2,115	(5,683)	(3,568)
Balance at December 31, 2013	\$ (2,880)	\$ (2,110)	\$ (4,990)

	Amount reclassified from Other Comprehensive Loss			Affected line item in the Statements of Income
	December 31, 2013	2012	2011	
<i>Securities available-for-sale:</i>				
Net securities (gains) losses reclassified into earnings	\$ (764)	\$ (954)	\$ (2,483)	Security gains (losses)
Related income tax expense	282	359	935	Income tax expense
Net effect on accumulated other comprehensive loss	\$ (482)	\$ (595)	\$ (1,548)	
Net periodic employee benefit cost	\$ (903)	\$ (521)	\$ (386)	Salaries and employee benefits
Related income tax (benefit)	333	196	145	Income tax expense
Net effect on accumulated other comprehensive loss	\$ (570)	\$ (325)	\$ (241)	

Subsidiaries of City Holding Company

As of December 31, 2013, 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 7, 2014, 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 2013 Annual Report to Shareholders of City Holding Company.

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

- 1) Registration Statements (Form S-8 No. 333-115282) of City Holding Company pertaining to the 2003 Incentive Plan and the 1993 Stock Incentive Plan, and
- 2) Registration Statement (Form S-3 No. 333-185306) of City Holding Company
- 3) Registration Statement (Form S-8 No. 333-189055) of City Holding Company pertaining to the 2013 Incentive Plan

of our reports dated March 7, 2014, with respect to the consolidated financial statements of City Holding Company and the effectiveness of internal control over financial reporting of City Holding Company incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Charleston, West Virginia

March 7, 2014

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 Rules 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 fiscal 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 the registrant's board of directors (or such 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 7, 2014

/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 Rules 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 fiscal 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 the registrant's board of directors (or such 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
 - (a) 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 7, 2014

/s/ David L. Bumgarner

David L. Bumgarner

Senior Vice President and 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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles R. Hageboeck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

Date: March 7, 2014

/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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Bumgarner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 7, 2014

/s/ David L. Bumgarner

David L. Bumgarner

Senior Vice President, Chief Financial Officer and
Principal Accounting Officer

CITY HOLDING COMPANY DIRECTORS

Name	Principal Occupation
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)
J. Thomas Jones	Executive Consultant to CEO, WV United Health System since 2014. Former President & CEO, WV United Health System from 2002 to 2014.
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	Former Chief Financial Officer, Valtronics, Inc. (manufacturers of products for commercial and industrial customers) July 2008 to May 2013.
Sharon H. Rowe	President, SHR Consulting, LLC (provider of public relations, marketing and events planning services)
Charles W. Fairchilds	Retired. Former President of Allied Ready Mix Company, 1987 to January 2009.

Executive Officers

Charles R. Hageboeck President & CEO	Craig G. Stilwell Executive Vice President Retail Banking	John A. DeRito Executive Vice President Commercial Banking
David L. Bumgarner Chief Financial Officer	Jeffrey D. Legge Senior Vice President, Chief Administrative Officer and Chief Information Officer	

*City Holding Company
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Cross Lanes, West Virginia 25313*

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