CITY HOLDING CO
Form 10-K
March 11, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2018
OR
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From ____________To_____________.

Commission File Number 0-11733
CITY HOLDING COMPANY
(Exact name of registrant as specified in its charter)

West Virginia	55-0619957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 Gatewater Road	
Charleston, West Virginia	25313
(Address of principal executive offices)	(Zip Code)

(304) 769-1100
(Registrant's telephone number, including area code)

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

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, $2.50 par value	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[X]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[X]

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[X]No[ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 [X] 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

As of June 30, 2018, 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 $1.1 billion. (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 7, 2019, there were 16,530,297 shares of the Company's common stock, $2.50 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2019 annual shareholders' meeting to be held on April 17, 2019 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14.

FORM 10-K INDEX

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. Forward-looking statements express only management's beliefs regarding future results or events and are subject to inherent uncertainty, risks, and changes in circumstances, many of which are outside of management's control. Examples of forward-looking statements include, but are not limited to, information regarding our business plan and strategies, projected future financial performance, the determination of our allowance for loan losses, the carrying value of certain assets, and statements regarding our risk exposure. Words such as "anticipate," "expect," "may," "will," "should," "likely," "estimate," "intend" and other similar words and expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Uncertainty, risks, changes in circumstances and other factors could cause the Company's actual results to differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ 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) general economic conditions, especially in the communities and markets in which we conduct our business; (2) credit risk, including risk that negative credit quality trends may lead to a deterioration of asset quality, risk that our allowance for loan losses may not be sufficient to absorb actual losses in our loan portfolio, and risk from concentrations within our loan portfolio; (3) changes in the real estate market, including the value of collateral securing portions of our loan portfolio; (4) changes in the interest rate environment; (5) operational risk, including cybersecurity risk and risk of fraud, data processing system failures, and network breaches; (6) changes in technology and increased competition, including competition from non-bank financial institutions; (7) changes in consumer preferences, spending and borrowing habits, demand for our products and services, and customers' performance and creditworthiness; (8) difficulty growing loan and deposit balances; (9) our ability to effectively execute our business plan, including with respect to future acquisitions, integration of acquired companies, and liquidity needs; (10) changes in regulations, laws, taxes, government policies, monetary policies and accounting policies affecting bank holding companies and their subsidiaries; (11) 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; (12) regulatory enforcement actions and adverse legal actions; (13) difficulty attracting and retaining key employees; (14) the expected cost savings and any revenue synergies from the merger of City Holding Company, City National Bank of West Virginia, Poage Bankshares, Inc., Town Square Bank, Farmers Deposit Bancorp, Inc. and Farmers Deposit Bank may not be fully realized within the expected time frames; (15) the disruption from the merger of City Holding Company, City National Bank of West Virginia, Poage Bankshares, Inc., Town Square Bank, Farmers Deposit Bancorp, Inc. and Farmers Deposit Bank may make it more difficult to maintain relationships with clients, associates, or suppliers; and (16) other economic, competitive, technological, operational, governmental, regulatory, and market factors affecting our operations. 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" or "City Holding" or the "Parent 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”). City National provides banking, trust and investment management and other financial solutions through its network of 100 bank branches and 891 full-time equivalent associates located in West Virginia, Virginia, Kentucky and southeastern Ohio. The Company’s business activities are currently limited to one reportable business segment, which is community banking.

In July 2018, the Company announced that it had concurrently executed two separate definitive agreements to acquire Poage Bankshares, Inc., of Ashland, Kentucky and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc., of Cynthiana, Kentucky and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit"). The acquisitions were finalized in December 2018. Poage operated nine branches across northeastern Kentucky, along with a loan production office in Cincinnati, Ohio. Farmers Deposit operated three branches around the Lexington, Kentucky region. As a result of overlapping service areas, the Company plans to merge three of the Poage branches into existing City branches and two existing City branches into former Poage branches.

In September 2018, the Company opened a new branch office in Morgantown, West Virginia. In December 2018, the Company opened a new branch office in the Columbus suburb of Worthington, Ohio.
Rendition of the Company's Worthington branch.

In January 2019, the Company announced the signing of a definitive agreement to sell its Virginia Beach, Virginia, branch to Select Bancorp, Inc., the holding company for Select Bank & Trust Company. The transaction is expected to close during the second quarter of 2019.

After the Poage-City branch mergers and the Virginia Beach branch divestiture, the Company expects to have 94 bank branches in its network.

During 2018, the Company received the highest ranking in customer satisfaction in the north central region in J.D. Power's 2018 U.S. Retail Banking Satisfaction Study.

The principal products produced and services rendered by City National include:

- Commercial Banking - City National offers a full range of commercial banking services to corporations and other business customers. Loans are provided for a variety of business purposes, including financing for commercial and industrial projects, income producing commercial real estate, owner-occupied real estate and construction and land development. City National also provides deposit services for commercial customers, including treasury management, lockbox and other cash management services. City National provides merchant credit card services through an agreement with a third party vendor.

- Consumer Banking - City National provides banking services to consumers, including checking, savings and money market accounts as well as certificates of deposit and individual retirement accounts. In addition, City National provides consumers with installment and real estate loans and lines of credit. City National also offers credit cards through an agreement with a third party vendor.

- Mortgage Banking - City National provides mortgage banking services, including fixed and adjustable-rate mortgages, construction financing, production of conventional and government insured mortgages, secondary marketing and mortgage servicing.

- Wealth Management and Trust Services - City National offers specialized services and expertise in the areas of wealth management, trust, investment and custodial services for commercial and individual customers. These services include the administration of personal trusts and estates, as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. City National also provides corporate trust and institutional custody, financial and estate planning and retirement plan services.

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 in excess of City National's internally designated limit, residential mortgage loans have historically comprised a significant portion of its loan portfolio. At December 31, 2018, approximately 50% of the Company’s loan portfolio was categorized as residential mortgage and home equity loans. However, due to the fractured 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 significant 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.

City National’s loan portfolio is comprised of commercial and industrial, commercial real estate, residential real estate, home equity, consumer loans and demand deposit account ("DDA") overdrafts.

City National's commercial and industrial loan portfolio consists of loans to corporate and other legal entity borrowers, primarily small to mid-size industrial and commercial companies. Commercial and industrial loans typically involve a higher level of risk than other loan types, including industry specific risks such as the pertinent economy, new technology, labor rates and cyclicality, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. As of December 31, 2018, City National reported $286 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 provided to many of the same customers and carry similar industry and customer specific risks as the commercial and industrial loans, but have different collateral risks. As of December 31, 2018, City National reported $1.43 billion of loans classified as “Commercial Real Estate.”

City National diversifies risk within the commercial and industrial and commercial real estate portfolios by closely monitoring industry concentrations (against internally established risk-based capital thresholds) 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 all larger balance commercial loans by the loan committee prior to approval.

City National categorizes commercial loans by industry according to the North American Industry Classification System ("NAICS") to monitor its portfolio for possible concentrations in one or more industries. Management monitors industry concentrations against internally established risk-based capital thresholds. As of December 31, 2018, City National was within its internally designated concentration limits. Further, with the exception of loans to borrowers within the "Lessors of Nonresidential Buildings", no other NAICS industry classification exceeded 10% of total loans at December 31, 2018. Loans to "Lessors of Nonresidential Buildings" were 12% of total loans at December 31, 2018. Management also monitors non-owner occupied commercial real estate as a percent of risk-based capital (based upon regulatory guidance). At December 31, 2018, the Company had $1.3 billion of commercial loans classified as non-owner occupied, which was within its designated concentration threshold.

Residential real estate loans represent loans to consumers that are secured by a first priority lien on residential real property. Residential real estate loans include loans for the purchase or refinance of consumers' residences and first-priority home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family three- and five-year adjustable rate mortgages with terms that amortize up to 30 years. City National also offers fixed-rate residential real estate loans that are sold in the secondary market; once sold these loans are not included on the Company's balance sheet and City National does not retain the servicing rights to these loans. Residential purchase real estate loans are generally underwritten to comply with Fannie Mae guidelines, while first priority lien home equity loans are underwritten with typically less documentation, lower loan-to-value ratios and shorter maturities. As of December 31, 2018, City National reported $1.66 billion of loans classified as “Residential Real Estate.”

City National's home equity loans represent loans to consumers that are secured by a second (or junior) priority lien on residential real property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first priority lien. These loans include home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Second priority lien home equity loans are underwritten with less documentation than first priority lien residential real estate loans but typically have similar loan-to-value ratios and other terms as first priority lien residential real estate loans. The amount of credit extended under these loans is directly related to the value of the real estate securing the loan at the time the loan is made. As of December 31, 2018, City National reported $153 million of loans classified as “Home Equity.”

All mortgage loans, whether fixed rate or adjustable rate, are originated in accordance with acceptable industry standards and comply with regulatory requirements. Fixed rate mortgage loans are processed and underwritten in accordance with Fannie Mae and Freddie Mac guidelines, while adjustable rate mortgage loans are underwritten in accordance with City National's internal loan policy.

Consumer loans may be secured by automobiles, boats, recreational vehicles, certificates of deposit and other personal property or they may be unsecured. The Company manages the risk associated with consumer loans by monitoring factors such as portfolio size and growth, internal lending policies, and pertinent economic conditions. City National's underwriting standards for consumer loans are continually evaluated and modified based upon these factors. As of December 31, 2018, City National reported $51 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, 2018, City National reported $6 million of loans classified as “DDA Overdrafts.”

City National’s loan underwriting guidelines and standards are updated periodically with suggested revisions presented to City Holding Company's Board of Directors for approval. The purpose of the underwriting guidelines and standards is to grant loans on a sound and collectible basis; to invest available funds in a safe and profitable manner; to serve the legitimate credit needs of the communities in City National's primary market area; and to ensure that all loan applicants receive fair and equal treatment throughout the lending process. The underwriting guidelines and standards are intended to: (i) minimize loan losses by carefully investigating the credit history and creditworthiness of each applicant; (ii) verify the source of repayment and the ability of the applicant to repay; (iii) adequately collateralize those loans in which collateral is deemed to be required; (iv) exercise appropriate care in the documentation of the application, review, approval, and origination processes; and (v) administer a comprehensive loan collection program. The underwriting guidelines are adhered to by the loan officer assigned to the loan application and subject to his or her experience, background and personal judgment.

Market Area

City National operates a network of 100 bank branches primarily along the I-64 corridor from Lexington, Kentucky through Lexington, Virginia and along the I-81 corridor through the Shenandoah Valley from Lexington, Virginia to Martinsburg, West Virginia. City National's branch network includes 58 branches in West Virginia, 24 branches in Kentucky,14 branches in Virginia and 4 branches in Ohio. City National provides credit, deposit and investment advisory products and services to a broad geographical area that includes many rural and small community markets in addition to larger cities including Charleston (WV), Huntington (WV), Martinsburg (WV), Ashland (KY), Lexington (KY), Winchester (VA) and Staunton (VA). In addition to its branch network, City National's delivery channels include automated-teller-machines ("ATMs"), interactive-teller machines ("ITMs"), mobile banking, debit cards, interactive voice response systems, and Internet technology.

City National also provides commercial products and services to customers that are outside of its branches' geographical footprint, such as the Charlotte, North Carolina and Pittsburgh, Pennsylvania markets. These loans are diversified across a broad base of industry types, including multi-family housing properties, properties leased to government agencies, nursing homes, grocery and retail stores, and other commercial and industrial loans. At December 31, 2018, the outstanding balance of commercial loans to markets outside of the geographical footprint of the bank's branches was approximately $286 million, or 17% of City National's outstanding commercial loan balances.

City National has approximately 12% of the deposit market share in the counties of West Virginia where its bank branches are located. In Kentucky, City National has approximately 3% of the deposit market share in the counties where its bank branches are located. In Virginia, City National has approximately 9% of the deposit market share in the counties along the I-81 corridor where its bank branches are located. In Ohio, City National has approximately 18% of the deposit market share in Lawrence County where its bank branches are located (excluding the recently opened branch in Worthington, Ohio).

According to the most recent U.S. Census Bureau estimates (2017), in the West Virginia counties where City National's bank branches are located, the population was approximately 1.0 million and has decreased 0.2% since 2010. The population in the counties that City National serves in Kentucky increased 4.3% since 2010. The population in the counties City National serves in Virginia along the I-81 corridor have increased 5.4% since 2010, which is more comparable to the national average increase of approximately 5.5%, and in Lawrence County, Ohio, where City National has three bank branches located in Ohio, the population has decreased 3.5% since 2010.

Competition

As noted previously, the Company's principal markets are located in West Virginia and contiguous markets in the surrounding states of Kentucky, Virginia and Ohio. The majority of the Company's bank branches are located in the areas of Charleston (WV), Huntington (WV), Beckley (WV), Lewisburg (WV), Martinsburg (WV), Lexington (KY), and along the I-81 corridor in Virginia where there is a significant presence of other financial service providers. Within its markets, the Company competes with national, regional, and local community banks for deposits, credit and trust and investment management customers. In addition to traditional banking organizations, the Company competes with credit unions, finance companies, financial technology companies, mutual funds, insurance companies, and other financial service providers, many of which are able to provide specialty financial products and 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 and its subsidiaries face 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 regulators. The following description briefly discusses certain provisions of federal and state laws and regulations to which the Company and City National are subject and the potential impact of such provisions. These federal and state laws and regulations are designed to reduce potential loss exposure to the depositors of depository institutions and to the Federal Deposit Insurance Corporation's insurance fund; they are not intended to protect the Company's shareholders. 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 and/or 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 of 1863, as amended (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 of the banks. The National Bank Act generally requires each national bank to maintain reserves against deposits, restricts the nature and amount of loans that the bank may make and the interest the bank may charge on such loans, and restricts investments and other activities of the bank.

Bank Holding Company Activities: In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks and certain 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 equity 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 determined solely by the Federal Reserve Board). Activities that are financial in nature include, among other things, securities underwriting and dealing, insurance underwriting and making merchant banking investments.

The Company has elected and qualifies as a financial holding company. In order for the Company to maintain its financial holding company status, both the Company and City National must be categorized as "well-capitalized" and "well-managed" under applicable regulatory guidelines. If the Company or City National fails to meet these requirements, the Federal Reserve Board may impose corrective capital requirements or place limitations on the Company's ability to conduct the broader activities permissible for financial holding companies. The Federal Reserve Board also 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 BHCA, the Bank Merger Act, and other federal and state laws and regulations regulate mergers and acquisitions of commercial banks and bank holding companies. The prior approval of the Federal Reserve Board is typically required for City Holding Company to acquire more than 5% of the voting shares of a commercial bank or bank holding company. Mergers and acquisitions by the Company of national banks, state-chartered banks, federal and state savings associations, and certain other types of entities require prior approval from various regulators. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transaction, the capital position of the combined institution, and the applicant's previous adherence to various banking regulations, including the Community Reinvestment Act of 1977 and anti-money laundering requirements.

Federal Reserve Board policy and federal law require that bank holding companies must serve as a source of financial strength to their subsidiary banks. The Company is expected to commit resources to City National, even at times when the Company may not be inclined to do so. For example, if bank regulatory agencies determine that City National's capital levels are impaired, the Company may be required to restore City National's capital levels with a special assessment.

Banking Operations: The Bank Secrecy Act of 1970 ("BSA") and the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (“Patriot Act”) require financial institutions to develop programs to help prevent them from being used for money laundering, terrorist or other illegal activities. The rules under the BSA and the Patriot Act 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 other 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. Loans and extensions of credit from the bank to its affiliates are also subject to various collateral requirements. Further, City National's authority 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 the restrictions and additional requirements of 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 specify approval procedures that 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. Banking regulators also take into account CRA ratings when considering approval of a proposed merger or acquisition transaction. Depository institutions are typically examined for CRA compliance every three years, although the frequency is at the OCC's discretion. City National received a "satisfactory" rating on its most recent CRA examination in 2018.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was enacted in July 2010 and implemented far-reaching changes across the financial regulatory landscape, including provisions that impact the Company's operations and regulation of the Company in the following ways, among others:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which has rule making authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;
- 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;

- Provide for an increase in the minimum reserve ratio for the FDIC deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;
- Repeal the federal prohibitions on the payment of interest on demand deposits;
- Amend the Electronic Fund Transfer Act ("EFTA");
- Enhance the requirements for certain transactions with affiliates under the Federal Reserve Act;
- Strengthen the existing limits on a depository institution’s credit exposure to one borrower;
- Strengthen loan restrictions to insiders; and
- Increase the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries.

The Volcker Rule was adopted under the Dodd-Frank Act and prohibit certain entities, including the Company and its affiliates, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

Since the enactment of the Dodd-Frank Act, the Consumer Financial Protection Bureau (the "CFPB") has issued several regulations governing mainly consumer mortgage lending. These regulations include the ability to repay and qualified mortgage rule, which imposes additional requirements on banks designed to ensure borrowers' ability to repay their mortgage loans, a rule on escrow accounts for higher priced mortgage loans, a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act, rules related to mortgage servicing, and an interagency rule on appraisals for higher-priced mortgage loans. The CFPB has also promulgated rules under the Equal Credit Opportunity Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act, all of which impact the Company's loan origination and servicing operations. The CFPB also has broad authority to supervise unfair, deceptive or abusive acts or practices related to banking.

The Company is also subject to the Gramm-Leach Bliley Act of 1999, which governs the distribution and protection of information about its customers, the Equal Credit Opportunity Act, which ensures fair and nondiscriminatory lending practicies, the Truth in Lending Act and Truth in Savings Act, which makes it easier for customers to compare products and services offered by financial institutions, the Home Mortgage Disclosure Act, which imposes additional disclosure requirements on the Company related to information about its mortgage lending, and other federal and state laws and regulations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") was signed into law on May 24, 2018. The Regulatory Relief Act scales back certain aspects of the Dodd-Frank Act and provides other regulatory relief for financial institutions. Certain provisions affecting the Company include:

- Simplifying regulatory capital requirements by providing that banks with less than $10 billion in total consolidated assets that meet a to-be-developed community bank leverage ratio of tangible equity to average consolidated assets between eight and ten percent will be deemed to be in compliance with risk-based capital and leverage requirements.
- Reducing reporting requirements on call reports for the first and third quarters of a reporting year for banks with less than $5 billion in total consolidated assets;
- Changing how federal financial institution regulators classify certain municipal securities assets under the liquidity coverage ratio rule;
- Exempting certain reciprocal deposits from treatment as brokered deposits under the FDIC's brokered deposits rule;
- Exempting banks with less than $10 billion in total consolidated assets from certain provisions under the Volcker Rule; and
- Authorizing new banking procedures to better facilitate online transactions.

The Company is still assessing the impact that the Regulatory Relief Act will have on its financial condition and results of operations. In addition, regulatory agencies still need to issue several final rules and regulations required under the Regulatory Relief Act. The Company cannot be certain of the substance of the final rules and regulations or how they will impact the Company's financial condition and results of operations.

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.

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

On January 1, 2019, the Basel III Capital Rules will require City Holding and City National to maintain minimum CET 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer that will become fully phased in on that date, effectively resulting in new minimum capital ratios (which are shown in the table below). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have any current applicability to City Holding Company or City National Bank.

The Company’s regulatory capital ratios for both City Holding and City National are illustrated in the following tables (dollars in thousands):

December 31, 2018	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET 1 Capital								
City Holding Company	$492,526	15.1%	$208,294	6.375%	$228,715	7.0 %	$212,378	6.5 %
City National Bank	423,099	13.1%	206,676	6.375%	226,938	7.0 %	210,728	6.5 %
Tier 1 Capital								
City Holding Company	496,526	15.2%	257,304	7.875%	277,725	8.5 %	261,389	8.0 %
City National Bank	423,099	13.1%	255,306	7.875%	275,568	8.5 %	259,358	8.0 %
Total Capital								
City Holding Company	512,801	15.7%	322,651	9.875%	343,072	10.5%	326,736	10.0%
City National Bank	439,374	13.6%	320,145	9.875%	340,408	10.5%	324,198	10.0%
Tier 1 Leverage Ratio								
City Holding Company	496,526	11.4%	174,833	4.000%	174,833	4.0 %	218,542	5.0 %
City National Bank	423,099	9.8 %	172,594	4.000%	172,594	4.0 %	215,742	5.0 %

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

December 31, 2017	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET 1 Capital								
City Holding Company	$430,154	15.1%	$163,441	5.75%	$198,972	7.0 %	$184,760	6.5 %
City National Bank	338,105	12.0%	162,164	5.75%	197,418	7.0 %	183,316	6.5 %
Tier 1 Capital								
City Holding Company	446,154	15.7%	206,078	7.25%	241,609	8.5 %	227,397	8.0 %
City National Bank	338,105	12.0%	204,468	7.25%	239,721	8.5 %	225,620	8.0 %
Total Capital								
City Holding Company	465,292	16.4%	262,927	9.25%	298,458	10.5%	284,246	10.0%
City National Bank	357,243	12.7%	260,873	9.25%	296,126	10.5%	282,025	10.0%
Tier 1 Leverage Ratio								
City Holding Company	446,154	11.0%	161,834	4.00%	161,834	4.0 %	202,293	5.0 %
City National Bank	338,105	8.5 %	159,625	4.00%	159,625	4.0 %	199,531	5.0 %

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

Management believes that, as of December 31, 2018, City Holding and City National would meet all capital adequacy requirements under Basel III on a fully phased-in basis as if such requirements had been in effect. As discussed above, the Regulatory Relief Act will likely result in changes to the minimum required capital ratios applicable to the Company once final rules are implemented.

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 federal banking agency regulations. Depository institutions that do not meet minimum capital requirements will face constraints on payment of dividends, equity repurchases and compensation based on the amount of shortfall. 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, may be subject to asset growth limitations, and may be required to submit capital restoration plans.

Incentive Compensation: The Company is subject to regulatory rules and guidance regarding employee incentive compensation policies intended to ensure that incentive-based compensation does not undermine the safety and soundness of the institution by encouraging excess risk-taking. The Company's incentive compensation arrangements must provide employees with incentives that appropriately balance risk and reward and do not encourage imprudent risk, be compatible with effective controls and risk managements, and be supported by strong corporate governance, including active and effective oversight by the Company's board of directors.

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 the shareholders of the Company, to participate in any distribution of the assets or earnings of City National, through the payment of dividends or otherwise, is 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 by City National to the Company as well as the payment of dividends by the Company to its shareholders.

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. At December 31, 2018, City National could pay dividends up to $88.8 million without prior regulatory permission. No dividends were paid in 2018 that required regulatory approval. 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 also has the authority to prohibit any bank under its jurisdiction from engaging in an unsafe or 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 fully fund 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 its 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 financial strength.

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.

Governmental Policies

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

In view of changing conditions in the national economy and in money markets, as well as the effect of credit policies by monetary and fiscal authorities, including the Federal Reserve Board, it is difficult to predict the impact of possible future changes in interest rates, deposit levels, and loan demand, or their effect on the Company's business and earnings or on the financial condition of the Company's various customers.

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. Deposit insurance assessments are based on average total assets minus average tangible equity. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In March 2016, the FDIC adopted a final rule permanently increasing the reserve ratio for the DIF to 1.35% of total insured deposits.

The Company's FDIC insurance expense for the past three years is shown in the table below (in thousands). The FDIC insurance expense includes deposit assessments and Financing Corporation ("FICO") assessments related to outstanding FICO bonds.

	For the year ended December 31,		
	2018	2017	2016
FDIC insurance expense	$1,251	$1,348	$1,622

On January 24, 2019, the Company was notified by the FDIC that it was eligible for small bank assessment credits. On September 30, 2018, the DIF reserve ratio reached 1.36%. Because the reserve ratio exceeded 1.35%, two deposit assessment changes occurred under the FDIC regulations: (i) surcharges on large banks (total consolidated assets of

$10 billion or more) ended and (ii) small banks (total consolidated assets of less than $10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The credit will be applied automatically each quarter that the reserve ratio is at least 1.38%, up to the full amount of the bank's credit or assessment, whichever is less.

Under the Federal Deposit Insurance Act, as amended (“FDIA") the FDIC may terminate deposit insurance upon finding that an institution has engaged in unsafe or 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.

Cybersecurity

Federal regulators issued two statements regarding cybersecurity: (i) a statement indicating that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institutions and (ii) a statement indicating the expectation of a financial institution's management to maintain a sufficient business continuity planning process to ensure rapid recovery, resumption and maintenance of the financial institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to: (a) enable recovery of data and business operations, (b) address rebuilding network capabilities, and (c) restore data if the financial institution or any of its critical service providers fall victim to this type of cyber-attack. If the Company does not comply with this regulatory guidance, it could be subject to various regulatory sanctions, as well as financial penalties.

In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to banks and bank holding companies with total consolidated assets of $50 billion or more; however, it is unclear as to whether any such standards would be applied, and in what form, in the future to smaller banks and bank holding companies.

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 in the financial services industry generally. 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, 2018, the executive officers of the Company were as follows:

Name	Age	Positions Held with Registrant
Charles R. Hageboeck, Ph.D.	56	President and Chief Executive Officer, City Holding Company and City National Bank, since February 1, 2005.
Craig G. Stilwell	63	Executive Vice President of Retail Banking, City Holding Company and City National Bank, since February 2005.
John A. DeRito	68	Executive Vice President of Commercial Banking, City Holding Company and City National Bank, since June 2004.
David L. Bumgarner	53	Senior Vice President and Chief Financial Officer, City Holding Company and City National Bank, since February 2005.
Jeffrey D. Legge	54	Senior Vice President, Chief Administration Officer and Chief Information Officer, City Holding Company and City National Bank, since December 2005.

Employees

The Company had 891 full-time equivalent employees at December 31, 2018.

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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 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.

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. In this section, the term "Company" includes City National unless the circumstances dictate otherwise.

Economic Conditions in the Company's Market Areas Could Negatively Impact the Company's Business and Financial Condition

The Company’s business is concentrated in West Virginia, Kentucky, Virginia and southeastern Ohio. As a result, the Company’s results of operation, cash flows and financial condition are affected by local and regional economic conditions. A downturn in the economies within the Company’s market areas, or in any one of them, could negatively impact the Company’s results of operation and financial condition. Some examples of economic deterioration include declines in economic growth, declines in consumer and business confidence, increases in inflation, increases in the cost of capital and credit, and limitations in the availability of credit. The Company’s financial performance generally, and the ability of its customers to pay interest on and repay principal of outstanding loans to City National, is highly dependent on the strength of the economic and business environment in the market areas where the Company operates and in the United States as a whole. Additionally, the value of collateral securing loans made and held by City National is impacted by the strength of the economy. Deteriorating economic conditions in the Company’s market areas could cause declines in the overall quality of the loan portfolio requiring charge-off of a greater percentage of loans and/or an increase in the allowance for loan losses, which could negatively impact the Company’s results of operations and financial condition.

While the economic and business environments in West Virginia, Kentucky, Virginia and southeastern Ohio have shown improvement since the recession of 2007 to 2009, there can be no assurance that such improvement will continue or that the economies in the Company’s market areas, or the United States as a whole, will not slip into another recession. A lack of continued economic improvement or economic recession could adversely affect the Company’s results of operation and financial condition. An economic slowdown could have the following consequences:

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

The oil, natural gas and coal industries, and businesses ancillary thereto, play an important role in the economies of West Virginia, Kentucky, Virginia and southeastern Ohio. The volatility in oil and gas prices since 2014 has negatively impacted oil and gas and other businesses in the Company’s market areas. Additionally, the coal industry continues to be in decline as a result of increased environmental and safety regulatory burden, increased competition from alternative energy sources and a decline in demand for coal. The Company has limited exposure (less than $10 million at December 31, 2018) to coal industry specific loans. Prolonged low oil and gas prices, and continued decline in the coal industry, could result in downward pressure on businesses in the Company’s market area which could negatively affect City National’s customers (both individuals and businesses). As a result, the Company’s operating results and financial condition could be negatively impacted.

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 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 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 FDIC nor any other governmental agency insures the shares of the Company’s common stock. Therefore, the value of your common stock of 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 Company's current ability to pay dividends is largely dependent upon the receipt of dividends from City National. Federal 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. There can be no assurance that the Company will continue to pay dividends to its shareholders in the future.

The Company and City National Are Extensively Regulated

The Company operates in a highly regulated environment and is 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 including but not limited to (i) ownership and control of the Company's equity, (ii) acquisition of other companies and businesses, (iii) permissible activities, (iv) maintenance of adequate capital levels and (v) other operational aspects. Compliance with banking regulations is costly and restricts certain of our activities, including the payment of dividends, mergers and acquisitions, investments, loan amounts and concentrations, interest rates, opening and closing branch locations, and other activities. The bank regulatory agencies also possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. These agencies have significant discretion in their ability to enforce penalties and further limit the Company's activities if the Company fails to comply with applicable regulations.

The Dodd-Frank Act instituted major changes to the bank and financial institutions regulatory regimes, and additional changes continue to be proposed and implemented by various regulatory agencies. 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. The burden and expenses associated with regulatory compliance have been increasing and may continue to increase. 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 and regulations governing financial institutions are frequently raised in Congress and before bank regulatory authorities. Changes in applicable laws or regulations 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 Lending Risk

There are inherent risks associated with the Company’s lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in restrictions of the Company's activities or the assessment of significant civil money penalties against the Company.

A substantial portion of the Company's loan portfolio is comprised of residential and commercial real estate loans. The Company's concentration of real estate loans may subject the Company to additional risk, such as market fluctuations in market value of collateral, environmental liability associated with hazardous or toxic substances found on, in or around the collateral, and difficulty monitoring income-producing property serving as a source of repayment and collateral. Any of these or other risks relating to real estate loans could adversely affect the collection by the Company of the outstanding loan balances.

The Company Is Subject to Interest Rate Risk

Changes in monetary policy, including changes in interest rates, could influence not only the interest income 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 it's earnings and net profit, could be adversely affected. Earnings also could 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 in Item 7A. Quantitative and Qualitative Disclosures About Market Risk located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

The Company May be Adversely Affected by the Soundness of Third Parties, Including Other Financial Institutions

The Company's business is highly dependent on third party vendors, especially with respect to information technology and telecommunication systems, payment processing system, and mobile and online banking systems. Our operations rely heavily on the secure processing, storage, transmission, and monitoring of information and transactions, and many of these services are outsourced to third party vendors. The failure of these systems or the inability of a third party vendor to continue providing these services on a reliable basis could adversely affect our operations. In addition, the failure of third parties to

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comply with applicable laws and regulations, or fraud or misconduct on the part of any of these third parties, could disrupt our operations and adversely affect our reputation. It may be difficult for us to replace some of our critical third party vendors, particularly vendors providing our core banking, debit card services and information services, in a timely manner and on terms that are favorable or acceptable to us. Any of these events could increase our expenses and have a material adverse effect on our business, financial condition, and results of operations.

Financial services institutions are interrelated with one another as a result of trading, clearing, counterparty, and other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company’s credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company’s business, financial condition and results of operations. Further, as a result of financial entities and technology systems becoming more interdependent and complex, a cybersecurity incident, information breach or loss, or technology failure that comprises the systems or data of one financial entity could have a material impact on counterparties or other market participants, including the Company.

The Company Depends on the Accuracy and Completeness of Information About Our Customers and Counterparties

The Company relies on information provided to us by or on behalf of customers and other third parties, including financial statements, credit reports, and other financial information, in deciding whether to extend credit or enter into other transactions and in evaluating and monitoring our loan portfolio. The Company also relies on representations from our customers, counterparties, and other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial or business information could result in loan losses, reputational damage, or other effects that could have a material adverse effect on our financial condition and results of operation.

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 loan portfolio. 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 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 management's allocation of 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

The Company faces substantial and intense competition in all areas of its operation, including interest rates and other terms for loans and deposits and the range and quality of services provided. Competition comes from a variety of different competitors, many of which have competitive advantages over the Company. The Company faces competition from:

- local, regional and national banks;
- savings and loans associations;
- Internet banks;
- credit unions;
- mutual funds;
- mortgage banking firms;
- finance companies;
- financial technology ("fin-tech") companies;
- brokerage firms;
- investment advisory and wealth management firms;
- investment banking firms; and
- other entities.

In particular, many of City National's competitors are larger banks and financial institutions 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, the Company's competitors may have products and services not offered by the Company, which may cause current and potential customers to choose those institutions over the Company. The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and the continued consolidation within the banking industry. Consumer preferences and expectations continue to evolve, and technology and regulatory changes have lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for non-banks to offer products and services typically provided by banks. Many of our non-bank competitors have fewer regulatory constraints and expenses associated with regulatory compliance and may have lower cost structures, such as credit unions that are not subject to federal income tax.

The Company's ability to compete successfully depends on a number of factors, including our ability to develop, maintain, and build long-term customer relationships; our ability to expand our market area and range of services and products offered; our ability to keep up-to-date with technological advancements, both with respect to new and existing products and with respect to cybersecurity; customer satisfaction with our products and services; and general industry and economic trends. Failure to perform successfully in any of these areas could significantly weaken our competitive position. 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 Faces Technology Change and the Emergence of Nonbank Alternatives to the Financial System

Consumers may decide not to use banks to complete their financial transactions or invest or deposit their funds. Technology and other changes, including the emergence of fin-tech companies are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can pay bills and transfer funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

The banking and financial services industry continually undergoes technological change, with frequent introductions of new technology-driven products and services. The Company’s future success depends on its ability to addresses the needs and preferences of its customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in the Company’s operations. Many of the Company’s competitors have greater resources to invest in technological improvements, and the Company may not be able to implement new technology-driven products and services as quickly and effectively as its competitors. In addition, the necessary process of updating technology can itself lead to disruptions in the availability or function of systems. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company’s business and results of operations.

The Value of the Company's Investments Could Decline

The Company holds available-for-sale investment securities, which are carried at fair value. The determination of fair value for certain of these securities requires significant judgment of the Company’s management. Therefore, the market price the Company receives for its investment securities could be less than the carrying value for such securities. Further, the value of the Company’s investment portfolio could decline for numerous reasons, many of which are outside the Company’s control, including general market conditions, volatility in the securities market, and inflation rates or expectations of inflation. A portion of the Company’s investment portfolio consists of municipal securities. The value of these securities is subject to additional factors, including the financial condition of the government issuer and general demand for municipal securities.

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, 2018, the Company’s goodwill and other identifiable intangible assets were approximately $123 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, 2018. 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.

The Company May Be Required to Repurchase Mortgage Loans or Indemnify Mortgage Loan Purchasers

The Company sells some of the fixed rate residential mortgage loans it originates to mortgage loan purchasers in the secondary market. Purchasers of residential mortgage loans, such as government sponsored entities, often require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold under certain circumstances, such as failure to comply with the purchaser’s purchase criteria, breach of a representation or warranty related to the loan or its origination, or borrower fraud. There is no assurance that a purchaser of the Company’s residential mortgage loans will not demand repurchase or indemnification for losses, which could increase the Company’s expenses in defending such claims and negatively affect the Company’s financial condition and results of operation.

The Company May Require Additional Capital in the Future, But That Capital May Not Be Available or May Be Dilutive

The Company faces liquidity risk, which is the possibility that the Company may not be able to meet its obligations as they come due, both to creditors and customers, or capitalize on growth opportunities because of a lack of liquidity. Lack of liquidity can be caused by an inability to liquidate assets or obtain adequate financing on a timely basis, at a reasonable cost and on other reasonable terms, and within acceptable risk tolerances. The Company is also required by its regulators to maintain specified levels of capital to maintain its operations. The Company’s business needs and future growth, including future acquisitions or organic growth into new markets and business lines, may require it to raise additional capital.

One of the Company’s main sources for liquidity is customer deposits. Increased competition and the availability of alternative products may reduce the Company’s ability to attract and retain core deposits. If customers move money out of bank deposits into other investments, we could lose a relatively low cost source of funds. A reduction in the Company’s credit rating may also increase its funding costs.

The Company’s ability to raise additional capital, whether in the form of debt or equity, is dependent on several factors, including the condition of capital markets, investment demand, and the Company’s financial performance. We cannot assure that we will be able to raise additional capital in the future on terms that are favorable or acceptable to us, or at all.

The issuance of debt may increase our capital costs and reduce our liquidity. The issuance of equity securities, including common stock or one or more series of preferred stock, of the Company may reduce the value of our common stock and have a dilutive effect on holders of our common stock. The Company may issue debt or equity securities that are senior in priority to our common stock as to distributions and liquidation, which could negatively affect the value of our common stock.

Acquisition and Other Growth Opportunities May Present Challenges

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, and expenses. 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. We may experience difficulty integrating businesses acquired through mergers and acquisitions and may fail to realize the expected revenue increases, cost savings, increases in market presence, and other projected benefits from acquisition activity. Acquisitions utilizing the Company's common stock as consideration may dilute the value of the Company's common stock, which dilution may not be recouped or recovered for a significant amount of time after the acquisition, if ever.

Any merger or acquisition opportunity that we decide to pursue will ultimately be subject to regulatory approval and other closing conditions. We may expend significant time and resources pursing potential acquisitions that are never consummated due to lack of regulatory approval or other issues. Competition for acquisition candidates in the banking industry is intense. We may expend significant time and resources evaluating acquisition candidates and conducting due diligence that does not lead to an acquisition opportunity.

The Company may implement new lines of business, enter new market areas, or offer new products and services from time to time. There can be substantial risks and uncertainties associated with these efforts, especially where markets are not fully developed. The Company may invest significant time and resources in developing and marketing new lines of business, but the benefits that the Company anticipates from these activities may not develop as expected. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences may impact the Company's ability to successfully implement organic growth strategies. Failure to successfully manage these risks could have a material adverse effect on the Company's financial condition and results of operations.

System Failure, Cybersecurity Breaches, Fraud and Employee Misconduct 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 mobile and Internet banking activities, against damage from physical break-ins, cybersecurity breaches, acts of vandalism, computer viruses, theft of information, misplaced or lost data, programming and/or human errors, and other disruptive problems. The Company is further exposed to the risk that its third-party service provides may be unable to fulfill their contractual obligations with respect to managing the Company's information and systems. Any cybersecurity breach or other disruptions, whether by the Company or our third-party vendors, 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 using Internet banking services.

Despite efforts to ensure the integrity of our systems, we will not be able to anticipate all security breaches of these types, nor will we be able to implement guaranteed preventive measures against such security breaches. Persistent attackers may succeed in penetrating defenses given enough resources, time and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched, and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our mobile payment and other Internet-based product offerings and expand our internal usage of web-based products and applications.

A successful attack to our system security or the system security of one of our critical third-party vendors could cause us serious negative consequences, including significant disruption of operations, misappropriation of confidential information, and damage to our computers or systems or those of our customers and counterparties. A successful security breach could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on the Company.

Criminals are committing fraud at an increasing rate and are using more sophisticated techniques. The Company faces risk of fraudulent activity in many forms, including online payment transfer fraud, debit card fraud, check fraud, mechanical devices attached to ATM machines, phishing attacks to obtain personal information, and impersonation of clients through the use of falsified or stolen credentials. The Company may suffer losses as a result of fraudulent activity committed against it, its customers, and other counterparties.

The Company could be adversely affected if one of its employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates the Company’s operations or systems. Misconduct by employees could include fraudulent, improper or unauthorized activities on behalf of customers or improper use of confidential information. Employee errors or misconduct could subject the Company to regulatory enforcement action, legal action, reputational damage, and other losses.

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 expects 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 expenses. As a result, the Company may be exposed to substantial liabilities, which could negatively affect its shareholders’ equity and financial results.

The Company Faces Reputational Risk

The Company faces threats to its reputation from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver expected standards of service or quality, regulatory compliance deficiencies, and questionable or fraudulent activities of the Company’s employees and customers. Negative publicity may arise regarding the Company’s business, employees, or customers, with or without merit, and could result in the loss of customers, investors and employees, costly litigation, a decline in revenue, and increased regulatory oversight.

Changes in Tax Law and Accounting Standards Could Materially Affect the Company's Operations

Changes in tax laws, or changes in the interpretation of existing tax laws, could materially adversely affect the Company's operations. Similarly, new accounting standards, changes to existing accounting standards, and changes to the methods of preparing financial statements could impact the Company's reported financial condition and results of operations. These factors are outside the Company's control and it is impossible to predict changes that may occur and the effect of such changes.

The Tax Cuts and Jobs Act went into effect on January 1, 2018 and significantly impacted the federal income taxation of the Company and its customers. While there are benefits to the Company from the new law, including a reduction of its federal income tax rate, there are also adverse consequences, including an elimination of certain deductible expenses. There is also substantial uncertainty regarding the consequences of the new law on the Company and its customer base.

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 personnel experienced in banking in the markets it serves. Competition for key personnel is intense. 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 has employment agreements with these key employees in the event of a change of control, as well as confidentiality, non-solicitation and non-competition agreements 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.

Severe Weather, Natural Disasters, Acts of War or Terrorism, and Other External Events Could Significantly Impact the Company's Business

Severe weather, natural disasters, health emergencies, acts of war or terrorism, and other adverse external events, especially those that directly affect the Company’s market areas, could have a significant impact on the Company’s ability to conduct business. These events could adversely affect the ability of borrowers to repay outstanding loans, decrease the value of collateral securing loans, cause significant property and infrastructure damage, and affect the stability of the Company’s deposit base. The Company may experience decreased revenue, increased charge-offs, and other expenses.

Item 1B.Unresolved Staff Comments

None.

Item 2.Properties

City National owns the Company’s executive office, located at 25 Gatewater Road, Charleston, West Virginia. This facility has approximately 60,000 square feet and houses the Company's executive and administrative personnel.

City National owns eighty bank branch locations and leases twenty bank branch locations, pursuant to operating leases. All of the properties are suitable and adequate for their current operations. City National also operates two loan production offices leased in Charlotte, North Carolina and Cincinnati, Ohio.

The Company also owns parcels of real estate for potential future branch development.

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 declared per share and information regarding the closing 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 7, 2019, there were 2,757 shareholders of record.

	Cash Dividends Per Share	Market Value Low	High
2018			
Fourth Quarter	$ 0.53	$66.36	$77.94
Third Quarter	0.53	75.54	82.79
Second Quarter	0.46	67.95	78.44
First Quarter	0.46	65.03	72.87
2017			
Fourth Quarter	$ 0.46	$65.50	$73.98
Third Quarter	0.44	59.94	71.91
Second Quarter	0.44	61.34	72.78
First Quarter	0.44	60.86	67.93

The Company generally pays dividends on a quarterly basis. 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. At December 31, 2018, City National could pay $88.8 million in dividends without prior regulatory permission.

Stock Repurchase Plan

The following table sets forth information regarding the Company's common stock repurchases transacted during the fourth quarter of 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2018	57,664	$ 72.51	57,664	123,257
November 1 to November 30, 2018	11,500	$ 74.78	11,500	111,757

December 1 to December 31, 2018	—	—	—	111,757

(a) On September 24, 2014, the Company announced that the Board of Directors had authorized the Company to buy back up to 1,000,000 shares of its common stock, in open market transactions, at prices that are accretive to continuing shareholders. This plan was rescinded as part of the stock repurchase plan that was approved in February 2019.

(b) On February 27, 2019, the Company announced that the Board of Directors had authorized the Company to buy back up to 1,000,000 shares of its common stock (approximately 6% of the outstanding shares), in open market transactions, at prices that are accretive to continuing shareholders. No timetable was placed on the duration of this share repurchase program.

At-The-Market Common Stock Offering

On December 19, 2016, the Company announced that it had filed a prospectus supplement to its existing shelf registration statement on Form S-3 for the sale of its common stock having an aggregate value of up to $55 million through an "at-the-market" equity offering program. Through the year ended December 31, 2018, the Company has sold approximately 548,000 common shares at a weighted average price of $64.82, net of broker fees. The Company has sold no shares since the first quarter of 2017. To date, the Company has received $36 million in gross proceeds. Under the program, the Company has the ability to receive an additional $19 million in gross proceeds from the sale of common shares.

Stock-Based Compensation Plan

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2018, 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	57,972	$ 51.15	532,552
Plans not approved by shareholders	—	—	—
Total	57,972	$ 51.15	532,552

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, 2018, 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-one banking institutions that (i) are over $2 billion but less than $8.5 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) have a loan portfolio comprised of less than eighty-five percent commercial loans, (v) have more than thirty branches, and (vi) are headquartered in Illinois, Indiana, Kentucky, Maryland, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia and New York (excluding New York City), excluding: companies in top 5 metro areas (MSAs), thrifts and thinly traded companies. The trading symbols for such financial institutions include: AROW, BUSE, CTBI, FBK, FBNC, FCBC, FCF, FISI, FMBH, GABC, PEBO, PRK, RBCAA, SASR, SRCE, STBA, SYBT, THFF, TMP, UCFC and UVSP. The stock performance shown on the graph below is not necessarily indicative of future price performance.

	2013	2014	2015	2016	2017	2018
City Holding Company	$100.00	$104.11	$105.76	$162.50	$166.46	$171.22
NASDAQ Composite	$100.00	$114.75	$122.74	$133.62	$173.22	$168.30
Peer Group	$100.00	$107.90	$114.03	$172.90	$174.07	$155.24

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

Table One
Five-Year Financial Summary
(in thousands, except per share data)

	2018(1)	2017	2016	2015(2)	2014
Summary of Operations					
Total interest income	$163,901	$142,930	$132,152	$127,074	$129,566
Total interest expense	25,692	16,805	13,207	11,830	11,960
Net interest income	138,209	126,125	118,945	115,244	117,606
(Recovery of) provision for loan losses	(2,310)	3,006	4,395	6,988	4,054
Total non-interest income	60,564	63,607	58,825	67,206	58,722
Total non-interest expenses	113,066	95,981	96,164	92,951	95,041
Income before income taxes	88,017	90,745	77,211	82,511	77,233
Income tax expense	18,015	36,435	25,083	28,414	24,271
Net income available to common shareholders	70,002	54,310	52,128	54,097	52,962
Per Share Data					
Net income basic	$4.50	$3.49	$3.46	$3.54	$3.40
Net income diluted	4.49	3.48	3.45	3.53	3.38
Cash dividends declared	1.98	1.78	1.72	1.68	1.60
Book value per share	36.29	32.17	29.25	27.62	25.79
Selected Average Balances					
Total loans	$3,168,827	$3,082,448	$2,920,837	$2,691,304	$2,593,597
Securities	650,697	582,124	495,206	383,685	365,904
Interest-earning assets	3,942,285	3,691,714	3,426,158	3,084,722	2,968,706
Deposits	3,460,306	3,298,385	3,166,817	2,947,543	2,824,985
Long-term debt	16,053	16,495	16,495	16,495	16,495
Total shareholders’ equity	514,083	492,668	431,031	415,051	395,940
Total assets	4,303,364	4,079,674	3,835,081	3,564,730	3,404,818
Selected Year-End Balances					
Net loans	$3,571,642	$3,108,574	$3,026,496	$2,843,283	$2,631,916
Securities	812,891	628,985	539,604	471,318	354,686
Interest-earning assets	4,468,474	3,784,453	3,611.706	3,345,136	3,016,477
Deposits	3,975,559	3,315,634	3,231,653	3,083,975	2,872,787
Long-term debt	4,053	16,495	16,495	16,495	16,495
Total shareholders’ equity	600,764	502,507	442,438	419,272	390,853
Total assets	4,899,012	4,132,281	3,984,403	3,714,059	3,461,633
Performance Ratios					
Return on average assets	1.63 %	1.33 %	1.36 %	1.52 %	1.56 %
Return on average equity	13.6	11.0	12.1	13.0	13.4
Return on average tangible common equity	16.2	13.1	14.8	15.8	16.5
Net interest margin	3.52	3.46	3.50	3.76	3.98
Efficiency ratio	50.0	51.5	54.8	53.7	53.7
Dividend payout ratio	44.0	51.0	49.7	47.5	47.1

Asset Quality					
Net charge-offs to average loans	0.02 %	0.13 %	0.13 %	0.29 %	0.18 %
(Recovery of) provision for loan losses to average loans	(0.07)	0.10	0.15	0.26	0.16
Allowance for loan losses to nonperforming loans	107.82	178.39	140.10	110.37	127.62
Allowance for loan losses to total loans	0.45	0.60	0.65	0.67	0.76
Consolidated Capital Ratios					
CET 1 Capital	15.1 %	15.1 %	13.3 %	13.7 %	*
Tier 1 Capital	15.2	15.7	13.9	14.3	13.4
Total Capital	15.7	16.4	14.7	15.1	14.2
Tier 1 Leverage	11.4	11.0	10.2	10.2	9.9
Average equity to average assets	12.0	12.1	11.2	11.6	11.6
Tangible equity to tangible assets (end of period)	10.0	10.5	9.3	9.3	9.3
Full-time equivalent employees	891	839	847	853	889

*Basel III CET 1 ratio requirements were effective beginning January 1, 2015 and were not required for prior periods.

(1) - In December 2018, the Company acquired Poage Bankshares, Inc. and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc. and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit").
(2) - In January 2015, the Company sold its insurance operations, CityInsurance. In November 2015, the Company acquired three branches in Lexington, Kentucky from American Founder's Bank.

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

The information noted below is provided pursuant to Guide 3 -- Statistical Disclosure by Bank Holding Companies.

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CITY HOLDING COMPANY

City Holding Company (the “Company”), a West Virginia corporation headquartered in Charleston, West Virginia, is a registered financial holding company under the Bank Holding Company Act and conducts its principal activities through its wholly owned subsidiary, City National Bank of West Virginia ("City National"). City National is a retail and consumer-oriented community bank with 100 bank branches in West Virginia (58), Kentucky (24), Virginia (14) and Ohio (4). City National provides credit, deposit, and trust and investment management services to its customers in a broad geographical area that includes many rural and small community markets in addition to larger cities including Charleston (WV), Huntington (WV), Martinsburg (WV), Ashland (KY), Lexington (KY), Winchester (VA) and Staunton (VA). In the Company's key markets, the Company's primary subsidiary, City National, generally ranks in the top three relative to deposit market share and the top two relative to branch share (Charleston/Huntington MSA, Beckley/Lewisburg counties, Staunton MSA and Winchester, VA/WV Eastern Panhandle counties). In addition to its branch network, City National's delivery channels include automated-teller-machines ("ATMs"), interactive-teller-machines ("ITMs"), mobile banking, debit cards, interactive voice response systems, and Internet technology. The Company’s business activities are currently limited to one reportable business segment, which is community banking.

In July 2018, the Company announced that it had concurrently executed two separate definitive agreements to acquire Poage Bankshares, Inc., of Ashland, Kentucky and its principal banking subsidiary, Town Square Bank (collectively, "Poage") and Farmers Deposit Bancorp, Inc., of Cynthiana, Kentucky and its principal banking subsidiary, Farmers Deposit Bank (collectively, "Farmers Deposit"). The acquisitions were finalized in December 2018. Poage operated nine branches across northeastern Kentucky, along with a loan production office in Cincinnati, Ohio. Farmers Deposit operated three branches around the Lexington, Kentucky region. As a result of overlapping service areas, the Company plans to merge three of the Poage branches into existing City branches and two existing City branches into former Poage branches.

In January 2019, the Company announced the signing of a definitive agreement to sell its Virginia Beach, Virginia, branch to Select Bancorp, Inc., the holding company for Select Bank & Trust Company. The transaction is expected to close during the second quarter of 2019.

After the Poage-City branch mergers and the Virginia Beach branch divestiture, the Company expects to have 94 bank branches in its network.

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: (i) the determination of the allowance for loan losses and (ii) income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available.

The Allowance and Provision for Loan Losses section of this Annual Report on Form 10-K provides management’s analysis of the Company’s allowance for loan losses and related provision. The allowance for loan losses is maintained at a level that represents management’s best 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. The allowance not specifically allocated to individual credits is generally determined by analyzing potential exposure and other qualitative factors that could negatively impact the overall credit risk of the loan portfolio. 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.

The Income Taxes section of this Annual Report on Form 10-K provides management's analysis of the Company's income taxes. The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The Company's unrecognized tax benefits could change over the next twelve months as a result of various factors. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state taxing authorities for the years ended December 31, 2015 through 2017.

FINANCIAL SUMMARY

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

	2018	2017	2016
Net income available to common shareholders (in thousands)	$70,002	$54,310	$52,128
Earnings per common share, basic	$4.50	$3.49	$3.46
Earnings per common share, diluted	$4.49	$3.48	$3.45
ROA*	1.63 %	1.33 %	1.36 %
ROE*	13.6 %	11.0 %	12.1 %
ROATCE*	16.2 %	13.1 %	14.8 %

*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.

BALANCE SHEET ANALYSIS

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

	December 31,			
	2018	2017	$ Change	% Change
Cash and cash equivalents	$123.0	$ 82.5	$ 40.5	49.1 %
Investment securities	812.9	629.0	183.9	29.2
Gross loans	3,587.6	3,127.4	460.2	14.7
Goodwill and other intangible assets, net	122.8	78.6	44.2	56.2
Total deposits	3,975.6	3,315.6	660.0	19.9
Long-term debt	4.1	16.5	(12.4)	(75.2)
Shareholders' equity	600.8	502.5	98.3	19.6

Cash and cash equivalents increased $41 million, from $83 million at December 31, 2017 to $123 million at December 31, 2018, as the Company elected to improve its on-balance sheet liquidity during 2018.

Investment securities increased $184 million, from $629 million at December 31, 2017, to $813 million at December 31, 2018. The acquisitions of Poage and Farmers Deposit contributed approximately $119 million to this increase. In addition, in conjunction with its interest rate risk management strategy, the Company elected to grow investment balances to enhance net interest income.

Gross loans increased $460 million, from $3.13 billion at December 31, 2017 to $3.59 billion at December 31, 2018. The acquisitions of Poage and Farmers Deposit contributed approximately $362 million to this increase. Excluding the impact of the two acquisitions, commercial loans increased $57 million and residential real estate loans increased $33 million from December 31, 2017 to December 31, 2018.

Goodwill and other intangible assets, net increased $44 million, from $79 million at December 31, 2017 to $123 million at December 31, 2018. The acquisitions of Poage and Farmers Deposit contributed approximately $33 million in goodwill and $11 million in core deposit intangibles in 2018.

Total deposits increased $660 million, from $3.32 billion at December 31, 2017 to $3.98 billion at December 31, 2018. The acquisitions of Poage and Farmers Deposit contributed approximately $472 million to this increase. Excluding the impact of the two acquisitions, the Company grew time deposits ($90 million), interest-bearing demand deposits ($46 million), noninterest-bearing deposits ($32 million) and savings deposits ($20 million).

Long-term debt decreased $12.4 million as the Company repaid its $16.5 million of Junior Subordinated Deferrable Interest Debentures issued by the Company and held by City Holding Company Trust III at a price of 100% of principal. As part of its Poage acquisition, the Company assumed Poage's subordinated debentures of $4.1 million.

Shareholders' equity increased $98 million from December 31, 2017 to December 31, 2018, as the Company issued approximately $83 million of common shares in conjunction with the Poage acquisition. The issuance of these shares, along with net income of $70 million, were partially offset by cash dividends declared of $31 million and common share repurchases of $20 million.

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

	2018 Average Balance	Interest	Yield/ Rate	2017 Average Balance	Interest	Yield/ Rate	2016 Average Balance	Interest	Yield/ Rate
Assets									
Loan portfolio[(1)]:									
Residential real estate[(2),(3)]	$1,629,950	$69,765	4.28%	$1,598,579	$63,649	3.98%	$1,565,079	$60,736	3.88%
Commercial, financial, and agriculture[(3),(4)]	1,501,667	68,981	4.59	1,450,144	58,243	4.02	1,318,094	52,812	4.01
Installment loans to individuals[(3),(5)]	37,210	2,349	6.31	33,725	2,514	7.45	37,664	2,917	7.75
Previously securitized loans[(6)]	—	960	—	—	1,346	—	—	1,673	—
Total loans	3,168,827	142,055	4.48	3,082,448	125,752	4.08	2,920,837	118,138	4.04
Securities:									
Taxable	559,125	17,337	3.10	492,783	14,387	2.92	444,110	12,392	2.79
Tax-exempt[(7)]	91,572	3,598	3.93	89,341	4,163	4.66	51,096	2,494	4.88
Total securities	650,697	20,935	3.22	582,124	18,550	3.19	495,206	14,886	3.01
Deposits in depository institutions	122,761	1,666	1.36	27,142	85	0.31	10,115	—	—
Total interest-earning assets	3,942,285	164,656	4.18	3,691,714	144,387	3.91	3,426,158	133,024	3.88
Cash and due from banks	47,562			85,473			95,295		
Bank premises and equipment	73,196			73,540			76,056		
Goodwill and intangible assets	82,117			78,881			79,456		
Other assets	176,110			170,312			178,069		
Less: allowance for loan losses	(17,906)			(20,246)			(19,953)		
Total assets	$4,303,364			$4,079,674			$3,835,081		
Liabilities									
Interest-bearing demand deposits	$792,765	2,114	0.27%	$705,412	643	0.09%	$685,399	615	0.09%
Savings deposits	820,474	2,133	0.26	832,512	1,311	0.16	772,296	975	0.13
Time deposits[(3)]	1,142,629	17,150	1.50	1,067,181	12,872	1.21	1,029,172	10,462	1.02
Short-term borrowings	265,157	3,415	1.29	230,529	1,214	0.53	176,065	472	0.27
Long-term debt	16,053	880	5.48	16,495	765	4.64	16,495	683	4.14
Total interest-bearing liabilities	3,037,078	25,692	0.85	2,852,129	16,805	0.59	2,679,427	13,207	0.49
Noninterest-bearing demand deposits	704,438			693,280			679,950		
Other liabilities	47,765			41,597			44,673		
Total shareholders' equity	514,083			492,668			431,031		
	$4,303,364			$4,079,674			$3,835,081		

Total liabilities and shareholders' equity			
Net interest income	$138,964	$127,582	$119,817
Net yield on earning assets	3.52%	3.46%	3.50%

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

	2018	2017	2016
Loan fees	$1,856	$558	$1,048

2. Includes the Company's residential real estate and home equity loan categories.

3. Included in the above table are the following amounts (in thousands) for the accretion of the fair value adjustments related to the Company's recent acquisitions:

	2018	2017	2016
Residential real estate	$407	$530	$698
Commercial, financial, and agriculture	994	1,345	1,505
Installment loans to individuals	19	44	112
Time deposits	—	16	592
Total	$1,420	$1,935	$2,907

4.Includes the Company's commercial and industrial and commercial real estate loan categories.
5.Includes the Company's consumer and DDA overdrafts loan categories.
6.Effective January 1, 2012, the carrying value of the Company's previously securitized loans was reduced to $0.
7. Computed on a fully federal tax-equivalent basis assuming a tax rate of approximately 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016.

NET INTEREST INCOME

2018 vs. 2017

The Company's net interest income increased from $126.1 million for the year ended December 31, 2017 to $138.2 million for the year ended December 31, 2018. The Company's tax equivalent net interest income increased $11.4 million or 8.9%, from $127.6 million in 2017 to $139.0 million in 2018. Exclusive of the impact of the acquisitions of Poage and Farmers Deposit, increased yields on commercial and residential real estate loans increased net interest income $7.8 million and $4.8 million, respectively, while higher average balances on commercial loans ($40.0 million) and residential real estate loans ($20.4 million) increased interest income by $1.6 million and $0.8 million, respectively, as compared to the year ended December 31, 2017. In addition, higher average investment balances ($68.6 million) increased investment income by $2.0 million, while interest income from deposits in depository institutions also increased $1.6 million as the Company elected to improve its on-balance sheet liquidity during the year ended December 31, 2018. These increases were partially offset by increased interest expense on interest bearing liabilities ($7.7 million), primarily due to an increase in the cost of funds. The Company's reported net interest margin increased from 3.46% for the year ended December 31, 2017 to 3.52% for the year ended December 31, 2018. Excluding the favorable impact of the accretion from the fair value adjustments, the net interest margin would have been 3.49% for the year ended December 31, 2018 and 3.40% for the year ended December 31, 2017.

Excluding the impact of the Poage and Farmers Deposit acquisitions, average interest-earning assets increased $219 million from 2017 to 2018, due to increases in deposits with depository institutions ($96 million), investment securities ($61 million), commercial, financial, and agriculture loans ($40 million) and residential real estate loans ($20 million). Average interest-bearing liabilities increased $159 million from 2017 as increases in interest bearing deposits ($82 million), time deposits ($64 million) and short-term borrowings ($34 million) were partially offset by a decrease in savings deposits ($20 million).

2017 vs. 2016

The Company's net interest income increased from $118.9 million for the year ended December 31, 2016 to $126.1 million for the year ended December 31, 2017. The Company's tax equivalent net interest income increased $7.8 million, or 6.5%, from $119.8 million in 2016 to $127.6 million in 2017. This increase was due primarily to higher average balances on commercial loans ($132.0 million) which increased interest income by $5.1 million, and residential real estate loans ($33.5 million) which increased interest income by $1.3 million as compared to the year ended December 31, 2016. Increased interest yields on residential real estate loans also increased net interest income by $1.8 million compared to the year ended December 31, 2016. In addition, higher average investment balances ($86.9 million) increased investment income by $3.2 million. These increases were partially offset by increased interest expense on interest bearing deposits ($3.0 million), primarily due to an increase in the cost of funds, and lower accretion from fair value adjustments ($1.0 million). The Company's reported net interest margin decreased from 3.50% for the year ended December 31, 2016 to 3.46% for the year ended December 31, 2017. Excluding the favorable impact of the accretion from fair value adjustments, the net interest margin would have been 3.40% for the year ended December 31, 2017 and 3.41% for the year ended December 31, 2016.

Average interest-earning assets increased $266 million from 2016 to 2017, due to increases in commercial, financial, and agriculture loans ($132 million), investment securities ($87 million) and residential real estate loans ($34 million). Average interest-bearing liabilities increased $173 million from 2016 due to increases in savings deposits ($60 million), short-term borrowings ($54 million), time deposits ($38 million) and interest-bearing demand deposits ($20 million).

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

	2018 vs. 2017 Increase (Decrease) Due to Change In:			2017 vs. 2016 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Loan portfolio						
Residential real estate	$1,249	$4,867	$6,116	$1,300	$1,613	$2,913
Commercial, financial, and agriculture	2,078	8,421	10,499	5,291	140	5,431
Installment loans to individuals	235	(161)	74	(305)	(98)	(403)
Previously securitized loans	—	(386)	(386)	—	(327)	(327)
Total loans	3,562	12,741	16,303	6,286	1,328	7,614
Securities:						
Taxable	1,937	1,013	2,950	1,358	637	1,995
Tax-exempt[1]	104	(669)	(565)	1,867	(198)	1,669
Total securities	2,041	344	2,385	3,225	439	3,664
Deposits in depository institutions	299	1,282	1,581	—	85	85
Total interest-earning assets	$5,902	$14,367	$20,269	$9,511	$1,852	$11,363
Interest-bearing liabilities:						
Interest-bearing demand deposits	$80	$1,391	$1,471	$18	$10	$28
Savings deposits	(19)	841	822	76	260	336
Time deposits	910	3,367	4,277	386	2,024	2,410
Short-term borrowings	182	2,019	2,201	146	596	742
Long-term debt	(20)	135	115	—	82	82
Total interest-bearing liabilities	1,133	7,753	8,886	626	2,972	3,598
Net Interest Income	$4,769	$6,614	$11,383	$8,885	$(1,120)	$7,765

1. Fully federal taxable equivalent using a tax rate of approximately 21% for 2018 and 35% for 2017 and 2016.

Non-GAAP Financial Measures

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

TABLE FOUR
NON-GAAP FINANCIAL MEASURES
(In thousands)

	2018	2017	2016
Net interest income ("GAAP")	$138,209	$126,125	$118,945
Taxable equivalent adjustment	756	1,457	872
Net interest income, fully taxable equivalent	$138,965	$127,582	$119,817
Average total interest earning assets	$3,942,285	$3,691,714	$3,426,158
Net interest margin	3.52 %	3.46 %	3.50 %
Accretion related to fair value adjustments	(0.03)	(0.06)	(0.09)
Net interest margin (excluding accretion)	3.49 %	3.40 %	3.41 %
Equity to assets ("GAAP")	12.30 %	12.16 %	11.10 %
Effect of goodwill and other intangibles, net	(2.29)	(1.70)	(1.80)
Tangible common equity to tangible assets	10.01 %	10.46 %	9.30 %
Return on tangible equity ("GAAP")	16.2 %	13.1 %	14.8 %
Impact of effect tax rate decrease on deferred taxes	—	1.6	—
Impact of merger related expenses	2.4	—	—
Return on tangible equity, excluding the above items	18.6 %	14.7 %	14.8 %
Return on assets ("GAAP")	1.63 %	1.33 %	1.36 %
Impact of effect tax rate decrease on deferred taxes	—	0.17	—
Impact of merger related expenses	0.24	—	—
Return on assets, excluding the above items	1.87 %	1.50 %	1.36 %
Effective tax rate ("GAAP")	20.5 %	40.2 %	32.5 %
Impact of FIN 48 reserve adjustments	0.4	0.4	0.7
Impact of effect tax rate decrease on deferred taxes	(0.2)	(7.9)	—
Effective tax rate, excluding the above items	20.7 %	32.7 %	33.2 %

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

2018 vs. 2017

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

	For the year ended December 31,			
	2018	2017	$ Change	% Change
Net investment security (losses) gains	$(0.1)	$4.5	$ (4.6)	(102.0)%
Non-interest income, excluding net investment securities (losses) gains	60.7	59.1	1.6	2.7
Merger related expenses	13.3	—	13.3	100.0
Non-interest expense, excluding merger related expenses	99.8	96.0	3.8	4.0

During 2017, the Company realized investment gains of $4.5 million that represented partial recoveries of impairment charges previously recognized on pools of trust preferred securities. During 2018, the Company recognized $0.1 million of unrealized investment losses related to its equity and perpetual preferred securities. As a result of the adoption of ASU No. 2016-02, effective January 1, 2018, unrealized gains and losses on equity and equity-like securities are now required to be recognized in the Company's Consolidated Statements of Income.

Exclusive of these gains and losses, non-interest income increased from $59.1 million for the year ended December 31, 2017 to $60.7 million for the year ended December 31, 2018. This increase was primarily attributable to an increase of $1.2 million, or 7.3%, in bankcard revenues and an increase of $1.1 million, or 4.0%, in service charges. These increases were partially offset by a decrease of $1.1 million in bank owned life insurance revenues due to lower death benefit proceeds received during 2018 as compared to 2017.

During 2018, the Company recognized $13.3 million of merger related expenses associated with the completed acquisitions of Poage and Farmers Deposit. Excluding these expenses, non-interest expenses increased from $96.0 million for 2017 to $99.8 million for 2018. This increase was primarily due to an increase in salaries and employee benefits of $3.3 million that was largely attributable to annual salary adjustments, including an adjustment to wages for approximately 50% of the Company's employees late in the first quarter of 2018 to make salaries more competitive in the current employment environment. Additionally, the Company experienced increases in bankcard expenses of $0.6 million and other expenses of $0.5 million.

2017 vs. 2016

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

	For the year ended December 31,			
	2017	2016	$ Change	% Change
Net investment security gains	$4.5	$3.5	$ 1.0	28.6 %
Non-interest income, excluding net investment securities gains	59.1	55.3	3.8	6.9
Non-interest expense	96.0	96.2	(0.2)	(0.2)

During the years ended December 31, 2017 and 2016, the Company realized investment gains of $4.5 million and $3.5 million, respectively, from the sale of pools of trust preferred securities, which represented a partial recovery of impairment charges previously recognized.

Exclusive of these gains, non-interest income increased $3.8 million to $59.1 million for the year ended December 31, 2017, as compared to $55.3 million for the year ended December 31, 2016. This is primarily due to increases in service charges of $1.9 million, or 7.0%, bank owned life insurance of $0.9 million, or 26.6% (primarily due to death benefit proceeds), trust revenues of $0.7 million, or 12.5%, and bankcard revenues of $0.6 million, or 3.7%.

Non-interest expenses decreased $0.2 million from $96.2 million for the year ended December 31, 2016 to $96.0 million for the year ended December 31, 2017. This is primarily due to decreases in occupancy related expenses of $0.6 million, or 5.6%, bankcard expenses of $0.5 million, or 12.0%, FDIC insurance of $0.3 million and repossessed asset losses, net of expenses of $0.2 million. These decreases were partially offset by increases in equipment and software related expenses of $0.5 million, or 7.2%, advertising of $0.3 million, or 11.8%, salaries and employee benefits of $0.2 million and telecommunication expenses of $0.2 million, or 9.7%.

INCOME TAXES

Selected information regarding the Company's income taxes is presented in the table below (dollars in millions):

	For the year ended December 31,		
	2018	2017	2016
Income tax expense	$18.0	$36.4	$25.1
Effective tax rate	20.5 %	40.2 %	32.5 %
Recognition of previously unrecognized tax positions	0.4	0.4	0.7
Impact of TCJA	(0.2)	(7.9)	—
Effective tax rate, excluding above items	20.7 %	32.7 %	33.2 %

A reconciliation of the effective tax rate to the statutory rate is included in Note Fourteen of the Notes to Consolidated Financial Statements. On December 22, 2017, the President signed the Tax Cut and Jobs Act ("TCJA") into law. Among other things, the TCJA reduced the corporate income tax rate from 35% to 21%, effective January 1, 2018. The Company recorded a provisional amount of $7.1 million at December 31, 2017 related to the re-measurement of net deferred tax balances. Upon final analysis of available information and refinement of the Company's calculations during 2018, the Company increased its provisional amount by $0.1 million, which is included as a component of income tax expense. The Company considers the TCJA re-measurement of its deferred taxes and its accounting for the income tax effects of TCJA to be complete.

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 $11.9 million at December 31, 2017 to $17.3 million at December 31, 2018. The increase in the Company's net deferred tax assets was primarily the result of accounting for the acquisitions that were completed during the year, along with realized and unrealized security losses that are not includable in current taxable income.

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. The deferred tax asset and/or liability associated with unrealized securities losses and/or gains is the tax impact of the unrealized gains and/or losses on the Company’s available-for-sale security portfolio. The impact of the Company’s unrealized losses is noted in the Company’s Consolidated Statements of Changes in Shareholders’ Equity as an adjustment to Accumulated Other Comprehensive Income (Loss). This deferred tax asset would be realized if the unrealized securities losses on the Company's securities were realized from either the sales or maturities of the related securities. 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 Company believes that it is more likely than not that each of the deferred tax assets will be realized and that no valuation allowance was necessary as of December 31, 2018 or 2017.

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. Dividends paid by City National to the Parent Company are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At December 31, 2018, City National could pay dividends up to $88.8 million without prior regulatory permission.

During 2018, the Parent Company used cash obtained from the dividends received primarily to: (1) acquire Farmers Deposit, (2) pay common dividends to shareholders, (3) repay the Company's Junior Subordinated Deferrable Interest Debentures, (4) remit interest payments on those debentures prior to payoff and (5) fund repurchases of the Company's common shares.

Additional information concerning sources and uses of cash by the Parent Company is discussed in Note Twenty-One of the Notes to Consolidated Financial Statements.

On December 19, 2016, the Company announced that it had filed a prospectus supplement to its existing shelf registration statement on Form S-3 for the sale of its common stock having an aggregate value of up to $55 million through an “at-the-market” equity offering program. Through the year ended December 31, 2018, the Company has sold approximately 548,000 common shares at a weighted average price of $64.82, net of broker fees. The Company has sold no shares since the first quarter of 2017. To date, the Company has received $36.4 million in gross proceeds. Under the program, the Company has the ability to receive an additional $18.6 million in gross proceeds from the sale of common shares.

Over the next 12 months, the Parent Company has an obligation to remit interest payments approximating $0.2 million on the Junior Subordinated Deferrable Interest Debentures held by Town Square Statutory Trust I. However, interest payments on the debentures can be deferred for up to five years under certain circumstances. During 2018, the Parent Company repaid $16.5 million of Junior Subordinated Deferrable Interest Debentures issued by the Company and held by City Holding Capital Trust III at a price of 100% of principal.

Additionally, the Parent Company anticipates continuing the payment of dividends, which are expected to approximate $35.1 million on an annualized basis for 2019 based on common shareholders of record at December 31, 2018 at a dividend rate of $2.12 per share for 2019. However, 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 $1.3 million of additional cash over the next 12 months. As of December 31, 2018, the Parent Company reported a cash balance of $20.6 million and management believes that the Parent Company’s available cash balance, together with cash dividends from City National, will be adequate to satisfy its funding and cash needs over the next twelve months.

Excluding the interest and dividend payments discussed above, the Parent Company has no significant commitments or obligations in years after 2019 other than the repayment of its $4.1 million obligation under the debentures held by Town Square Statutory Trust I. However, this obligation does not mature until June 2036, or earlier at the option of the Parent Company. It is expected that the Parent Company will be able to obtain the necessary cash, either through dividends obtained from City National or the issuance of other debt, to fully repay the debentures at their maturity.

City National manages its liquidity position in an effort to effectively and economically satisfy the funding needs of its customers and to accommodate the scheduled repayment of borrowings. Funds are available to City National from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the Federal Home Loan Bank ("FHLB") and other financial institutions. As of December 31, 2018, City National’s assets are significantly funded by deposits and capital. City National maintains borrowing facilities with the FHLB and other financial institutions that can be accessed as necessary to fund operations and to provide contingency funding mechanisms. As of December 31, 2018, City National had the capacity to borrow an additional $1.9 billion from the FHLB and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systemic financial industry crisis. Also, although it has no current intention to do so, City National could liquidate its unpledged securities, if necessary, to provide an additional funding source. City National also segregates certain mortgage loans, mortgage-backed securities, and other investment securities in a separate subsidiary so that it can separately monitor the asset quality of these primarily mortgage-related assets, which could be used to raise cash through securitization transactions or obtain additional equity or debt financing if necessary.

The Company manages its asset and liability mix to balance its desire to maximize net interest income against its desire to minimize risks associated with capitalization, interest rate volatility, and liquidity. With respect to liquidity, the Company has chosen a conservative posture and believes that its liquidity position is strong. As illustrated in the Consolidated Statements of Cash Flows, the Company generated $73 million of cash from operating activities during 2018, 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 $813 million at December 31, 2018, and that greatly exceeded the Company's non-deposit sources of borrowing, which totaled $266 million.

The Company's net loan to asset ratio is 72.9% as of December 31, 2018 and deposit balances fund 81.2% of total assets as compared to 70.2% for its peers (Bank Holding Company Peer Group, as of the most recent data available of September 30, 2018, which includes commercial banks with assets ranging from $3 billion to $10 billion). Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 53.5% of the Company's total assets and the

Company uses time deposits over $250,000 to fund 3.3% of total assets compared to its peers, which fund 13.1% of total assets with such deposits.

INVESTMENTS

The Company’s investment portfolio increased $184 million from $629 million at December 31, 2017, to $813 million at December 31, 2018. The acquisitions of Poage and Farmers Deposit contributed approximately $119 million to this increase. In addition, in conjunction with its interest rate risk management strategy, the Company elected to grow investment balances to enhance net interest income.

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 Fannie Mae ("FNMA"), Freddie Mac ("FHLMC") and Ginnie Mae ("GNMA").

The Company's municipal bond portfolio of $128 million as of December 31, 2018 has an average tax equivalent yield of 3.70% with an average maturity of 11.5 years. The average dollar amount invested in each security is $0.5 million. The portfolio has 74% rated "A" or better and the remaining portfolio is unrated, as the issuances represented small issuances of revenue bonds. Additional credit support has been purchased by the issuer for 40% of the portfolio, while 60% has no additional credit support. Management re-underwrites 100% of the portfolio on an annual basis, using the same guidelines that are used to underwrite its commercial loans. Revenue bonds were 68% of the portfolio, while the remaining 32% were general obligation bonds. Geographically, the portfolio supports the Company's footprint, with 47% of the portfolio being from municipalities throughout West Virginia, and the remainder from communities in Kentucky, Texas, Ohio and various other states.

TABLE FIVE
INVESTMENT PORTFOLIO

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

	Carrying Values as of December 31,		
	2018	2017	2016
Securities available-for-sale:			
Obligations of states and political subdivisions	$128,070	$96,196	$82,368
U.S. Treasuries and U.S. government agencies	5,733	2	3
Mortgage-backed securities:			
U.S. government agencies	550,758	419,347	330,814
Private label	12,043	652	942
Trust preferred securities	4,799	4,736	6,662
Corporate securities	16,658	22,268	23,574
Total Debt Securities available-for-sale	718,061	543,201	444,363
Marketable equity securities	—	5,699	4,231
Certificates of deposit	3,735	—	—
Investment funds	1,458	1,489	1,489
Total Securities Available-for-Sale	723,254	550,389	450,083
Securities held-to-maturity:			
Mortgage backed securities	56,827	60,449	71,169
Trust preferred securities	4,000	4,000	4,000
Total Securities Held-to-Maturity	60,827	64,449	75,169
Other investment securities:			
Marketable equity securities	10,313	—	—
Non-marketable equity securities	18,497	14,147	14,352
Total Other Investment Securities	28,810	14,147	14,352
Total Securities	$812,891	$628,985	$539,604

The Company's mortgage-backed U.S. government agency securities consist of both residential and commercial securities, all of which are guaranteed by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), or Ginnie Mae ("GNMA"). Marketable equity securities consist of investments made by the Company in equity positions of various community banks. Non-marketable equity securities consist of Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") stock. The Company's certificates of deposit consist of domestically issued certificates of deposits in denominations of less than the FDIC insurance limit of $250,000.

At December 31, 2018, there were no securities of any non-governmental issuers whose aggregate carrying or estimated fair 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	$4,493	2.07%	$15,263	3.01%	$31,432	3.19%	$76,882	3.16%
U.S. Treasuries and U.S. government agencies	991	2.73	4,239	3.02	503	3.37	—	—
Mortgage-backed securities:								
U.S. government agencies	88	2.95	5,376	2.65	82,684	2.72	462,610	2.96
Private label	—	—	—	—	—	—	12,043	3.99
Trust preferred securities	—	—	—	—	—	—	4,799	4.07
Corporate securities	—	—	—	—	15,951	5.04	707	5.99
Total Debt Securities available-for-sale	5,572	2.20	24,878	2.93	130,570	3.12	557,041	3.03
Certificates of deposit	1,494	1.98	2,241	2.54	—	—	—	—
Total Securities available-for-sale	7,066	2.16	27,119	2.90	130,570	3.12	557,041	3.03
Securities held-to-maturity:								
U.S. government agencies	—	—	—	—	4,927	3.90	51,900	2.98
Trust preferred securities	—	—	—	—	—	—	4,000	9.30
Total Securities Held-to-Maturity	—	—	—	—	4,927	3.90	55,900	3.44
Total Debt Securities	$7,066	2.16%	$27,119	2.90%	$135,497	3.00%	$612,941	3.06%

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 21%. 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.

TABLE SIX
LOAN PORTFOLIO

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

	2018	2017	2016	2015	2014
Residential real estate	$1,656,989	$1,468,278	$1,451,462	$1,383,133	$1,294,576
Home equity	153,496	139,499	141,965	147,036	145,604
Commercial and industrial	286,314	208,484	185,667	165,340	140,548
Commercial real estate	1,433,291	1,277,576	1,229,516	1,127,581	1,028,755
Consumer	51,190	29,162	32,545	36,083	39,705
DDA overdrafts	6,328	4,411	5,071	3,361	2,802
Gross loans	$3,587,608	$3,127,410	$3,046,226	$2,862,534	$2,651,990
$ change from the preceding year	$460,198	$81,184	$183,692	$210,544	$45,793
% change from the preceding year	14.7%	2.7%	6.4%	7.9%	1.8%

Residential real estate loans increased $189 million from December 31, 2017 to $1.66 billion at December 31, 2018. The acquisitions of Poage and Farmers Deposit accounted for $156 million of the increase. Residential real estate loans include loans for the purchase or refinance of consumers' residence and first-priority home equity loans allow consumers to borrow against the equity in their home. These loans primarily consist of single family three- and five-year adjustable rate mortgages with terms that amortize up to 30 years. City National also offers fixed-rate residential real estate loans that are sold in the secondary market; once sold these loans are not included on the Company's balance sheet and City National does not retain the servicing rights to these loans. Residential purchase real estate loans are generally underwritten to comply with Fannie Mae guidelines, while first priority home equity loans are underwritten with typically less documentation, lower loan-to-value ratios and shorter maturities. At December 31, 2018, $22 million of the residential real estate loans were for properties under construction.

Home equity loans increased $14 million from December 31, 2017 to $153 million at December 31, 2018. The acquisitions of Poage and Farmers Deposit accounted for $10 million of the increase. City National's home equity loans represent loans to consumers that are secured by a second (or junior) priority lien on a residential property. Home equity loans allow consumers to borrow against the equity in their home without paying off an existing first priority lien. These loans include home equity lines of credit ("HELOC") and amortized home equity loans that require monthly installment payments. Second priority lien home equity loans are underwritten with less documentation than first priority lien residential real estate loans but typically have similar loan-to-value ratios and other terms as first priority lien residential real estate loans. The amount of credit extended is directly related to the value of the real estate securing the loan at the time the loan is made.

All mortgage loans, whether fixed rate or adjustable rate, are originated in accordance with acceptable industry standards and comply with regulatory requirements. Fixed rate mortgage loans are processed and underwritten in accordance with Fannie Mae and Freddie Mac guidelines, while adjustable rate mortgage loans are underwritten in accordance with City National's internal loan policy.

The commercial and industrial ("C&I") loan portfolio consists of loans to corporate and other legal entity borrowers, primarily small to mid-size industrial and commercial companies. C&I loans typically involve a higher level of risk than other loan types, including industry specific risks such as the pertinent economy, new technology, labor rates and cyclicality, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. C&I loans increased $78 million to $286 million at December 31, 2018, with the acquisitions of Poage and Farmers Deposit accounting for $37 million of the increase.

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as C&I loans, but have different collateral risk. Commercial real estate loans increased $156 million to $1.43 billion at December 31, 2018, with the acquisitions of Poage and Farmers Deposit accounting for $139 million of the increase. At December 31, 2018, $38 million of the commercial real estate loans were for commercial properties under construction.

The Company categorizes commercial loans by industry according to the North American Industry Classification System ("NAICS") to monitor the portfolio for possible concentrations in one or more industries. Management monitors industry concentrations against internally established risk-based capital thresholds. As of December 31, 2018, City National was within its internally designated concentration limits. As of December 31, 2018, City National's loans to borrowers within the Lessors of Nonresidential Buildings categories exceeded 10% of total loans (12%). No other NAICS industry classification exceeded 10% of total loans as of December 31, 2018. Management also monitors non-owner occupied commercial real estate as a percent of risk based capital (based upon regulatory guidance). At December 31, 2018, the Company had $1.30 billion of commercial loans classified as non-owner occupied and was within its designated concentration threshold.

Consumer loans may be secured by automobiles, boats, recreational vehicles, certificates of deposit and other personal property or they may be unsecured. The Company manages the risk associated with consumer loans by monitoring such factors as portfolio size and growth, internal lending policies and pertinent economic conditions. City National's underwriting standards are continually evaluated and modified based upon these factors. Consumer loans increased $22 million from 2017 to $51 million at December 31, 2018, with the acquisitions of Poage and Farmers Deposit accounting for $19 million of the increase.

The following table shows the scheduled maturity of loans outstanding as of December 31, 2018 (in thousands):

	Within One Year	After One But Within Five Years	After Five Years	Total
Residential real estate	$172,657	$575,054	$909,278	$1,656,989
Home equity	16,432	57,009	80,055	153,496
Commercial and industrial	114,544	133,030	38,740	286,314
Commercial real estate	329,554	628,032	475,705	1,433,291
Consumer	25,724	29,245	2,549	57,518
Total loans	$658,911	$1,422,370	$1,506,327	$3,587,608

Loans maturing after one year with interest rates that are:	
Fixed until maturity	$421,905
Variable or adjustable	2,506,792
Total	$2,928,697

ALLOWANCE AND PROVISION FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the appropriateness of the allowance for loan losses (“ALLL”) on a quarterly basis to provide for probable losses incurred in the portfolio. Management assesses the risk in each loan type based on historical delinquency and loss trends, the general economic environment of its local markets, individual loan performance, and other relevant factors. Individual credits in excess of $1 million are selected at least annually for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the appropriateness of the allowance. Due to the nature of commercial lending, evaluation of the appropriateness of the allowance as it relates to these loan types is often based more upon specific credit review, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for general economic conditions and other inherent risk factors. Conversely, due to the homogeneous nature of the real estate and installment portfolios, the portions of the allowance allocated to those portfolios are primarily based on prior loss history of each portfolio, adjusted for general economic conditions and other inherent risk factors. Risk factors considered by the Company in completing this analysis include: (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.

The allowance not specifically allocated to individual credits is generally determined by analyzing potential exposure and other qualitative factors that could negatively impact the overall credit risk of the loan portfolio. 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 assumptions model to ensure that adequate provision has been made for risk in the total loan portfolio.

The Company's (recovery of) provision for loan losses for the past three years are shown in the table below (in thousands):

	For the year ended December 31,		
	2018	2017	2016
(Recovery of) provision for loan losses	$(2,310)	$3,006	$4,395

During the year ended December 31, 2018, the Company liquidated repossessed assets associated with the Kentucky Fuels Corporate credit. As a result of the proceeds from this liquidation, the Company recovered $1.3 million related to this credit. Additionally, as a result of this recovery, the historical loss rate used to compute the allowance not specifically allocated to individual credits in the Company's commercial and industrial mining and energy sector (per the North American Industry Classification system ("NAICS")) improved and an additional release of reserve of $1.7 million was recognized during the year ended December 31, 2018. The company also received a $0.4 million recovery through a settlement from a commercial customer during the quarter ended December 31, 2018.

The provision for loan losses recorded in 2017 reflected the revisions to the regulatory rating of a previously classified shared national credit ("SNC") in which the Company is a participant, changes in the quality of the portfolio and general improvement in the Company's historical loss rates used to compute the allowance not specifically allocated to individual credits. This credit was for a local customer that outgrew the lending limit of the Company and involves three local banks. The reserve recorded in 2017 of $1.1 million related to this credit reflects the loss factors associated with the rating assigned to this credit as a result of the current year review by the Office of the Comptroller of the Currency ("OCC").

The provision for loan losses recorded in 2016 reflected the impact of several factors, including the growth in the loan portfolio and changes in the quality of the portfolio. Additionally, during the fourth quarter of 2016, a commercial customer of the Company with a hotel and motel related credit whose business is located in North Central West Virginia experienced a downfall in occupancy rates as a result of a slowdown in the oil and gas industry. As a result, the Company increased the allowance for loan losses in the fourth quarter in relation to this loan. Beyond this particular loan, the Company has very limited exposure to the oil and gas industry and does not have any direct loans to any oil and gas operations.

Changes in the amount of the allowance and related provision are based on the Company's detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company's loan portfolio. The Company believes its methodology for determining the adequacy of its ALLL adequately provides for probable losses inherent in the loan portfolio and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

The Company's net charge-offs for the past three years are shown in the table below (in thousands):

	For the year ended December 31,		
	2018	2017	2016
Net charge-offs	$560	$3,900	$3,916

Net charge-offs in 2018 consisted primarily of net charge-offs on DDA overdraft loans of $1.2 million and consumer loans of $0.6 million that were partially offset by net recoveries on commercial and industrial loans of $1.4 million and commercial real estate loans of $0.4 million. Net charge-offs in 2017 consisted primarily of net charge-offs on residential real estate loans of $1.3 million, DDA overdraft loans of $1.3 million and commercial real estate loans of $0.6 million. Net charge-offs in 2016 consisted primarily of net charge-offs on residential real estate loans of $1.5 million, commercial real estate loans of $1.2 million and DDA overdraft loans of $0.6 million.

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, 2018 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.

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TABLE SEVEN
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

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

	2018	2017	2016	2015	2014
Balance at beginning of period	$18,836	$19,730	$19,251	$20,074	$20,575
Charge-offs:					
Commercial and industrial	(733)	(400)	(148)	(5,768)	(323)
Commercial real estate	(369)	(720)	(1,676)	(580)	(2,001)
Residential real estate	(682)	(1,637)	(1,734)	(1,144)	(1,762)
Home equity	(219)	(403)	(390)	(312)	(309)
Consumer	(769)	(60)	(126)	(210)	(188)
DDA overdrafts	(2,701)	(2,714)	(1,412)	(1,414)	(1,415)
Total charge-offs	(5,473)	(5,934)	(5,486)	(9,428)	(5,998)
Recoveries:					
Commercial and industrial	2,152	58	14	74	89
Commercial real estate	732	112	487	366	113
Residential real estate	367	294	187	199	187
Home equity	—	45	—	—	—
Consumer	166	63	118	186	204
DDA overdrafts	1,496	1,462	764	792	850
Total recoveries	4,913	2,034	1,570	1,617	1,443
Net charge-offs	(560)	(3,900)	(3,916)	(7,811)	(4,555)
(Recovery of) provision for loan losses	(2,310)	3,006	4,395	6,988	4,054
Balance at end of period	$15,966	$18,836	$19,730	$19,251	$20,074
As a Percent of Average Total Loans:					
Net charge-offs	0.02%	0.13%	0.13%	0.29%	0.18%
(Recovery of) provision for loan losses	(0.07)%	0.10%	0.15%	0.26%	0.16%
As a Percent of Non-Performing Loans:					
Allowance for loan losses	107.82%	178.39%	140.10%	110.37%	127.62%

TABLE EIGHT
NON-ACCRUAL AND PAST-DUE LOANS

The Company's nonperforming assets and past-due loans were as follows (dollars in thousands):

	2018	2017	2016	2015	2014
Non-accrual loans	$14,551	$10,297	$13,701	$16,948	$15,306
Accruing loans past due 90 days or more	257	262	382	495	423
Total non-performing loans	$14,808	$10,559	$14,083	$17,443	$15,729
Other real estate owned ("OREO")	4,608	3,585	4,588	6,519	8,180
Total non-performing assets	$19,416	$14,144	$18,671	$23,962	$23,909
As a Percentage of Total Loans and OREO					
Non-performing assets	0.54 %	0.45 %	0.61 %	0.84 %	0.90 %
Past-due loans	$13,131	$10,963	$8,594	$9,164	$10,666
As a Percentage of Total Loans					
Past-due loans	0.37 %	0.35 %	0.28 %	0.32 %	0.40 %

The Company’s ratio of non-performing assets to total loans and other real estate owned increased from 0.45% at December 31, 2017 to 0.54% at December 31, 2018. Excluded from this ratio are purchased credit-impaired ("PCI") loans in which the Company estimated cash flows and estimated a credit mark. Such loans would be considered nonperforming loans if the loan's performance deteriorates below the Company's initial expectation. Total past due loans increased from $11.0 million, or 0.35% of total loans outstanding, at December 31, 2017 to $13.1 million, or 0.37% of total loans outstanding, at December 31, 2018. Acquired past due loans from Poage and Farmers Deposit represent approximately 37% of the total past due loans at December 31, 2018.

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 that is unpaid and deemed uncollectible is reversed and charged to operations.

TABLE NINE
IMPAIRED LOANS

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

	2018	2017	2016	2015	2014
Impaired loans with a valuation allowance	$2,985	$5,782	$2,832	$—	$1,392
Impaired loans with no valuation allowance	7,521	3,885	4,749	8,482	5,377
Total impaired loans	$10,506	$9,667	$7,581	$8,482	$6,769
Allowance for loan losses allocated to impaired loans	$428	$647	$665	$—	$252
Interest income forgone on non-accrual and impaired loans	$198	$188	$352	$794	$529

Impaired loans with a valuation allowance at the end of 2018 were comprised of one commercial borrowing relationship that was evaluated during 2017 and determined that an allowance was necessary, as the present value of expected cash flows was less than the outstanding amount of the loan.

There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at December 31, 2018 and 2017.

TABLE TEN
RESTRUCTURED LOANS

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

	2018	2017	2016	2015	2014
Accruing					
Commercial and industrial	$98	$135	$42	$58	$73
Commercial real estate	8,205	8,381	5,525	1,746	2,263
Residential real estate	22,863	21,005	20,424	17,796	17,946
Home equity	3,025	3,047	3,105	2,659	2,673
Consumer	—	—	—	—	—
	$34,191	$32,568	$29,096	$22,259	$22,955
Non-Accruing					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate	—	—	—	—	—
Residential real estate	658	84	391	191	545
Home equity	5	50	30	34	15
Consumer	—	—	—	—	—
	$663	$134	$421	$225	$560

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

The Company's troubled debt restructurings ("TDRs") related to its borrowers who had filed for Chapter 7 bankruptcy protection make up 76% of the Company's total TDRs as of December 31, 2018. The average age of these TDRs was 12.1 years; the average current balance as a percentage of the original balance was 68.2%; and the average loan-to-value ratio was 65.8% as of December 31, 2018. Of the total 498 Chapter 7 related TDRs, 34 had an estimated loss exposure based on the current balance and appraised value at December 31, 2018.

TABLE ELEVEN
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

The allocation of the allowance for loan losses by portfolio segment and the percent of loans in each category to total loans is shown in the table below (dollars in thousands). The allocation of a portion of the allowance in one portfolio segment does not preclude its availability to absorb losses in other portfolio segments.

	2018		2017		2016		2015		2014	
	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	$4,060	8 %	$4,571	7 %	$4,206	6 %	$3,271	6 %	$1,582	5 %
Commercial real estate	4,495	40	6,183	41	6,573	40	6,985	39	8,845	39
Residential real estate	4,116	47	5,212	47	6,680	48	6,778	48	7,208	49
Home equity	1,268	4	1,138	4	1,417	5	1,463	5	1,495	5
Consumer	319	1	62	1	82	1	97	2	85	2
DDA overdrafts	1,708	—	1,670	—	772	—	657	—	859	—
Allowance for Loan Losses	$15,966	100 %	$18,836	100 %	$19,730	100 %	$19,251	100 %	$20,074	100 %

The allowance attributed to the commercial and industrial loan portfolio decreased $0.5 million from $4.6 million at December 31, 2017 to $4.1 million at December 31, 2018. This decrease is primarily due to proceeds resulting from the liquidation of repossessed assets and the resulting improvement in the historical loss rate used to compute the allowance in the Company's commercial and industrial mining and energy sector.

The allowance attributed to the commercial real estate loan portfolio decreased $1.7 million from $6.2 million at December 31, 2017 to $4.5 million at December 31, 2018. This decrease is primarily attributable to improvements in the historical loss rates in the portfolio and a decrease in risk-rated commercial real estate loans.

The allowance attributed to the residential real estate portfolio decreased $1.1 million from $5.2 million at December 31, 2017 to $4.1 million at December 31, 2018. The decrease is primarily attributable to improvements in the historical loss rates in the portfolio.

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 Company's 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 approximately $110 million and $76 million of goodwill at December 31, 2018 and 2017, respectively, and no impairment was required to be recognized in 2018 or 2017, as the estimated fair value of the Company has continued to exceed its book value.

CERTIFICATES OF DEPOSIT

Scheduled maturities of time certificates of deposit of $100,000 or more at December 31, 2018 are summarized in the table below (in thousands). The Company has time certificates of deposit that meet or exceed the FDIC insurance limit of $250,000 totaling $172.2 million (approximately 13% of total time deposits).

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

	Amounts	Percentage	
Three months or less	$73,172	12	%
Over three months through six months	70,343	11	
Over six months through twelve months	176,152	29	
Over twelve months	297,781	48	
Total	$617,448	100	%

FAIR VALUE MEASUREMENTS

The Company determines the fair value of its financial instruments based on the fair value hierarchy established in 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, 2018, approximately 15% of total assets, or $751 million, consisted of financial instruments recorded at fair value. Most of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. At December 31, 2018, approximately $17 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.

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 certificates of deposit, are customer deposits that are evidenced by an agreement between the Company and the customer that specify stated maturity dates; 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. Capital and operating leases between the Company and the lessor have stated expiration dates and renewal terms.

TABLE THIRTEEN
CONTRACTUAL OBLIGATIONS

The composition of the Company's contractual obligations as of December 31, 2018 is presented in the following table (in thousands):

	Contractual Maturity in				
	Less than One Year	Between One and Three Years	Between Three and Five Years	Greater than Five Years	Total
Noninterest-bearing demand deposits	$789,119	$—	$—	$—	$789,119
Interest-bearing demand deposits(1)	899,608	—	—	—	899,608
Savings deposits(1)	934,260	—	—	—	934,260
Time deposits(1)	724,700	527,772	125,313	2,414	1,380,199
Short-term borrowings(1)	266,122	—	—	—	266,122
Long-term debt(1)	188	376	376	6,497	7,437
Real estate leases	1,081	1,643	915	2,697	6,336
Total Contractual Obligations	$3,615,078	$529,791	$126,604	$11,608	$4,283,081

(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, 2018. 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, 2018 was $1.8 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 with its customers to extend credit or to provide conditional commitments to provide payment on drafts presented in accordance with the terms of the underlying credit documents (including standby and commercial letters of credit). The Company also provides overdraft protection to certain demand deposit customers that represent an unfunded commitment. As a result of the Company’s off-balance sheet arrangements for 2018 and 2017, 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.

CAPITAL RESOURCES

During 2018, Shareholders’ Equity increased $98 million, or 19.6%, from $503 million at December 31, 2017 to $601 million at December 31, 2018. This increase was primarily due to the acquisition of Poage of $83 million and net income of $70 million, partially offset by cash dividends declared of $31 million and common share repurchases of $20 million.

On September 24, 2014, the Company announced that the Board of Directors authorized the Company to buy back up to 1,000,000 shares of its common shares (approximately 7% of outstanding shares at the time) in open market transactions at prices that are accretive to the earnings per share of continuing shareholders. During the year ended December 31, 2017, the Company did not repurchase any common shares. During the year ended December 31, 2018, the Company repurchased approximately 290,000 common shares at a weighted average price of $69.78. On February 27, 2019, the Company announced that the Board of Directors rescinded the 2014 plan and authorized the Company to buy back up to 1,000,000 shares of its common stock (approximately 6% of the outstanding shares), in open market transactions, at prices that are accretive to continuing shareholders. No timetable was placed on the duration of this share repurchase program.

On December 19, 2016, the Company announced that it had filed a prospectus supplement to its existing shelf registration statement on Form S-3 for the sale of its common stock having an aggregate value of up to $55 million through an "at-the-market" equity offering program. Through the year ended December 31, 2018, the Company has sold approximately 548,000 common shares at a weighted average price of $64.82, net of broker fees. The Company has sold no shares since the first quarter of 2017. To date, the Company has received $36.4 million in gross proceeds. Under the program, the Company has the ability to receive an additional $18.6 million in gross proceeds from the sale of common shares.

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

On January 1, 2019, the Basel III Capital Rules will require City Holding and City National to maintain minimum CET 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer that will become fully phased in on that date, effectively resulting in new minimum capital ratios (which are shown in the table below). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to City Holding Company or City National Bank.

The Company's regulatory capital ratios for both City Holding and City National are illustrated in the following tables (in thousands):

December 31, 2018	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET 1 Capital								
City Holding Company	$492,526	15.1%	$208,294	6.375%	$228,715	7.0 %	$212,378	6.5 %
City National Bank	423,099	13.1%	206,676	6.375%	226,938	7.0 %	210,728	6.5 %
Tier 1 Capital								
City Holding Company	496,526	15.2%	257,304	7.875%	277,725	8.5 %	261,389	8.0 %
City National Bank	423,099	13.1%	255,306	7.875%	275,568	8.5 %	259,358	8.0 %
Total Capital								
City Holding Company	512,801	15.7%	322,651	9.875%	343,072	10.5%	326,736	10.0%
City National Bank	439,374	13.6%	320,145	9.875%	340,408	10.5%	324,198	10.0%
Tier 1 Leverage Ratio								
City Holding Company	496,526	11.4%	174,833	4.000%	174,833	4.0 %	218,542	5.0 %
City National Bank	423,099	9.8 %	172,594	4.000%	172,594	4.0 %	215,742	5.0 %

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

December 31, 2017:	Actual		Minimum Required - Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phased-In (*)		Required to be Considered Well Capitalized	
			Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
CET 1 Capital								
City Holding Company	$430,154	15.1%	$163,441	5.75%	$198,972	7.0 %	$184,760	6.5 %
City National Bank	338,105	12.0%	162,164	5.75%	197,418	7.0 %	183,316	6.5 %
Tier 1 Capital								
City Holding Company	446,154	15.7%	206,078	7.25%	241,609	8.5 %	227,397	8.0 %
City National Bank	338,105	12.0%	204,468	7.25%	239,721	8.5 %	225,620	8.0 %
Total Capital								
City Holding Company	465,292	16.4%	262,927	9.25%	298,458	10.5%	284,246	10.0%
City National Bank	357,243	12.7%	260,873	9.25%	296,126	10.5%	282,025	10.0%
Tier 1 Leverage Ratio								
City Holding Company	446,154	11.0%	161,834	4.00%	161,834	4.0 %	202,293	5.0 %
City National Bank	338,105	8.5 %	159,625	4.00%	159,625	4.0 %	199,531	5.0 %

As of December 31, 2018, management believes that City Holding Company, and its banking subsidiary, City National, were “well capitalized.” City Holding is subject to regulatory capital requirements administered by the Federal Reserve, while City National is subject to regulatory capital requirements administered by the OCC and the FDIC. Regulatory agencies can initiate certain mandatory actions if either City Holding or City National fails to meet the minimum capital requirements, as shown above. As of December 31, 2018, management believes that City Holding and City National meet all capital adequacy requirements.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") went into effect. The Regulatory Relief Act provides for a simplification of the minimum capital level requirements applicable to the Company. The federal bank regulatory agencies have not yet issued final rules regarding this change, but it is expected that a to–be–developed community bank leverage ratio requirement of tangible equity to average consolidated assets between eight to ten percent will replace the Basel III Capital Rules applicable to the Company. There can be no assurances, however, as to the substance of the final rule or its effect on the Company.

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 impacts 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, or that no material actions may be presented in the future.

RECENT ACCOUNTING PROCOUNCEMENTS AND DEVELOPMENTS

Note Two, “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.

Item 7A.Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss due to adverse changes in current and future cash flows, fair values, earnings or capital due to adverse movements in interest rates and other factors, including foreign exchange rates, underlying credit risk and commodity prices. Because the Company has no significant foreign exchange activities and holds no commodities, interest rate risk represents the primary risk factor affecting the Company's balance sheet and net interest margin. Significant changes in interest rates by the Federal Reserve could result in similar changes in LIBOR interest rates, prime rates, and other benchmark interest rates that could materially 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 utilizes derivative instruments, primarily interest rate swaps, to help manage its interest rate risk on commercial loans.

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

In order to measure and manage its interest rate risk, the Company uses an asset/liability management 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 of 300 points or decrease of 200 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity.

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

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	
December 31, 2018				
+300	5.50	%	+1.6	%
+200	4.50		+2.6	
+100	3.50		+2.8	
-50	2.00		-3.1	
-100	1.50		-6.9	

-200	0.50	-16.3
December 31, 2017		
+400	5.50 %	+4.0 %
+300	4.50	+5.9
+200	3.50	+6.2
+100	2.50	+4.7
-50	1.00	-6.0
-100	0.50	-12.3

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 or decrease during 2019 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 or decrease.

Item 8.Financial Statements and Supplementary Data

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, 2018 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 Framework). Based on our assessment, management believes that, as of December 31, 2018, 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 55.

March 11, 2019

s/ Charles R. Hageboeck	/s/ David L. Bumgarner
Charles R. Hageboeck	David L. Bumgarner
President & Chief Executive Officer	Chief Financial Officer
Principal Executive Officer	Principal Financial Officer

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM