
EDGAR Submission Header Summary

| | |
|---------------------------------|---------------------------|
| Submission Type | 10-K |
| Live File | on |
| Return Copy | on |
| Submission Contact | Victoria A. Faw |
| Submission Contact Phone Number | 304-769-1112 |
| Exchange | NASD |
| Confirming Copy | off |
| Filer CIK | 0000726854 |
| Filer CCC | xxxxxxx |
| Period of Report | 12/31/10 |
| Smaller Reporting Company | off |
| Shell Company | No |
| Voluntary Filer | No |
| Well-Known Seasoned Issuer | No |
| Notify via Filing website Only | off |
| Emails | vikki.faw@cityholding.com |

Documents

| | |
|---------|---|
| 10-K | form10-k.htm |
| | CHCO Form 10-K for year ended 12-31-2010 |
| GRAPHIC | chcologo.jpg |
| | CHCO logo |
| GRAPHIC | stkperfgraph.jpg |
| | Stock Performance Graph |
| EX-13 | ex-13.htm |
| | Exhibit 13, Portions of CHCO Annual Report |
| EX-21 | ex-21.htm |
| | Exhibit 21, CHCO Subsidiaries |
| EX-23 | ex-23.htm |
| | Exhibit 23, Consent of Ernst & Young, LLP |
| EX-31.a | ex-31a.htm |
| | Exhibit 31(a), Section 302 Certification of Charles R. Hageboeck |
| EX-31.b | ex-31b.htm |
| | Exhibit 31(b), Section 302 Certification of David L. Bumgarner |
| EX-32.a | ex-32a.htm |
| | Exhibit 32(a), Section 906 Certification of Charles R. Hageboeck |
| EX-32.b | ex-32b.htm |
| | Exhibit 32(b), Section 906 Certification of David L. Bumgarner |
| 10-K | submissionpdf.pdf |
| | Printable copy of CHCO Form 10-K and exhibits for year ended 12-31-2010 |

Module and Segment References

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

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2010
or
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-11733



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

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

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

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

25313
(Zip Code)

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

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

Title of Each Class
None

Name of Each Exchange on Which Registered:
None

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

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

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

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

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

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

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

Large accelerated filer []

Accelerated filer [X]

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

Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

[] Yes [X] No

As of June 30, 2010, 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 National Market System, was approximately \$420.9 million. (Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.)

As of March 8, 2011, there were 15,374,446 shares of the Company's common stock, \$2.50 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual report to security holders for the fiscal year ended December 31, 2010 are incorporated by reference into Part I, Item 1 and Part II, Items 6, 7, 7A, and 8. Portions of the Proxy Statement for the 2011 annual shareholders' meeting to be held on April 27, 2011 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14.

FORM 10-K INDEX

| | | Pages |
|------------------------|--|--------------|
| <u>PART I</u> | | |
| Item 1. | Business | 4-13 |
| Item 1A. | Risk Factors | 14-18 |
| Item 1B. | Unresolved Staff Comments | 19 |
| Item 2. | Properties | 19 |
| Item 3. | Legal Proceedings | 19 |
| Item 4. | (Removed and Reserved) | |
| <u>PART II</u> | | |
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 20-21 |
| Item 6. | Selected Financial Data | 21 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 22 |
| Item 8. | Financial Statements and Supplementary Data | 22 |
| Item 9. | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 22 |
| Item 9A. | Controls and Procedures | 22 |
| Item 9B. | Other Information | 22 |
| <u>Part III</u> | | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 23 |
| Item 11. | Executive Compensation | 23 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 23 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 23 |
| Item 14. | Principal Accounting Fees and Services | 23 |
| <u>Part IV</u> | | |
| Item 15. | Exhibits, Financial Statement Schedules | 24 |
| | Signatures | 25-26 |
| | Exhibit Index | 27-29 |

PART I

| Item 1. | Business |
|---------|----------|
|---------|----------|

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

No portion of City National’s deposits are derived from a single person or persons, the loss of which could have a material adverse effect on liquidity, capital, or other elements of financial performance. Although no portion of City National’s loan portfolio is concentrated within a single industry or group of related industries, it historically has held residential mortgage loans as a significant portion of its loan portfolio. At December 31, 2010, 55% of the Company’s loan portfolio was categorized as residential mortgage and home equity loans. However, due to the fractionated nature of residential mortgage lending, there is no concentration of credits that would be considered materially detrimental to the Company’s financial position or operating results.

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

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

The commercial and industrial loan portfolio consists of loans to corporate borrowers primarily in small to mid-size industrial and commercial companies, as well as automobile dealers, service, retail and wholesale merchants. Collateral securing these loans includes equipment, machinery, inventory, receivables and vehicles. Commercial and industrial loans are considered to contain a higher level of risk than other loan types although care is taken to minimize these risks. Numerous risk factors impact this portfolio including industry specific risks such as economy, new technology, labor rates and cyclicity, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. As of December 31, 2010, the Company reported \$134.6 million of loans classified as “Commercial and Industrial.”

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties, including hotel/motel and apartment lending. Commercial real estate loans are to many of the same customers and carry similar industry risks as the commercial and industrial loans. As of December 31, 2010, the Company reported \$661.8 million of loans classified as “Commercial Real Estate.”

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

Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15- to 30- year term, and in most cases, are extended to borrowers to finance their primary residence. In some cases, government agencies or private mortgage insurers guarantee the loan. The Company sells a significant majority of our fixed-rate originations in the secondary market. As of December 31, 2010, the Company reported \$610.4 million of loans classified as “Residential Real Estate.”

[Table of Contents](#)

Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first- or second- mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is granted directly affect the amount of credit extended. As of December 31, 2010, the Company reported \$416.2 million of loans classified as "Home Equity."

Consumer loans are secured by automobiles, boats, recreational vehicles, and other personal property. The Company monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. As of December 31, 2010, the Company reported \$38.4 million of loans classified as "Consumer."

DDA overdraft balances reflect demand deposit accounts that have been overdrawn by deposit customers and have been reclassified as loans. As of December 31, 2010, the Company reported \$2.9 million of loans classified as "DDA Overdrafts."

Previously Securitized Loans were recorded as a result of the Company's early redemption of the outstanding notes attributable to the Company's six loan securitization trusts. As the outstanding notes were redeemed during 2004 and 2003, the Company became the beneficial owner of the remaining mortgage loans and recorded the carrying amount of those loans within the loan portfolio, classified as "previously securitized loans." These loans are junior lien mortgage loans on one- to four-family residential properties located throughout the United States. The loans generally have contractual terms of 25 or 30 years and have fixed interest rates. The Company expects this balance to continue to decline as borrowers remit principal payments on the loans. As of December 31, 2010, the Company reported \$0.8 million of loans classified as "Previously Securitized loans."

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

The Company categorizes commercial loans by industry according to the North American Industry Classification System (NAICS) to monitor the portfolio for possible concentrations in one or more industries. As of December 31, 2010, the Company has no industry classifications that exceeded 10% of total loans.

Market Area

As of December 2010, West Virginia's unemployment rate was 9.5% as compared to the national average of 9.4% according to the Workforce West Virginia. West Virginia's unemployment rate for December of 9.5% increased from November's rate of 8.7% and December 2009's rate of 8.6%. According to the U.S. Census Bureau estimates, West Virginia's population was approximately 1.8 million as of July 2010 and has increased 0.2% annually over the last 4 years. The median home price in the Charleston, WV metropolitan area was \$129,000 for 2010 and \$127,000 for 2009, while the number of home sales increased 11.5% for the quarter ended December 31, 2010 as compared to the quarter ended September 30, 2010, according to the National Association of Realtors.

Competition

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

Regulation and Supervision

Overview: The Company, as a registered financial holding company, and City National, as an insured depository institution, operate in a highly regulated environment and are regularly examined by federal and state regulators. The following description briefly discusses certain provisions of federal and state laws and regulations and the potential impact of such provisions to which the Company and City National are subject. These federal and state laws and regulations are designed to reduce potential loss exposure to the depositors of such depository institutions and to the Federal Deposit Insurance Corporation's insurance fund and are not intended to protect the Company's security holders. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company. To the extent that the following information describes statutory or regulatory provisions, it is qualified entirely by reference to the particular statutory or regulatory provision.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | December 31, | |
|-----------------------|--------------|--------|
| | 2010 | 2009 |
| City Holding: | | |
| Tier I Risk-based | 13.88% | 13.63% |
| Total | 14.81 | 14.60 |
| Tier I Leverage | 10.54 | 10.23 |
| City National: | | |
| Tier I Risk-based | 12.67% | 11.26% |
| Total | 13.61 | 12.25 |
| Tier I Leverage | 9.62 | 8.41 |

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

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

At December 31, 2010, City National could pay dividends up to \$30.2 million plus net profits for 2011, as defined by statute, up to the dividend declaration date without prior regulatory permission. During 2010, the Company used cash obtained from these dividends primarily to: (1) pay common dividends to shareholders, (2) remit interest payments on the Company’s junior subordinated debentures, and (3) fund repurchases of the Company’s common shares. Management believes that the Company’s available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2011.

Governmental Policies

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

Deposit Insurance

Substantially all of the deposits of City National are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank’s capital level and supervisory rating (“CAMELS rating”). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by 7 basis points for the first quarter of 2009 assessment, which resulted in annualized assessment rates for institutions in the highest risk category (“Risk Category 1 institutions”) ranging from 12 to 14 basis points (basis points representing cents per \$100 of assessable deposits). In February 2009, the FDIC issued final rules to amend the DIF restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. The initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates range from 7 to 24 basis points. The potential adjustments to a Risk Category 1 institution’s initial base assessment rate, include (i) a potential decrease of up to 5 basis points for long-term unsecured debt, including senior and subordinated debt and (ii) a potential increase of up to 8 basis points for secured liabilities in excess of 25% of domestic deposits.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC's efforts to rebuild the DIF. Deposit insurance expense during 2009 included \$1.2 million recognized in the second quarter related to the special assessment.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011 and assumed 5% annual deposit growth. In December 2009, the Corporation paid \$11.6 million in prepaid risk-based assessments and \$8.1 million of that amount is included in other assets as prepaid deposit insurance in the accompanying consolidated balance sheet as of December 31, 2010. FDIC insurance expense totaled \$3.7 million, \$2.2 million and \$0.3 million in 2010, 2009, and 2008.

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

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

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

Basel III

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

U.S. banking agencies have informally indicated that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. The Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. Additionally, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to United and its banking subsidiaries may be substantially different from the Basel III final framework as published in December 2010. The requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's and City National's financial results.

Future Legislation

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

Executive Officers of the Registrant

At December 31, 2010, the executive officers of the Company were as follows:

| Name | Age | Business Experience |
|-----------------------------|-----|--|
| Charles R. Hageboeck, Ph.D. | 48 | President and Chief Executive Officer, City Holding Company and City National Bank, Charleston, WV since February 1, 2005. Executive Vice President and Chief Financial Officer, City Holding Company and City National Bank, Charleston, WV from June 2001 – January 31, 2005. |
| Craig G. Stilwell | 55 | Executive Vice President of Retail Banking, City Holding Company and City National Bank, Charleston, WV since February 2005. Executive Vice President of Marketing & Human Resources, City Holding Company and City National Bank, Charleston, WV from May 2001 – February 2005. |
| John A. DeRito | 60 | Executive Vice President of Commercial Banking, City Holding Company and City National Bank, Charleston, WV since June 25, 2004. |
| David L. Bumgarner | 45 | Senior Vice President and Chief Financial Officer, City Holding Company and City National Bank since February 2005. Audit Senior Manager, Arnett & Foster, PLLC from August 2000 – January 2005. |
| Michael T. Quinlan, Jr. | 42 | Senior Vice President, Branch Banking, City Holding Company and City National Bank since August 2001 |

Employees

The Company had 805 full-time equivalent employees at December 31, 2010.

Available Information

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

Statistical Information

The information noted below is provided pursuant to Guide 3 -- Statistical Disclosure by Bank Holding Companies. Page references are to the Annual Report to Shareholders for the year ended December 31, 2010 and such pages have been filed as an exhibit to this Form 10-K and are incorporated herein by reference.

| Description of Information | Page Reference |
|--|----------------|
| 1. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential | |
| a. Average Balance Sheets | 5 |
| b. Analysis of Net Interest Earnings | 6 |
| c. Rate Volume Analysis of Changes in Interest Income and Expense | 7 |
| 2. Investment Portfolio | |
| a. Book Value of Investments | 12 |
| b. Maturity Schedule of Investments | 13 |
| c. Securities of Issuers Exceeding 10% of Stockholders' Equity | 12 |
| 3. Loan Portfolio | |
| a. Types of Loans | 13 |
| b. Maturities and Sensitivity to Changes in Interest Rates | 14 |
| c. Risk Elements | 17 |
| d. Other Interest Bearing Assets | N/A |
| 4. Summary of Loan Loss Experience | 17 |
| 5. Deposits | |
| a. Breakdown of Deposits by Categories, Average Balance And Average Rate Paid | 5 |
| b. Maturity Schedule of Time Certificates of Deposit and Other Time Deposits of \$100,000 or More | 19 |
| 6. Return on Equity and Assets | 4 |
| 7. Short-term Borrowings | 20 |

Item 1A. Risk Factors

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

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

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

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

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

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

Overall, during 2010, the business environment has continued to be adverse for many households and businesses in the United States and worldwide. While the business environments in West Virginia, Kentucky, and Ohio, the United States and worldwide have shown improvement during 2010, there can be no assurance that these conditions will continue to improve. Such conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

The Value of the Company's Common Stock May Fluctuate

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

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

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

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

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

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

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

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

Anti-takeover Defenses May Delay or Prevent Future Mergers

The Company has entered into a Rights Agreement with SunTrust, as its rights agent, designed to discourage the accumulation of shares in excess of 15% of the Company's outstanding shares. This agreement could limit the price that some investors might be willing to pay in the future for shares of the Company's common stock and may have the effect of delaying or preventing a change in control. The Rights Agreement with SunTrust expires on June 12, 2011.

The Company's Ability To Pay Dividends Is Limited

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

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

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

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

The Company and City National are Extensively Regulated

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

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

The Company is Subject to Interest Rate Risk

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

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

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

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

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

Customers May Default On the Repayment of Loans

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

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

The Company faces competition from the following:

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

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

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

When the Company acquires a business, a portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2010, the Company's goodwill and other identifiable intangible assets were approximately \$56.6 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, 2010. The Company cannot provide assurance whether it will be required to take an impairment charge in the future. Any impairment charge would have a negative effect on its shareholders' equity and financial results and may cause a decline in our stock price.

Acquisition Opportunities May Present Challenges

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

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

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

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

Significant Legal Actions Could Result in Substantial Liabilities

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

City National owns the Company's executive offices, located at 25 Gatewater Road, Charleston, West Virginia. City National operates 68 branch offices, with 57 offices in West Virginia, eight in Kentucky, and three offices in Ohio. The West Virginia locations are primarily centered in the Charleston, Huntington, Beckley, and Martinsburg markets. City National owns 51 locations and leases 17 locations, pursuant to operating leases. All of the properties are suitable and adequate for their current operations and are generally being fully utilized.

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

Item 3. Legal Proceedings

In 2010, City National was named as a defendant in a putative class action alleging that the manner in which City National assessed overdraft fees to its consumer checking accounts violates the West Virginia Consumer Credit and Protection Act, breached an implied covenant of good faith and fair dealing and creates an unjust enrichment to City National. The amount claimed by the plaintiffs has not been determined, but could be material. On October 8, 2010, City National filed a Motion to Dismiss, which was heard on December 13, 2010. Proposed orders were submitted to the Circuit Court on December 30, 2010, but no ruling has been made.

We cannot estimate any possible loss or range of loss, if any, at this time. No assurance can be given at this time that the litigation against us will be resolved amicably, that if this litigation results in an adverse decision that we will be successful in seeking indemnification, that this litigation will not be costly to defend, that this litigation will not have an impact on our financial condition or results of operations or that, ultimately, any such impact will not be material.

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

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 stock market under the symbol CHCO. This table sets forth the cash dividends paid per share and information regarding the market prices per share of the Company's common stock for the periods indicated. The price ranges are based on transactions as reported on the NASDAQ stock market. At December 31, 2010, there were 2,869 shareholders of record.

| | Cash Dividends Per Share | Low | Market Value High |
|-----------------------|--------------------------------|----------|----------------------|
| 2010 | | | |
| Fourth Quarter | \$ 0.34 | \$ 30.37 | \$ 38.03 |
| Third Quarter | 0.34 | 26.87 | 31.15 |
| Second Quarter | 0.34 | 27.88 | 37.28 |
| First Quarter | 0.34 | 30.37 | 34.92 |
| 2009 | | | |
| Fourth Quarter | \$ 0.34 | \$ 28.96 | \$ 33.29 |
| Third Quarter | 0.34 | 28.65 | 34.34 |
| Second Quarter | 0.34 | 27.02 | 33.78 |
| First Quarter | 0.34 | 20.88 | 33.41 |

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 Eighteen of Notes to Consolidated Financial Statements, the Company's ability to pay dividends to its shareholders is dependent upon the ability of City National to pay dividends to City Holding ("Parent Company").

Stock Repurchase Plan

There were no repurchases of the Company's common stock under the October 2009 repurchase plan during the quarter ended December 31, 2010.

Stock-Based Compensation Plan

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2010, 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 Fourteen, 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 | 287,393 | \$ 33.64 | 719,500 |
| Plans not approved by shareholders | - | - | - |
| Total | 287,393 | \$ 33.64 | 719,500 |

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, 2010, as well as an overall stock market index (The Nasdaq Stock Market Index) and the Company's Peer Group. The Peer Group consists of certain publicly-traded banking institutions over \$1 billion but less than \$9 billion in assets located in West Virginia and adjoining states. The trading symbols for such financial institutions include: FCBC, SASR, CTBI, NPBC, UBSH, WSBC, STEL, PRK, RBCAA, PEBO, STBA, UBSI, FFBC, UVSP, FNB, NBTB, FCF, CBU, and FPFC. The stock performance shown on the graph below is not necessarily indicative of future price performance.



| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------|--------|--------|--------|--------|--------|--------|
| City Holding Company | 100.00 | 117.18 | 100.07 | 106.58 | 103.60 | 121.20 |
| NASDAQ Composite | 100.00 | 110.39 | 122.15 | 73.32 | 106.57 | 125.91 |
| Peer Group | 100.00 | 110.97 | 85.19 | 98.70 | 61.58 | 86.06 |

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

Item 6. Selected Financial Data

Selected Financial Data on page 1 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2010, included in this report as Exhibit 13, is incorporated herein by reference.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 2 through 22 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2010, included in this report as Exhibit 13, is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information appearing under the caption "Risk Management" appearing on pages 10-11 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2010, included in this report as Exhibit 13, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, notes to consolidated financial statements, reports of management and the independent registered public accounting firm included on pages 23 through 60 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2010, included in this report as Exhibit 13, are incorporated herein by reference.

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

None

Item 9A. Controls and Procedures

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

- (a) Management's annual report on internal control over financial reporting appears on page 23 of the Annual Report to Shareholders of City Holding Company for the year ended December 31, 2010, included in this report as Exhibit 13, is incorporated herein by reference.
- (b) The Company did not have any changes in internal control over financial reporting during its fourth quarter for the year ending December 31, 2010, that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information regarding executive officers is included under the section captioned "Executive Officers of The Registrant" in Part I, Item 1, elsewhere in this Annual Report on Form 10-K. Other information required by this Item appears under the captions "ELECTION OF DIRECTORS", "ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS", "REPORT OF THE AUDIT COMMITTEE", "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's 2011 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

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

Item 11. Executive Compensation

The information required by Item 11 of FORM 10-K appears under the captions "COMPENSATION OF DIRECTORS", "COMPENSATION DISCUSSION AND ANALYSIS", "EQUITY HOLDINGS", "POST-EMPLOYMENT PAYMENTS", and "BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION" in the Company's 2011 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

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

The information required by Item 12 of FORM 10-K appears under the caption "COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Company's 2011 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions, Director Independence

The information required by Item 13 of FORM 10-K appears under the caption "CERTAIN TRANSACTIONS INVOLVING DIRECTORS AND EXECUTIVE OFFICERS" in the Company's 2011 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of FORM 10-K appears under the caption "PRINCIPAL ACCOUNTING FEES AND SERVICES" in the Company's 2011 Proxy Statement that will be filed within 120 days of fiscal year end and is hereby incorporated by reference.

PART IV

| | |
|-----------------|--|
| Item 15. | Exhibits, Financial Statement Schedules |
|-----------------|--|

- | | | |
|-----|-----|---|
| (a) | (1) | Financial Statements. Reference is made to Part II, Item 8, of this Annual Report on Form 10-K. |
| | (2) | Financial Statement Schedules. These schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes. |
| | (3) | Exhibits. The exhibits listed in the "Exhibit Index" on pages 27-29 of this Annual Report on Form 10-K included herein are filed herewith or incorporated by reference from previous filings. |
| (b) | | See (a) (3) above. |
| (c) | | See (a) (1) and (2) above. |

SIGNATURES

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

Date: March 8, 2011

City Holding Company
(Registrant)

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

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

/s/ David L. Bumgarner

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

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 23, 2011. Each of the directors and/or officers of City Holding Company whose signature appears below hereby appoints Philip L. McLaughlin, and/or Charles R. Hageboeck Ph.D., as his attorney-in-fact to sign in his name and behalf, in any and all capacities stated below and to file with the Securities and Exchange Commission, any and all amendments to this report on Form 10-K, making such changes in this report on Form 10-K as appropriate, and generally to do all such things in their behalf in their capacities as officers and directors to enable City Holding Company to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Philip L. McLaughlin

Philip L. McLaughlin
Chairman

/s/ David W. Hambrick

David W. Hambrick
Director

/s/ Hugh R. Clonch

Hugh R. Clonch
Director

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

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

/s/ Oshel B. Craigo

Oshel B. Craigo
Director

/s/ Tracy W. Hylton, II

Tracy W. Hylton, II
Director

/s/ John R Elliot
John R Elliot
Director

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

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

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

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

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

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

Mary H. Williams
Mary H. Williams
Director

EXHIBIT INDEX

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

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 3(a) | Articles of Incorporation of City Holding Company (attached to, and incorporated by reference from, Amendment No. 1 to City Holding Company's Registration Statement on Form S-4, Registration No. 2-86250, filed November 4, 1983 with the Securities and Exchange Commission). |
| 3(b) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated March 6, 1984 (attached to, and incorporated by reference from, City Holding Company's Form 8-K Report dated March 7, 1984, and filed with the Securities and Exchange Commission on March 22, 1984). |
| 3(c) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated March 4, 1986 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1986, filed March 31, 1987 with the Securities and Exchange Commission). |
| 3(d) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated September 29, 1987 (attached to and incorporated by reference from, City Holding Company's Registration Statement on Form S-4, Registration No. 33-23295, filed with the Securities and Exchange Commission on August 3, 1988). |
| 3(e) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 6, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission). |
| 3(f) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 7, 1991 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1991, filed March 17, 1992 with the Securities and Exchange Commission). |
| 3(g) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated August 1, 1994 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q Quarterly Report for the quarter ended September 30, 1994, filed November 14, 1994 with the Securities and Exchange Commission). |
| 3(h) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated December 9, 1998 (attached to, and incorporated by reference from, City Holding Company's Form 10-K Annual Report for the year ended December 31, 1998, filed March 31, 1999 with the Securities and Exchange Commission). |
| 3(i) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated June 13, 2001 (attached to, and incorporated by reference from, City Holding Company's Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission). |
| 3(j) | Articles of Amendment to the Articles of Incorporation of City Holding Company , dated May 10, 2006 (attached to, and incorporated by reference from, City Holding Company's Form 10-Q, Quarterly Report for the quarter ended June 30, 2006, filed August 9, 2006 with the Securities and Exchange Commission). |
| 3(k) | Amended and Restated Bylaws of City Holding Company , revised February 28, 2007 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2007 with the Securities and Exchange Commission). |
| 3(l) | Amended and Restated Bylaws of City Holding Company , revised February 24, 2010 (attached to, and incorporated by reference from, City Holding Company's Current Report on Form 8-K filed March 1, 2010 with the Securities and Exchange Commission). |

[Table of Contents](#)

- 4(a) **Rights Agreement**, dated as of June 13, 2001 (the “Rights Agreement”), between City Holding Company and SunTrust Bank, as Rights Agent (attached to, and incorporated by reference from, City Holding Company’s Registration Statement on Form 8-A, filed June 22, 2001 with the Securities and Exchange Commission).
- 4(b) **Amendment No. 1 to the Rights Agreement** dated as of November 30, 2005 (attached to, and incorporated by reference from City Holding Company’s Amendment No. 1 on Form 8-A, filed December 21, 2005, with the Securities and Exchange Commission).
- 10(a) **Directors’ Deferred Compensation Plan for the Directors of the Bank of Raleigh**, dated January 1987 (attached to and incorporated by reference from, City Holding Company’s Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(b) **Form of Deferred Compensation Agreement for the Directors of the National Bank of Summers**, dated January 15, 1987 (attached to and incorporated by reference from, City Holding Company’s Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(c) **City Holding Company’s 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, Exhibit 4.1 to City Holding Company’s Registration Statement on Form S-8, Registration No. 333-87667, filed with the Securities and Exchange Commission on September 23, 1999).
- 10(d) **Amendment No. 1 to City Holding Company’s 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, Exhibit 4.2 to City Holding Company’s Registration Statement on Form S-8, Registration No. 333-87667, filed with the Securities and Exchange Commission on September 23, 1999).
- 10(e) **Amendment No. 2 to City Holding Company’s 1993 Stock Incentive Plan** (attached to, and incorporated by reference from, City Holding Company’s Form 10-Q Quarterly Report for the quarter ended June 30, 2002, filed August 14, 2002 with the Securities and Exchange Commission).
- 10(f) **City Holding Company’s 2003 Incentive Plan** (attached to, and incorporated by reference from, City Holding Company’s Definitive Proxy Statement, filed March 21, 2003 with the Securities and Exchange Commission).
- 10(g) **Form of Employment Agreement**, dated as of July 25, 2007, by and between City Holding Company and Charles R. Hageboeck, Ph.D. (attached to, and incorporated by reference from, City Holding Company’s Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).
- 10(h) **Form of Employment Agreement**, dated as of July 25, 2007, by and between City Holding Company and Craig G. Stilwell (attached to, and incorporated by reference from, City Holding Company’s Current Report on Form 8-K, filed July 31, 2007 with the Securities and Exchange Commission).
- 10(i) **Form of Change of Control Agreement**, dated February 1, 2005, by and between City Holding Company and David L. Bumgarner (attached to and incorporated by reference from, City Holding Company’s Form 10-K Annual Report for the year ended December 31, 2004, filed March 2, 2005 with the Securities and Exchange Commission).
- 10(j) **Form of Change in Control and Termination Agreement**, dated June 28, 2004, by and between City Holding Company and John A. DeRito (attached to, and incorporated by reference from, City Holding Company’s Form 10-K Annual Report for the year ended December 31, 2005, filed March 7, 2006 with the Securities and Exchange Commission).
- 10(k) **Amended and Restated Declaration of Trust City Holding Capital Trust III**, dated as of March 27, 2008 (attached and incorporated by reference from, City Holding Company’s Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).

[Table of Contents](#)

- 10(l) **Junior Subordinated Indenture**, dated as of March 27, 2008, between City Holding Company and Wells Fargo, National Association, as Trustee (attached and incorporated by reference from, City Holding Company's Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).
- 10(m) **City Holding Company Guarantee Agreement**, dated as of March 27, 2008 (attached and incorporated by reference from, City Holding Company's Form 10Q, Quarterly Report for the period ended March 31, 2008 with the Securities and Exchange Commission).
- 13 [Portions of City Holding Company Annual Report to Shareholders for Year Ended December 31, 2009.](#)
- 21 [Subsidiaries of City Holding Company](#)
- 23 [Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm](#)
- 24 Power of Attorney (included on the signature page hereof)
- 31(a) [Certification pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.](#)
- 31(b) [Certification pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner](#)
- 32(a) [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Charles R. Hageboeck, Ph.D.](#)
- 32(b) [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David L. Bumgarner](#)

SELECTED FINANCIAL DATA

TABLE ONE
FIVE-YEAR FINANCIAL SUMMARY
(in thousands, except per share data)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|--------------|--------------|
| Summary of Operations | | | | | |
| Total interest income | \$ 121,916 | \$ 132,036 | \$ 147,673 | \$ 157,315 | \$ 156,123 |
| Total interest expense | 27,628 | 36,603 | 45,918 | 60,276 | 53,724 |
| Net interest income | 94,288 | 95,433 | 101,755 | 97,039 | 102,399 |
| Provision for loan losses | 7,093 | 6,994 | 10,515 | 5,327 | 3,642 |
| Total other income | 48,939 | 51,983 | 21,936 | 56,136 | 54,203 |
| Total other expenses | 78,721 | 77,244 | 75,580 | 71,036 | 71,444 |
| Income before income taxes | 57,413 | 63,178 | 37,596 | 76,812 | 81,516 |
| Income tax expense | 18,453 | 20,533 | 9,487 | 25,786 | 28,329 |
| Net income available to common shareholders | 38,960 | 42,645 | 28,109 | 51,026 | 53,187 |
| Per Share Data | | | | | |
| Net income basic | \$ 2.48 | \$ 2.69 | \$ 1.74 | \$ 3.02 | \$ 3.00 |
| Net income diluted | 2.47 | 2.68 | 1.74 | 3.01 | 2.99 |
| Cash dividends declared | 1.36 | 1.36 | 1.36 | 1.24 | 1.12 |
| Book value per share | 20.31 | 19.45 | 17.90 | 18.21 | 17.52 |
| Selected Average Balances | | | | | |
| Total loans | \$ 1,820,588 | \$ 1,797,115 | \$ 1,743,846 | \$ 1,717,756 | \$ 1,649,864 |
| Securities | 507,915 | 501,475 | 458,446 | 512,061 | 581,747 |
| Interest-earning assets | 2,348,258 | 2,304,053 | 2,210,236 | 2,257,447 | 2,268,173 |
| Deposits | 2,190,324 | 2,136,949 | 2,015,075 | 1,996,104 | 1,960,657 |
| Long-term debt | 16,876 | 18,286 | 21,506 | 24,476 | 85,893 |
| Shareholders' equity | 316,030 | 294,583 | 303,189 | 301,639 | 296,966 |
| Total assets | 2,654,497 | 2,608,750 | 2,502,411 | 2,511,992 | 2,517,061 |
| Selected Year-End Balances | | | | | |
| Net loans | \$ 1,846,776 | \$ 1,773,893 | \$ 1,790,180 | \$ 1,749,622 | \$ 1,662,223 |
| Securities | 453,585 | 513,931 | 459,657 | 417,016 | 519,898 |
| Interest-earning assets | 2,334,921 | 2,309,884 | 2,276,119 | 2,193,829 | 2,249,801 |
| Deposits | 2,171,375 | 2,163,722 | 2,041,130 | 1,990,081 | 1,985,217 |
| Long-term debt | 16,495 | 16,959 | 19,047 | 4,973 | 48,069 |
| Shareholders' equity | 314,861 | 308,902 | 285,463 | 295,161 | 306,474 |
| Total assets | 2,637,295 | 2,622,620 | 2,586,403 | 2,482,949 | 2,507,966 |
| Performance Ratios | | | | | |
| Return on average assets | 1.47% | 1.63% | 1.12% | 2.03% | 2.11% |
| Return on average equity | 12.33 | 14.48 | 9.27 | 16.92 | 17.91 |
| Return on average tangible equity | 15.02 | 17.95 | 11.44 | 20.99 | 22.37 |
| Net interest margin | 4.06 | 4.18 | 4.64 | 4.34 | 4.56 |
| Efficiency ratio | 52.93 | 49.99 | 46.27 | 45.93 | 44.59 |
| Dividend payout ratio | 54.84 | 50.56 | 78.16 | 41.06 | 37.33 |
| Asset Quality | | | | | |
| Net charge-offs to average loans | 0.41% | 0.59% | 0.33% | 0.18% | 0.23% |
| Provision for loan losses to average loans | 0.39 | 0.39 | 0.60 | 0.31 | 0.23 |
| Allowance for loan losses to nonperforming loans | 156.39 | 132.02 | 85.72 | 103.40 | 380.96 |
| Allowance for loan losses to total loans | 0.98 | 1.03 | 1.22 | 0.98 | 0.91 |
| Consolidated Capital Ratios | | | | | |
| Total | 14.81% | 14.44% | 13.46% | 15.11% | 16.19% |
| Tier I Risk-based | 13.88 | 13.46 | 12.27 | 14.12 | 15.30 |
| Tier I Leverage | 10.54 | 10.10 | 9.47 | 10.31 | 10.79 |
| Average equity to average assets | 11.91 | 11.29 | 12.12 | 12.01 | 11.80 |
| Average tangible equity to average tangible assets | 9.98 | 9.31 | 10.05 | 9.91 | 9.67 |
| Full-time equivalent employees | 805 | 809 | 827 | 811 | 779 |

TWO-YEAR SUMMARY OF COMMON STOCK PRICES AND DIVIDENDS

| | Cash Dividends | | Market Value | |
|----------------|----------------|----|--------------|----------|
| | Per Share* | | Low | High |
| 2010 | | | | |
| Fourth Quarter | \$ 0.34 | \$ | 30.37 | \$ 38.03 |
| Third Quarter | 0.34 | | 26.87 | 31.15 |
| Second Quarter | 0.34 | | 27.88 | 37.28 |
| First Quarter | 0.34 | | 30.37 | 34.92 |
| 2009 | | | | |
| Fourth Quarter | \$ 0.34 | \$ | 28.96 | \$ 33.29 |
| Third Quarter | 0.34 | | 28.65 | 34.34 |
| Second Quarter | 0.34 | | 27.02 | 33.78 |
| First Quarter | 0.34 | | 20.88 | 33.41 |

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

The Company's common stock trades on the NASDAQ stock market under the symbol CHCO. This table sets forth the cash dividends paid per share and information regarding the market prices per share of the Company's common stock for the periods indicated. The price ranges are based on transactions as reported on the NASDAQ stock market. At December 31, 2010, there were 2,869 shareholders of record.

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

CITY HOLDING COMPANY

City Holding Company (the "Company"), a West Virginia corporation headquartered in Charleston, West Virginia, is a financial holding company and a bank holding company that provides diversified financial products and services to consumers and local businesses. Through its network of 68 banking offices in West Virginia (57), Kentucky (8), and Ohio (3), the Company provides credit, deposit, trust and investment management, and insurance products and services to its customers. In addition to its branch network, the Company's delivery channels include ATMs, check cards, interactive voice response systems, and internet technology. The Company's business activities are currently limited to one reportable business segment, which is community banking. The Company has approximately 7% of the deposit market in West Virginia and is the third largest bank headquartered in West Virginia based on deposit share. In the Company's key markets, the Company's primary subsidiary, City National Bank of West Virginia ("City National"), generally ranks in the top three relative to deposit market share and the top two relative to branch share.

CRITICAL ACCOUNTING POLICIES

The accounting policies of the Company conform to U.S. generally accepted accounting principles and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. These estimates and assumptions are based on information available to management as of the date of the financial statements. Actual results could differ significantly from management's estimates. As this information changes, management's estimates and assumptions used to prepare the Company's financial statements and related disclosures may also change. The most significant accounting policies followed by the Company are presented in Note One of Notes to Consolidated Financial Statements included herein. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, income taxes, and other-than-temporary impairment on investment securities to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available. The Company's business activities are currently limited to one reportable business segment, which is community banking.

Pages 14-17 of this Annual Report to Shareholders provide management's analysis of the Company's allowance for loan losses and related provision. The allowance for loan losses is maintained at a level that represents management's best estimate of probable losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions, and other relevant factors. This determination is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The allowance for loan losses related to loans considered to be impaired is generally evaluated based on the discounted cash flows using the impaired loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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

Page 9 of this Annual Report to Shareholders provides management's analysis of the Company's income taxes. The Company is subject to federal and state income taxes in the jurisdictions in which it conducts business. In computing the provision for income taxes, management must make judgments regarding interpretation of laws in those jurisdictions. Because the application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities. On a quarterly basis, the Company estimates its annual effective tax rate for the year and uses that rate to provide for income taxes on a year-to-date basis. The amount of unrecognized tax benefits could change over the next twelve months as a result of various factors. However, management cannot currently estimate the range of possible change.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2008 through 2010. The Company and its subsidiary's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2007 through 2010. A tax examination by the State of West Virginia for the years 2004 through 2006 was completed during the third quarter of 2008. The final results of this examination decreased income tax expense by \$1.1 million for the year ending December 31, 2008.

On a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are other-than-temporarily impaired. Management considers the following, amongst other things, in its determination of the nature of the unrealized losses, (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company continues to actively monitor the fair values of these investments along with the financial strength of the issuers behind these securities, as well as its entire investment portfolio. Based on the market information available, the Company believes that the recent declines in fair value are temporary and that the Company does not have the intent to sell any of the securities classified as available for sale and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The Company cannot guarantee that such securities will recover and if additional information becomes available in the future to suggest that the losses are other-than-temporary, the Company may need to record additional impairment charges in future periods.

As a result of this review, the Company recognized \$6.1 million of credit-related net investment impairment charges during 2010. The charges deemed other than temporary were related to pooled bank trust preferreds with a remaining book value of \$7.8 million, single issuer bank trust preferreds with a remaining book value of \$1.2 million and community bank and bank holding company equity positions with remaining book value of \$3.6 million at December 31, 2010.

FAIR VALUE MEASUREMENTS

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

At December 31, 2010, approximately 15.9% of total assets, or \$419.3 million, consisted of financial instruments recorded at fair value. Of this total, approximately 99.4% or \$416.8 million of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 0.6% or \$2.5 million of these financial instruments were valued using unobservable market information or Level 3 measurements. The financial instruments valued using unobservable market information were pooled trust preferred investment securities classified as available-for-sale. At December 31, 2010, less than \$0.1 thousand of total 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 19 for additional information regarding ASC Topic 820 and its impact on the Company's financial statements.

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

FINANCIAL SUMMARY

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

| | 2010 | 2009 | 2008 |
|----------------------------------|-----------|-----------|-----------|
| Net income <i>(in thousands)</i> | \$ 38,960 | \$ 42,645 | \$ 28,109 |
| Earnings per share, basic | \$ 2.48 | \$ 2.69 | \$ 1.74 |
| Earnings per share, diluted | \$ 2.47 | \$ 2.68 | \$ 1.74 |
| ROA* | 1.47% | 1.63% | 1.12% |
| ROE* | 12.33% | 14.48% | 9.27% |
| ROTE* | 15.02% | 17.95% | 11.44% |

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

The Company's net income decreased \$3.7 million from 2009 primarily as a result of a decline of \$5.0 million in revenues from service charges. This decrease is primarily attributable to the Company's compliance with new federal rules under the Electronic Funds Transfer Act, also known as Regulation E. Noninterest expenses increased \$1.5 million from 2009 due to higher insurance and regulatory expenses. These fluctuations were partially offset by lower net investment security losses of \$1.5 million compared to 2009 (see *Noninterest Income and Expense* for more analysis of these fluctuations).

The Company's tax equivalent net interest income decreased \$1.0 million, or 1.1%, from \$96.3 million in 2009 to \$95.3 million in 2010. This decline is due to a decrease of \$5.2 million in interest income associated with the gain from the sale of interest rate floors in 2008 that is being recognized over the remaining lives of the various hedged loans. This decline was partially offset by the decrease in interest expense exceeding the decrease in interest income from 2009 and additional interest income of \$1.1 million from previously securitized loans recognized during 2010. The Company's reported net interest margin declined from 4.18% for the year ended December 31, 2009 to 4.06% for the year ended December 31, 2010 (see *Net Interest Income*). The Company's provision for loan losses decreased \$0.1 million from \$7.1 million in 2009 to \$7.0 million in 2010 (see *Allowance and Provision for Loan Losses*).

BALANCE SHEET ANALYSIS

Total loans increased \$72.6 million, or 4.1%, from December 31, 2009, due to increases in commercial loans of \$44.3 million (5.9%), home equity loans of \$17.4 million (4.4%), and residential real estate loans of \$14.7 million (2.5%).

Total investment securities decreased \$60.3 million, or 11.7%, from \$513.9 million at December 31, 2009, to \$453.6 million at December 31, 2010. The decrease in the securities portfolio in 2010 was related primarily to funding loan growth during 2010.

Total deposits increased \$7.7 million, or 0.4%, from \$2.16 billion at December 31, 2009 to \$2.17 billion at December 31, 2010. This growth was due to increases in interest bearing demand deposits of \$29.4 million, savings deposits of \$17.1 million, and noninterest bearing demand deposits of \$9.5 million that were partially offset by a decrease in time deposits of \$48.4 million.

Short-term debt balances decreased \$5.6 million, or 4.7%, from December 31, 2009 to December 31, 2010. This decrease was primarily attributable to a decrease in federal funds purchased and security repurchase agreements. The Company is not dependent on security repurchase agreements which are subject to significant fluctuations for funding or liquidity.

Long-term debt balances remained flat with 2009's balance.

Other liabilities increased \$7.1 million, or 48.6%, from 2009 to 2010. This increase was due to an increase in income taxes payable (see *Income Taxes*).

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

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

| | 2010 | | | 2009 | | | 2008 | | |
|--|--------------------|-----------|----------------|--------------------|-----------|----------------|--------------------|-----------|----------------|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| ASSETS | | | | | | | | | |
| Loan portfolio (1): | | | | | | | | | |
| Residential real estate | \$ 598,484 | \$ 31,218 | 5.22% | \$ 595,518 | \$ 33,559 | 5.64% | \$ 607,851 | \$ 37,495 | 6.17% |
| Home equity (2) | 405,539 | 21,263 | 5.24 | 392,077 | 23,909 | 6.10 | 364,325 | 26,266 | 7.21 |
| Commercial, financial, and agriculture (3) | 765,634 | 39,163 | 5.12 | 756,745 | 41,614 | 5.50 | 713,767 | 47,445 | 6.65 |
| Loans to depository institutions | - | - | - | - | - | - | 1,161 | 35 | 3.01 |
| Installment loans to individuals | 49,724 | 3,796 | 7.63 | 49,733 | 4,158 | 8.36 | 51,542 | 5,264 | 10.21 |
| Previously securitized loans | 1,207 | 4,016 | 332.73 | 3,042 | 3,902 | 128.27 | 5,200 | 5,622 | 108.12 |
| Total loans | 1,820,588 | 99,456 | 5.46 | 1,797,115 | 107,142 | 5.96 | 1,743,846 | 122,127 | 7.00 |
| Securities: | | | | | | | | | |
| Taxable | 458,398 | 20,594 | 4.49 | 460,352 | 23,200 | 5.04 | 422,708 | 23,852 | 5.64 |
| Tax-exempt (4) | 49,517 | 2,826 | 5.71 | 41,123 | 2,588 | 6.30 | 35,738 | 2,344 | 6.56 |
| Total securities | 507,915 | 23,420 | 4.61 | 501,475 | 25,788 | 5.14 | 458,446 | 26,196 | 5.71 |
| Deposits in depository institutions | 5,249 | - | - | 5,340 | 11 | 0.21 | 7,944 | 171 | 2.15 |
| Federal funds sold | 14,506 | 29 | - | 123 | - | - | - | - | - |
| Total interest-earning assets | 2,348,258 | 122,905 | 5.23 | 2,304,053 | 132,941 | 5.77 | 2,210,236 | 148,494 | 6.72 |
| Cash and due from banks | 53,384 | | | 51,655 | | | 57,624 | | |
| Premises and equipment | 64,666 | | | 62,883 | | | 57,183 | | |
| Other assets | 207,454 | | | 211,465 | | | 195,820 | | |
| Less: Allowance for loan losses | (19,265) | | | (21,306) | | | (18,452) | | |
| Total assets | \$ 2,654,497 | | | \$ 2,608,750 | | | \$ 2,502,411 | | |
| LIABILITIES | | | | | | | | | |
| Interest-bearing demand deposits | \$ 462,641 | \$ 1,242 | 0.27% | \$ 428,342 | \$ 1,703 | 0.40% | \$ 409,799 | \$ 2,576 | 0.63% |
| Savings deposits | 389,385 | 1,016 | 0.26 | 373,476 | 1,746 | 0.47 | 359,754 | 3,640 | 1.01 |
| Time deposits | 983,310 | 24,350 | 2.48 | 1,006,146 | 31,781 | 3.16 | 921,971 | 35,691 | 3.87 |
| Short-term borrowings | 112,575 | 362 | 0.32 | 134,016 | 529 | 0.39 | 136,867 | 2,629 | 1.92 |
| Long-term debt | 16,876 | 658 | 3.90 | 18,286 | 844 | 4.62 | 21,506 | 1,383 | 6.43 |
| Total interest-bearing liabilities | 1,964,787 | 27,628 | 1.41 | 1,960,266 | 36,603 | 1.87 | 1,849,897 | 45,919 | 2.48 |
| Noninterest-bearing demand deposits | 354,988 | | | 328,985 | | | 323,551 | | |
| Other liabilities | 18,692 | | | 24,916 | | | 25,774 | | |
| Shareholders' equity | 316,030 | | | 294,583 | | | 303,189 | | |
| Total liabilities and shareholders' equity | \$ 2,654,497 | | | \$ 2,608,750 | | | \$ 2,502,411 | | |
| Net interest income | \$ 95,277 | | | \$ 96,338 | | | \$ 102,575 | | |
| Net yield on earning assets | | | 4.06% | | | 4.18% | | | 4.64% |

(1) For purposes of this table, loans on nonaccrual status have been included in average balances and loans fees, which are immaterial, have been included in interest income.

(2) Interest income includes \$2,494, \$4,889 and \$4,221 from interest rate floors for the years ended December 31, 2010, 2009, and 2008, respectively.

(3) Interest income includes \$1,999, \$4,811 and \$4,549 from interest rate floors for the years ended December 31, 2010, 2009 and 2008 respectively.

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

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

NET INTEREST INCOME

2010 vs. 2009

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

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

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

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

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

2009 vs. 2008

The Company's tax equivalent net interest income decreased \$6.3 million, or 6.1%, from \$102.6 million in 2008 to \$96.3 million in 2009, as interest income from loans and investments decreased more quickly than interest expense on deposits and other interest bearing liabilities. The Company's reported net interest margin decreased to 4.18% for the year ended December 31, 2009 as compared to 4.64% for the year ended December 31, 2008.

During the third and fourth quarters of 2008, the Company sold \$450 million of interest rate floors. The gain from sales of these interest rate floors of \$16.7 million is being recognized over the remaining lives of the various hedged loans – primarily prime-based commercial and home equity loans. During the year ended December 31, 2009, the Company recognized \$9.7 million of interest income compared to \$8.8 million of interest income recognized during the year ended December 31, 2008 from the interest rate floors.

Average earning assets increased \$93.8 million from 2008 to 2009 as increases attributable to investments, commercial loans and home equity loans were partially offset by decreases in residential real estate loans. Average investments increased \$43.0 million, commercial loans increased \$43.0 million, and home equity loans increased \$27.8 million while residential real estate loans decreased \$12.3 million. Average liabilities increased \$114.9 million from 2008 as increases in time deposits (\$84.2 million), interest-bearing demand deposits (\$18.5 million), savings deposits (\$13.7 million), and non-interest bearing demand deposits (\$5.4 million) were partially offset by decreases in long term debt (\$3.2 million) and short-term borrowings (\$2.9 million).

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

TABLE THREE

RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE

(in thousands)

| | 2010 vs. 2009 | | | 2009 vs. 2008 | | |
|--|---------------|------------|-------------|---------------|-------------|-------------|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest-Earning Assets | | | | | | |
| Loan portfolio: | | | | | | |
| Residential real estate | \$ 167 | \$ (2,508) | \$ (2,341) | \$ (761) | \$ (3,176) | \$ (3,937) |
| Home equity | 821 | (3,467) | (2,646) | 2,001 | (4,358) | (2,357) |
| Commercial, financial, and agriculture | 489 | (2,940) | (2,451) | 2,857 | (8,688) | (5,831) |
| Loans to depository institutions | - | - | - | (35) | - | (35) |
| Installment loans to individuals | (1) | (361) | (362) | (185) | (921) | (1,106) |
| Previously securitized loans | (2,354) | 2,468 | 114 | (2,333) | 613 | (1,720) |
| Total loans | (878) | (6,808) | (7,686) | 1,544 | (16,530) | (14,986) |
| Securities: | | | | | | |
| Taxable | (98) | (2,508) | (2,606) | 2,124 | (2,776) | (652) |
| Tax-exempt (1) | 528 | (290) | 238 | 353 | (108) | 245 |
| Total securities | 430 | (2,798) | (2,368) | 2,477 | (2,884) | (407) |
| Deposits in depository institutions | - | (11) | (11) | (56) | (104) | (160) |
| Federal funds sold | - | 29 | 29 | - | - | - |
| Total interest-earning assets | \$ (448) | \$ (9,588) | \$ (10,036) | \$ 3,965 | \$ (19,518) | \$ (15,553) |
| Interest-Bearing Liabilities | | | | | | |
| Interest-bearing demand deposits | \$ 136 | \$ (597) | \$ (461) | \$ 117 | \$ (990) | \$ (873) |
| Savings deposits | 74 | (804) | (730) | 139 | (2,033) | (1,894) |
| Time deposits | (721) | (6,710) | (7,431) | 3,259 | (7,169) | (3,910) |
| Short-term borrowings | (85) | (82) | (167) | (55) | (2,045) | (2,100) |
| Long-term debt | (65) | (121) | (186) | (207) | (332) | (539) |
| Total interest-bearing liabilities | \$ (661) | \$ (8,314) | \$ (8,975) | \$ 3,253 | \$ (12,569) | \$ (9,316) |
| Net interest income | \$ 213 | \$ (1,274) | \$ (1,061) | \$ 712 | \$ (6,949) | \$ (6,237) |

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

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

NONINTEREST INCOME AND EXPENSE

2010 vs. 2009

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

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

Non-interest expense increased \$1.5 million from \$77.2 million for the year ended December 31, 2009 to \$78.7 million for the year ended December 31, 2010. Insurance and regulatory expense increased \$1.5 million, or 44.1%, from the year ended December 31, 2009 primarily as a result of the Company fully utilizing the balance of its FDIC credits during 2009 and increases in the general assessment rates during 2010, which increased the Company's FDIC insurance expense from \$2.2 million for the year ended December 31, 2009 to \$3.7 million for the year ended December 31, 2010. In addition, repossessed asset losses increased \$0.8 million and salaries and employee benefits increased \$0.7 million, or 1.9%, from the year ended December 31, 2009. The repossessed asset losses were primarily due to the write down of a foreclosed property located in the eastern panhandle of West Virginia reflecting continued weakness in property values in this market. As a result of this write down, this foreclosed property is now valued at approximately one-half of its original cost. Partially offsetting these increases were decreases in other expenses of \$0.7 million or 7.9%, and bankcard expense of \$0.6 million or 24.9%. Other expenses decreased primarily due to a decrease of \$0.6 million of amortization expenses associated with low income housing tax credits.

2009 vs. 2008

During 2009, the Company recorded \$5.3 million of net other-than-temporary impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferreds (\$3.8 million impairment) with remaining book value of \$9.6 million at December 31, 2009 and community bank and bank holding company equity positions (\$1.5 million impairment) with remaining book value of \$5.1 million at December 31, 2009. The impairment charges related to the pooled bank trust preferred securities were based on the Company's quarterly reviews of its investment securities for indications of losses considered to be other-than-temporary. Based on management's assessment of the securities the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments within the pools, and a review of the financial strength of the banks within the respective pools, management concluded that credit related impairment charges of \$3.8 million on the pooled bank trust preferred securities were appropriate for the year ended December 31, 2009. The impairment charges of \$1.5 million related to community bank and bank holding company equity positions were due to poor financial performance of the community banks and bank holding companies and the length of time and extent to which the market values have been below the Company's cost basis in these positions.

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

Exclusive of net other-than-temporary investment impairment losses, realized investment losses, and the gain from the Visa initial public offering in 2008, total non-interest income would have increased \$1.2 million to \$58.1 million for the year ended December 31, 2009 as compared to \$56.9 million for the year ended December 31, 2008. Insurance commission revenues increased \$1.4 million, or 32.4%, from \$4.2 million during the year ended December 31, 2008 to \$5.6 million during the year ended December 31, 2009 due to contingency payments and new business. In addition, other income increased \$0.4 million and bank owned life insurance revenues increased \$0.3 million as the result of proceeds from a death benefit. Partially offsetting these increases was a decrease of \$1.0 million, or 2.1% in service charges from depository accounts. This decrease is attributable to a general nationwide decline in consumer spending.

Excluding the loss on the early redemption of the trust preferred securities in 2008, total non-interest expense would have increased \$2.7 million from \$74.5 million for the year ended December 31, 2008 to \$77.2 million for the year ended December 31, 2009. Insurance and regulatory expense increased \$2.0 million, or 143.4%, from the year ended December 31, 2008 primarily due to a special assessment levied by the Federal Deposit Insurance Corporation ("FDIC") to rebuild the Deposit Insurance Fund and to help maintain public confidence in the banking system. The special assessment of \$1.2 million was principally based on the asset size of the company's federally insured depository institution. Additionally, as a result of the Company fully utilizing its FDIC credits and increases in the assessment rates during 2009, FDIC related insurance expense increased \$0.8 million from the year ended December 31, 2008. Occupancy and equipment expense increased \$0.8 million, or 11.9%, from the year ended December 31, 2008 due to an upgrade of the Company's core processing system and increased occupancy expenses. In addition, advertising expenses rose \$0.6 million from the year ended December 31, 2008. Partially offsetting these increases was a decline in other expenses of \$1.0 million. The decrease in other expenses was predominately attributable to a decrease of \$1.1 million of amortization expense associated with interest rate floors that were sold in the third and fourth quarters of 2008.

INCOME TAXES

The Company recorded income tax expense of \$18.5 million, \$20.5 million, and \$9.5 million in 2010, 2009, and 2008, respectively. The Company's effective tax rates for 2010, 2009, and 2008 were 32.1%, 32.5%, and 25.2%, respectively. A reconciliation of the effective tax rate to the statutory rate is included in Note Thirteen of Notes to Consolidated Financial Statements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's net deferred tax assets decreased modestly from \$29.5 million at December 31, 2009 to \$29.2 million at December 31, 2010. The components of the Company's net deferred tax assets are disclosed in Note Thirteen of Notes to Consolidated Financial Statements. Realization of the most significant net deferred tax assets is primarily dependent on future events taking place that will reverse the current deferred tax assets. For example, realization of the deferred tax asset attributable to other-than-temporary impairment losses on securities, which have already been recognized in the Company's financial statements, would be realized if the impaired securities were deemed to be "worthless" by the Internal Revenue Service or if the securities were sold and recognized for tax purposes. The deferred tax asset/(liability) associated with unrealized securities losses is the tax impact of the unrealized gains/(losses) on the Company's available for sale security portfolio. At December 31, 2010, the Company had a deferred tax liability of \$0.6 million associated with unrealized securities gains as compared to a deferred tax asset of \$0.8 million at December 31, 2009. The impact of the Company's unrealized gains/(losses) is noted in the Company's Consolidated Statements of Changes in Shareholders' Equity as an adjustment to Accumulated Other Comprehensive Income (Loss). The deferred tax liability at December 31, 2010, would be realized if the unrealized gains on the Company's securities were realized from sales or maturities of the related securities. The deferred tax asset associated with the allowance for loan losses decreased from \$7.0 million at December 31, 2009 to \$6.8 million at December 31, 2010. The deferred tax asset associated with the allowance for loan losses is expected to be realized as additional loan charge-offs, which have already been provided for within the Company's financial statements, are recognized for tax purposes. The deferred tax asset associated with the Company's previously securitized loans is expected to be realized as the Company recognizes income for financial statement purposes from these loans in future periods. The deferred tax asset associated with these loans declined from \$8.1 million at December 31, 2009 to \$6.5 million at December 31, 2010. As discussed in Note Six of Notes to Consolidated Financial Statements, the Company had net recoveries on previously securitized loans of \$0.2 million during 2010 that were taxable for income tax purposes, but will be recognized in future periods for financial reporting purposes. The Company believes that it is more likely than not that each of the net deferred tax assets will be realized and that no valuation allowance is necessary as of December 31, 2010 or 2009.

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

RISK MANAGEMENT

Market risk is the risk of loss due to adverse changes in current and future cash flows, fair values, earnings, or capital due to adverse movements in interest rates and other factors, including foreign exchange rates and commodity prices. Because the Company has no significant foreign exchange activities and holds no commodities, interest rate risk represents the primary risk factor affecting the Company's balance sheet and net interest margin. Significant changes in interest rates by the Federal Reserve could, in turn, result in similar changes in LIBOR interest rates, prime rates, and other benchmark interest rates that could affect the estimated fair value of the Company's investment securities portfolio, interest paid on the Company's short-term and long-term borrowings, interest earned on the Company's loan portfolio, and interest paid on its deposit accounts.

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

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

The Company's policy objective is to avoid negative fluctuations in net income or the economic value of equity of more than 15% within a 12-month period, assuming an immediate parallel increase or decrease of 400 basis points. The Company measures the long-term risk associated with sustained increases and decreases in rates through analysis of the impact to changes in rates on the economic value of equity. Due to the current Federal Funds target rate of 25 basis points, the Company has chosen not to reflect a decrease of 25 basis points from current rates in its analysis.

During 2005 and 2006, the Company entered into interest rate floors with a total notional value of \$600 million, with maturities between May 2008 and June 2011. These derivative instruments provided the Company protection against the impact of declining interest rates on future income streams from certain variable rate loans. During 2008, interest rate floors with a total notional value of \$150 million matured. The remaining interest rate floors with a total notional value of \$450 million were sold during 2008. The gains from the sales of these interest rate floors are being recognized over the remaining lives of the various hedged loans. At December 31, 2010, the unrecognized gain was approximately \$1.1 million. Please refer to Notes One and Twelve of Notes to Consolidated Financial Statements for further discussion of the use and accounting for such derivative instruments.

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

| Immediate Basis Point Change in Interest Rates | Implied Federal Funds Rate Associated with Change in Interest Rates | Estimated Increase in Net Income Over 12 Months | Estimated Increase in Economic Value of Equity |
|--|---|---|---|
| 2010: | | | |
| +400 | 4.25% | +16.0 | +15.7 |
| +300 | 3.25 | +10.9% | +12.9% |
| +200 | 2.25 | +6.2 | +8.4 |
| +100 | 1.25 | +0.9 | +3.2 |
| 2009: | | | |
| +300 | 3.25% | +9.3% | +16.3% |
| +200 | 2.25 | +5.8 | +11.6 |
| +100 | 1.25 | +1.5 | +5.7 |

These estimates are highly dependent upon assumptions made by management, including, but not limited to, assumptions regarding the manner in which interest-bearing demand deposit and saving deposit accounts reprice in different interest rate scenarios, pricing behavior of competitors, prepayments of loans and deposits under alternative rate environments, and new business volumes and pricing. As a result, there can be no assurance that the estimates above will be achieved in the event that interest rates increase during 2010 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.

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

Based upon the estimates above, the Company believes that its net income is positively correlated with increasing rates as compared to the level of net income the Company would expect if interest rates remain flat.

LIQUIDITY

The Company evaluates the adequacy of liquidity at both the Parent Company level and at City National. At the Parent Company level, the principal source of cash is dividends from City National. Dividends paid by City National to the Parent Company are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. At December 31, 2010, City National could pay dividends up to \$30.2 million plus net profits for 2011, as defined by statute, up to the dividend declaration date without prior regulatory permission.

During 2010, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders, (2) remit interest payments on the Company's junior subordinated debentures, and (3) fund repurchases of the Company's common shares. Additional information concerning sources and uses of cash by the Parent Company is reflected in Note Twenty of Notes to Consolidated Financial Statements, on page 59.

The Parent Company anticipates continuing the payment of dividends, which would approximate \$21.2 million on an annualized basis for 2011 based on common shareholders of record at December 31, 2010 and a dividend rate of \$1.36 for 2011. In addition to these anticipated cash needs for 2011, the Parent Company has operating expenses and other contractual obligations, which are estimated to require \$0.6 million of additional cash over the next 12 months. As of December 31, 2010, the Parent Company reported a cash balance of approximately \$2.2 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 2011 other than the repayment of its \$16.5 million obligation under the debentures held by City Holding Capital Trust III. However, this obligation does not mature until June 2038, or earlier at the option of the Parent Company. It is expected that the Parent Company will be able to obtain the necessary cash, either through dividends obtained from City National or the issuance of other debt, to fully repay the debentures at their maturity. Table Ten on page 20 of this Annual Report to Shareholders summarizes the contractual obligations of the Parent Company and City National, combined.

City National manages its liquidity position in an effort to effectively and economically satisfy the funding needs of its customers and to accommodate the scheduled repayment of borrowings. Funds are available to City National from a number of sources, including depository relationships, sales and maturities within the investment securities portfolio, and borrowings from the FHLB of Pittsburgh and other financial institutions. As of December 31, 2010, City National's assets are significantly funded by deposits and capital. Additionally, City National maintains borrowing facilities with the FHLB of Pittsburgh and other financial institutions that are accessed as necessary to fund operations and to provide contingency funding mechanisms. As of December 31, 2010, City National has the capacity to borrow an additional \$411.0 million from the FHLB of Pittsburgh and other financial institutions under existing borrowing facilities. City National maintains a contingency funding plan, incorporating these borrowing facilities, to address liquidity needs in the event of an institution-specific or systematic financial industry crisis. Additionally, City National maintains a significant percentage (94.7%, or \$429.7 million, at December 31, 2010) of its investment securities portfolio in the highly liquid available-for-sale classification. Although it has no current intention to do so, these securities could be liquidated, if necessary, to provide an additional funding source. City National also segregates certain mortgage loans, mortgage-backed securities, and other investment securities in a separate subsidiary so that it can separately monitor the asset quality of these primarily mortgage-related assets, which could be used to raise cash through securitization transactions or obtain additional equity or debt financing if necessary.

The Company manages its asset and liability mix to balance its desire to maximize net interest income against its desire to minimize risks associated with capitalization, interest rate volatility, and liquidity. With respect to liquidity, the Company has chosen a conservative posture and believes that its liquidity position is strong. As illustrated in the Consolidated Statements of Cash Flows, the Company generated \$62.8 million of cash from operating activities during 2010, primarily from interest income received on loans and investments, net of interest expense paid on deposits and borrowings.

The Company has obligations to extend credit, but these obligations are primarily associated with existing home equity loans that have predictable borrowing patterns across the portfolio. The Company has significant investment security balances with carrying values that totaled \$453.6 million at December 31, 2010, and that greatly exceeded the Company's non-deposit sources of borrowing which totaled \$151.1 million.

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

The Company primarily funds its assets with deposits, which fund 82.3% of total assets as compared to 62.4% for its peers. Further, the Company's deposit mix has a very high proportion of transaction and savings accounts that fund 46.3% of the Company's total assets. And, the Company uses fewer time deposits over \$100,000 than its peers, funding just 10.9% of total assets as compared to peers, which fund 14.8% of total assets with such deposits. And, as described under the caption *Certificates of Deposit*, the Company's large CDs are primarily small retail depositors rather than public and institutional deposits.

INVESTMENTS

The Company's investment portfolio decreased from \$513.9 million at December 31, 2009 to \$453.6 million at December 31, 2010. This decrease was primarily related to funding increases in loan balances.

The investment portfolio remains highly liquid at December 31, 2010, with 94.7% of the portfolio classified as available-for-sale. The investment portfolio is structured to provide flexibility in managing liquidity needs and interest rate risk, while providing acceptable rates of return.

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

TABLE FOUR
INVESTMENT PORTFOLIO

| (in thousands) | Carrying Values as of December 31 | | |
|--|-----------------------------------|-------------------|-------------------|
| | 2010 | 2009 | 2008 |
| Securities Available-for-Sale: | | | |
| States and political subdivisions | \$ 65,926 | \$ 52,735 | \$ 41,421 |
| Mortgage-backed securities: | | | |
| US government agencies | 266,817 | 302,794 | 272,805 |
| Private label | 8,118 | 11,988 | 15,528 |
| Trust preferred securities | 54,610 | 63,737 | 57,982 |
| Corporate securities | 15,393 | 19,488 | 22,028 |
| Total debt securities available-for-sale | 410,864 | 450,742 | 409,764 |
| Marketable equity securities | 4,693 | 5,094 | 5,965 |
| Non-marketable equity securities | 12,553 | 13,023 | 13,037 |
| Investment funds | 1,610 | 16,908 | 1,824 |
| Total Securities Available-for-Sale | 429,720 | 485,767 | 430,590 |
| Securities Held-to-Maturity: | | | |
| States and political subdivisions | 438 | 1,642 | 2,834 |
| Other debt securities | 23,427 | 26,522 | 26,233 |
| Total Securities Held-to-Maturity | 23,865 | 28,164 | 29,067 |
| Total Securities | \$ 453,585 | \$ 513,931 | \$ 459,657 |

Included in equity securities and investment funds in the table above at December 31, 2010 are \$5.8 million of Federal Home Loan Bank stock and \$6.7 million of Federal Reserve Bank stock. At December 31, 2010, there were no securities of any non-governmental issuers whose aggregate carrying or market value exceeded 10% of shareholders' equity.

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

| (dollars in thousands) | Within One Year | | After One But Within Five Years | | Maturing After Five But Within Ten Years | | After Ten Years | |
|---|-----------------|--------------|---------------------------------|--------------|--|--------------|-------------------|--------------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Securities Available-for-Sale: | | | | | | | | |
| States and political subdivisions | \$ 7,935 | 3.92% | \$ 28,309 | 5.10% | \$ 15,070 | 6.59% | \$ 14,612 | 7.42% |
| Mortgage-backed securities: | | | | | | | | |
| US government agencies | 762 | 4.30 | 31,401 | 1.79 | 63,503 | 4.34 | 171,151 | 4.23 |
| Private label | - | - | - | - | 2,975 | 4.60 | 5,143 | 4.77 |
| Trust preferred securities | - | - | - | - | - | - | 54,610 | 7.70 |
| Corporate securities | - | - | 3,182 | 4.48 | 5,063 | 3.75 | 7,148 | 5.99 |
| Total debt securities available-for-sale | 8,697 | 3.96 | 62,892 | 3.42 | 86,611 | 4.70 | 252,664 | 5.23 |
| Securities Held-to-Maturity: | | | | | | | | |
| States and political subdivisions | 130 | 7.43 | 308 | 6.53 | - | - | - | - |
| Trust preferred securities | - | - | - | - | - | - | 23,427 | 8.79 |
| Total debt securities held-to-maturity | 130 | 7.43 | 308 | 6.53 | - | - | 23,427 | 8.79 |
| Total debt securities | \$ 8,827 | 4.01% | \$ 63,200 | 3.43% | \$ 86,611 | 4.70% | \$ 276,091 | 5.53% |

Weighted-average yields on tax-exempt obligations of states and political subdivisions have been computed on a fully federal tax-equivalent basis using a tax rate of 38.1%. Average yields on investments available-for-sale are computed based on amortized cost. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

LOANS

TABLE FIVE
LOAN PORTFOLIO

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

| (in thousands) | 2010 | 2009 | 2008 | 2007 | 2006 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Residential real estate | \$ 610,369 | \$ 595,678 | \$ 611,962 | \$ 602,057 | \$ 598,502 |
| Home equity | 416,172 | 398,752 | 384,320 | 341,818 | 321,708 |
| Commercial and industrial (1) | 134,612 | 137,093 | 161,588 | 141,245 | 129,448 |
| Commercial real estate (1) | 661,758 | 614,959 | 606,667 | 566,742 | 544,271 |
| Loans to depository institutions | - | - | - | 60,000 | 25,000 |
| Consumer (1) | 38,424 | 41,684 | 41,000 | 44,585 | 38,997 |
| DDA overdrafts (1) | 2,876 | 2,555 | 2,585 | 3,682 | 3,946 |
| Previously securitized loans | 789 | 1,713 | 4,222 | 6,892 | 15,597 |
| Gross loans | \$ 1,865,000 | \$ 1,792,434 | \$ 1,812,344 | \$ 1,767,021 | \$ 1,677,469 |

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

During 2010, commercial and industrial loans decreased \$2.5 million from \$137.1 million at December 31, 2009 to \$134.6 million at December 31, 2010. Commercial real estate loans increased \$46.8 million, or 7.6%, from \$615.0 million at December 31, 2009, to \$661.8 million at December 31, 2010. This increase was primarily attributable to the Company's ability to attract new commercial relationships, particularly from its Charlotte, NC, loan production office. At December 31, 2010, \$31.5 million of the commercial real estate loans were for commercial properties under construction. Home equity loans increased \$17.4 million, or 4.4%, from \$398.8 million at December 31, 2009, to \$416.2 million at December 31, 2010. Residential real estate loans increased \$14.7 million, or 2.5%, from \$595.7 million at December 31, 2009 to \$610.4 million at December 31, 2010. Residential real estate loans are primarily for single-family 1, 3, 5 and 10 year adjustable rate mortgages with terms that amortize the loans over periods from 15-30 years. Our mortgage products do not include sub-prime, interest only, or option adjustable rate mortgage products. At December 31, 2010, \$7.9 million of the residential real estate loans were for properties under construction.

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

Consumer loans decreased \$3.3 million, or 7.8%, from \$41.7 million at December 31, 2009 to \$38.4 million at December 31, 2010, while DDA overdrafts increased \$0.3 million from December 31, 2009.

As of December 31, 2010, the Company reported \$0.8 million of loans classified as "previously securitized loans." These loans were recorded as a result of the Company's early redemption of the outstanding notes attributable to the Company's six loan securitization trusts (see *Previously Securitized Loans*). As the outstanding notes were redeemed during 2004 and 2003, the Company became the beneficial owner of the remaining mortgage loans and recorded the carrying amount of those loans within the loan portfolio, classified as "previously securitized loans." These loans are junior lien mortgage loans on one- to four-family residential properties located throughout the United States. The loans generally have contractual terms of 25 or 30 years and have fixed interest rates. The Company expects this balance to continue to decline as borrowers remit principal payments on the loans.

The following table shows the scheduled maturity of loans outstanding as of December 31, 2010:

| (in thousands) | Within One Year | After One But Within Five Years | After Five Years | Total |
|---|--------------------|---------------------------------------|---------------------|--------------|
| Residential real estate | \$ 154,236 | \$ 313,722 | \$ 142,411 | \$ 610,369 |
| Home equity | 48,914 | 137,110 | 230,148 | 416,172 |
| Commercial and industrial | 85,660 | 43,932 | 5,020 | 134,612 |
| Commercial real estate | 205,661 | 355,056 | 101,041 | 661,758 |
| Consumer | 19,382 | 19,020 | 22 | 38,424 |
| DDA overdrafts | 2,876 | - | - | 2,876 |
| Previously securitized loans | 139 | 446 | 204 | 789 |
| Total loans | \$ 516,868 | \$ 869,286 | \$ 478,846 | \$ 1,865,000 |
| Loans maturing after one year with interest rates that are: | | | | |
| Fixed until maturity | | \$ 212,122 | | |
| Variable or adjustable | | 1,136,010 | | |
| Total | | \$ 1,348,132 | | |

ALLOWANCE AND PROVISION FOR LOAN LOSSES

Management systematically monitors the loan portfolio and the adequacy of the allowance for loan losses on a quarterly basis to provide for probable losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance, and other relevant factors. Individual credits are selected throughout the year for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the adequacy of the allowance. Due to the nature of commercial lending, evaluation of the adequacy of the allowance as it relates to these loan types is often based more upon specific credit review, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for general economic conditions and other inherent risk factors. Conversely, due to the homogeneous nature of the real estate and installment portfolios, the portions of the allowance allocated to those portfolios are primarily based on prior loss history of each portfolio, adjusted for general economic conditions and other inherent risk factors.

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

The allowance not specifically allocated to individual credits is generally determined by analyzing potential exposure and other qualitative factors that could negatively impact the adequacy of the allowance. Loans not individually evaluated for impairment are grouped by pools with similar risk characteristics and the related historical loss rates are adjusted to reflect current inherent risk factors, such as unemployment, overall economic conditions, concentrations of credit, loan growth, classified and impaired loan trends, staffing, adherence to lending policies, and loss trends.

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

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

The Company had net charge-offs of \$7.4 million for the year ended December 31, 2010 compared to \$10.6 million for the year ended December 31, 2009. The decrease was due to a significant amount of loans charged off in 2009 that were previously identified as problem loans and provided for through the allowance for loan losses. Net charge-offs on commercial real estate loans, residential loans, and overdrawn depository accounts were \$2.9 million, \$2.4 million, and \$2.1 million, respectively, for the year ended December 31, 2010. Overdrawn depository account charge-offs increased in 2010 due to a specific, nonrecurring depository overdraft loss during the fourth quarter that was appropriately considered in the Company's normal process for estimating the allowance for loan losses and recognizing charge-offs. While charge-offs on depository accounts are appropriately taken against the allowance for loan losses, the revenue associated with depository accounts is reflected in service charges.

The Company's ratio of non-performing assets to total loans and other real estate owned decreased from 1.43% at December 31, 2009 to 1.12% at December 31, 2010. Based on our analysis, the Company believes that the allowance allocated to impaired loans, after considering the value of the collateral securing such loans, is adequate to cover losses that may result from these loans at December 31, 2010.

The allowance allocated to the commercial and industrial loan portfolio decreased \$0.2 million, or 9.4%, from \$2.1 million at December 31, 2009 to \$1.9 million at December 31, 2010. This decrease is primarily related to recent trends in the commercial and industrial loan portfolio.

The allowance allocated to the commercial real estate loan portfolio decreased \$0.5 million, or 5.3%, from \$9.0 million at December 31, 2009 to \$8.5 million at December 31, 2010. This decrease was due to improving credit quality trends in the commercial real estate portfolio and the reduction of the allowance allocated to specific loans as a result of charge-offs related to impaired loans during 2010. Partially offsetting these reductions was an increase in the allowance as a result of commercial real estate loan growth. As of December 31, 2010, commercial real estate balances totaled \$661.8 million, a \$46.8 million (7.6%) increase from December 31, 2009.

The allowance allocated to the real estate portfolio increased from \$5.5 million at December 31, 2009 to \$6.8 million at December 31, 2010. This increase was primarily the result of certain credit quality trends in the residential real estate and home equity portfolios, including an increase in net-charge offs on residential real estate loans during 2010.

The allowance allocated to the consumer loan portfolio declined from \$0.2 million at December 31, 2009 to \$0.1 million at December 31, 2010. This decrease is primarily related to recent trends in the consumer loan portfolio.

Certain products offered by the Company permit customers to overdraft their depository accounts. While the Company generates service charge revenues for providing this service to the customer, certain deposit account overdrafts are not fully repaid by the customer resulting in losses incurred. The allowance allocated to DDA overdrafts declined from \$1.8 million at December 31, 2009 to \$1.0 million at December 31, 2010. This decrease was due to lower charge-offs of DDA overdraft accounts. As reflected in Table Six, the Company reported net charge-offs on depository accounts of \$2.1 million and \$1.3 million during 2010 and 2009, respectively. As of December 31, 2010, the balance of overdraft deposit accounts was \$2.9 million.

As previously discussed, the carrying value of the previously securitized loans incorporates an assumption for expected cash flows to be received over the life of these loans. To the extent that the present value of expected cash flows is less than the carrying value of these loans, the Company would provide for such losses through the provision and allowance for loan losses. No additions to the provision for loan losses related to previously securitized loans were recorded in 2010 or 2009.

Based on management's analysis of the adequacy of the allowance for loan losses during 2010, management determined it was appropriate to record a provision for loan losses of \$7.1 million. Changes in the amount of the allowance and related provision for loan losses are based on the Company's detailed systematic methodology and are directionally consistent with changes in the composition and quality of the Company's loan portfolio. The Company believes that its methodology for determining the adequacy of its allowance for loan losses adequately provides for probable losses inherent in the loan portfolio at December 31, 2010 and produces a provision and allowance for loan losses that is directionally consistent with changes in asset quality and loss experience.

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

Based on the Company's analysis of the adequacy of the allowance for loan losses and in consideration of the known factors utilized in computing the allowance, management believes that the allowance for loan losses as of December 31, 2010, is adequate to provide for probable losses inherent in the Company's loan portfolio. Future provisions for loan losses will be dependent upon trends in loan balances including the composition of the loan portfolio, changes in loan quality and loss experience trends, and recoveries of previously charged-off loans, among other factors.

TABLE SIX

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

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

| (in thousands) | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance at beginning of year | \$ 18,541 | \$ 22,164 | \$ 17,399 | \$ 15,246 | \$ 16,790 |
| Reduction of allowance for loans sold | - | - | - | - | (1,368)* |
| Charge-offs: | | | | | |
| Commercial and industrial (1) | (73) | (530) | (98) | (106) | (661) |
| Commercial real estate (1) | (3,304) | (7,219) | (2,966) | (408) | (618) |
| Residential real estate | (2,537) | (1,916) | (1,590) | (1,006) | (935) |
| Consumer | (127) | (265) | (243) | (343) | (898) |
| DDA overdrafts | (3,597) | (2,886) | (3,151) | (3,789) | (3,823) |
| Totals | (9,638) | (12,816) | (8,048) | (5,652) | (6,935) |
| Recoveries: | | | | | |
| Commercial and industrial (1) | 27 | 102 | 25 | 97 | 110 |
| Commercial real estate (1) | 417 | 133 | 13 | 134 | 100 |
| Residential real estate | 100 | 122 | 223 | 87 | 575 |
| Consumer | 169 | 222 | 296 | 416 | 598 |
| DDA overdrafts | 1,515 | 1,620 | 1,741 | 1,744 | 1,734 |
| Totals | 2,228 | 2,199 | 2,298 | 2,478 | 3,117 |
| Net charge-offs | (7,410) | (10,617) | (5,750) | (3,174) | (3,818) |
| Provision for loan losses | 7,093 | 6,994 | 10,515 | 5,327 | 3,642 |
| Balance at end of year | \$ 18,224 | \$ 18,541 | \$ 22,164 | \$ 17,399 | \$ 15,246 |
| As a Percent of Average Total Loans | | | | | |
| Net charge-offs | 0.41% | 0.59% | 0.33% | 0.18% | 0.23% |
| Provision for loan losses | 0.39 | 0.39 | 0.60 | 0.31 | 0.23 |
| As a Percent of Nonperforming and Potential Problem Loans | | | | | |
| Allowance for loan losses | 156.39% | 133.06% | 86.07% | 104.49% | 384.93% |

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

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

TABLE SEVEN

NON-ACCRUAL, PAST-DUE AND RESTRUCTURED LOANS

Nonperforming assets at December 31 follows:

| (in thousands) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-----------|-----------|-----------|-----------|----------|
| Non-accrual loans | \$ 10,817 | \$ 13,583 | \$ 25,224 | \$ 16,437 | \$ 3,319 |
| Accruing loans past due 90 days or more | 782 | 382 | 623 | 314 | 635 |
| Previously securitized loans past due 90 days or more | 54 | 79 | 10 | 76 | 48 |
| | \$ 11,653 | \$ 14,044 | \$ 25,857 | \$ 16,827 | \$ 4,002 |

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

The decrease in non-accrual loans is principally related to speculative lending at the Greenbrier Resort in White Sulphur Springs, WV, that were repossessed or charged-off during 2010.

At December 31, 2010, the Company had three loans for approximately \$9.6 million that are performing in accordance with contractual terms but for which management has concerns about the borrower's ability to continue to comply with repayment terms. These loans have been included in management's analysis for assessing the adequacy of the allowance for loan losses.

The Company recognized approximately \$0.4 million, \$0.2 million, and \$0.3 million of interest income received in cash on non-accrual and impaired loans in 2010, 2009 and 2008, respectively. Approximately \$0.5 million, \$0.9 million, and \$0.7 million of interest income would have been recognized during 2010, 2009 and 2008, respectively, if such loans had been current in accordance with their original terms. There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at December 31, 2010 and 2009. The company recognized interest income of \$0.4 million, \$0.2 million and \$0.2 million using the accrual method of income recognition during the time period the loans were impaired for 2010, 2009 and 2008, respectively.

Interest on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest unless the loan is well collateralized and in the process of collection. When interest accruals are discontinued, interest credited to income in the current year that is unpaid and deemed uncollectible is charged to operations. Prior-year interest accruals that are unpaid and deemed uncollectible are charged to the allowance for loan losses, provided that such amounts were specifically reserved.

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

| (in thousands) | 2010 | 2009 |
|---|-----------|-----------|
| Impaired loans with a valuation allowance | \$ 6,870 | \$ 12,990 |
| Impaired loans with no valuation allowance | 15,286 | 7,281 |
| Total impaired loans | \$ 22,156 | \$ 20,271 |
| Allowance for loan losses allocated to impaired loans | \$ 1,408 | \$ 2,278 |

TABLE EIGHT

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

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

| (dollars in thousands) | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|-------------------------------|-----------|--|-----------|--|-----------|--|-----------|--|-----------|--|
| | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans |
| Commercial and industrial (1) | \$ 1,874 | 7% | \$ 2,069 | 8% | \$ 3,096 | 9% | \$ 1,616 | 11% | \$ 1,727 | 8% |
| Commercial real estate (1) | 8,488 | 36 | 8,961 | 34 | 11,942 | 33 | 9,299 | 32 | 6,444 | 32 |
| Residential real estate | 6,789 | 55 | 5,515 | 56 | 4,583 | 55 | 3,605 | 54 | 3,981 | 56 |
| Consumer | 95 | 2 | 191 | 2 | 190 | 3 | 347 | 3 | 801 | 4 |
| DDA overdrafts | 978 | — | 1,805 | - | 2,353 | - | 2,532 | - | 2,293 | - |
| | \$ 18,224 | 100% | \$ 18,541 | 100% | \$ 22,164 | 100% | \$ 17,399 | 100% | \$ 15,246 | 100% |

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

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

PREVIOUSLY SECURITIZED LOANS

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

As the Company redeemed the outstanding Notes, no gain or loss was recognized in the Company's financial statements and the remaining mortgage loans were recorded in the Company's loan portfolio as "previously securitized loans," at the lower of carrying value or fair value. Because the carrying value of the mortgage loans incorporated assumptions for expected prepayment and default rates, the carrying value of the loans was generally less than the actual outstanding contractual balance of the loans. As of December 31, 2010 and 2009, the Company reported a carrying value of previously securitized loans of \$0.8 million and \$1.7 million, respectively, while the actual outstanding contractual balance of these loans was \$12.1 million and \$15.1 million, respectively. The Company accounts for the difference between the carrying value and the outstanding balance of previously securitized loans as an adjustment of the yield earned on these loans over their remaining lives. The discount is accreted to income over the period during which payments are probable of collection and are reasonably estimable. If, upon periodic evaluation, the estimate of the total probable collections is reduced below the original value of the loans, an impairment charge would be provided through the Company's provision for loan losses. For a further discussion of the accounting policies for previously securitized loans, please see Note One to the Consolidated Financial Statements, on page 32 of this Annual Report to Shareholders. During 2010, 2009, and 2008, the Company recognized \$2.6 million, \$3.9 million, and \$5.6 million, respectively, of interest income on its previously securitized loans. During the second quarter of 2010, the Company recognized \$1.1 million of additional interest income related to three of the six pools of previously securitized loans that had a negative carrying value due to actual recoveries that exceeded estimates and discount accretion previously recognized. As a result, the December 31, 2010 carrying value for these three pools is \$0 and future cash receipts related to these three pools will be recognized in interest income as received. Cash receipts for 2010, 2009, and 2008 are summarized in the following table:

| (in thousands) | 2010 | 2009 | 2008 |
|---------------------|-----------------|-----------------|-----------------|
| Principal receipts | \$ 2,997 | \$ 4,147 | \$ 5,458 |
| Interest receipts | 1,645 | 2,201 | 2,965 |
| Total cash receipts | <u>\$ 4,642</u> | <u>\$ 6,348</u> | <u>\$ 8,423</u> |

Key assumptions used in estimating the cash flows and fair value of the Company's previously securitized loans as of December 31, 2010 and 2009, were as follows:

| | December 31 2010 | 2009 |
|--------------------------------------|---------------------|-------|
| Prepayment speed (CPR): | | |
| From January 2010 – December 2012 | 5% | 6% |
| Thereafter | 5% | 5% |
| Weighted-average cumulative defaults | 9.02% | 9.26% |

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

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

Summary: The following table summarizes the activity with the reported balance of previously securitized loans during 2010 and 2009:

| (in thousands) | Previously Securitized Loans |
|--|------------------------------------|
| Balance at December 31, 2008 | \$ 4,222 |
| Principal payments on mortgage loans received from borrowers | (4,147) |
| Discount accretion | 1,638 |
| Balance at December 31, 2009 | 1,713 |
| Principal payments on mortgage loans received from borrowers | (1,907) |
| Discount accretion | 983 |
| Balance at December 31, 2010 | <u>\$ 789</u> |

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

GOODWILL

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

In addition, the impact of future earnings and activities are considered in the Company's analysis. The Company has \$54.9 million of goodwill at December 31, 2010 and 2009, and no impairment was required to be recognized in 2010 or 2009 as the fair value of the Company continues to exceed its book value.

CERTIFICATES OF DEPOSIT

Scheduled maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2010, are summarized in Table Nine. The Company has time certificates of deposit of \$100,000 or more totaling \$288.6 million. These deposits are primarily small retail depositors of the bank as demonstrated by the average balance of time certificates of deposit of \$100,000 or more being less than \$150,000.

TABLE NINE

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

| <u>(in thousands)</u> | <u>Amounts</u> | <u>Percentage</u> |
|---------------------------------------|-------------------|-------------------|
| Three months or less | \$ 29,531 | 10% |
| Over three months through six months | 51,139 | 18 |
| Over six months through twelve months | 98,239 | 34 |
| Over twelve months | 109,726 | 38 |
| Total | <u>\$ 288,635</u> | <u>100%</u> |

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

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations that may require future cash payments according to the terms of the obligations. Demand, both noninterest- and interest-bearing, and savings deposits are, generally, payable immediately upon demand at the request of the customer. Therefore, the contractual maturity of these obligations is presented in the following table as "less than one year." Time deposits, typically CDs, are customer deposits that are evidenced by an agreement between the Company and the customer that specify stated maturity dates and early withdrawals by the customer are subject to penalties assessed by the Company. Short-term borrowings and long-term debt represent borrowings of the Company and have stated maturity dates. The Company is not a party to any material capital or operating leases as of December 31, 2010. The composition of the Company's contractual obligations as of December 31, 2010 is presented in the following table:

TABLE TEN
CONTRACTUAL OBLIGATIONS

| (in thousands) | Contractual Maturity in | | | | | Total |
|---|-------------------------|-----------------------------|------------------------------|-------------------------|-------------|---------------------|
| | Less than One Year | Between One and Three Years | Between Three and Five Years | Greater than Five Years | | |
| Noninterest-bearing demand deposits | \$ 337,927 | \$ - | \$ - | \$ - | \$ - | \$ 337,927 |
| Interest-bearing demand deposits ⁽¹⁾ | 487,732 | - | - | - | - | 487,732 |
| Savings deposits ⁽¹⁾ | 397,916 | - | - | - | - | 397,916 |
| Time deposits ⁽¹⁾ | 595,602 | 309,002 | 77,427 | 63 | - | 982,094 |
| Short-term borrowings ⁽¹⁾ | 140,809 | - | - | - | - | 140,809 |
| Long-term debt ⁽¹⁾ | 608 | 1,216 | 1,216 | 18,077 | - | 21,117 |
| Total Contractual Obligations | \$ 1,960,594 | \$ 310,218 | \$ 78,643 | \$ 18,140 | \$ - | \$ 2,367,595 |

⁽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, 2010. 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, 2010 was \$4.0 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 Sixteen of Notes to Consolidated Financial Statements, the Company has also entered into agreements to extend credit or provide conditional payments pursuant to standby and commercial letters of credit. While the outstanding commitment obligation is not recorded in the Company's financial statements, the estimated fair value, which is not material to the Company's financial statements, of the standby letters of credit is recorded in the Company's Consolidated Balance Sheets as of December 31, 2010 and 2009. As a result of the Company's off-balance sheet arrangements for 2009 and 2010, no material revenue, expenses, or cash flows were recognized. In addition, the Company had no other indebtedness or retained interests nor were any securities issued in connection with any off-balance sheet arrangements for 2009 and 2010. Also there were no other obligations or liabilities of the Company that were or were reasonably likely to become material at December 31, 2009 or December 31, 2010.

CAPITAL RESOURCES

During 2010, Shareholders' Equity increased \$6.0 million, or 1.9%, from \$308.9 million at December 31, 2009, to \$314.9 million at December 31, 2010. This increase was due to reported net income of \$39.0 million for 2010 that was partially offset by cash dividends declared during the year of \$21.2 million and common stock purchases for treasury of \$12.9 million.

The Company repurchased 408,151 shares during 2010 at a weighted average price of \$31.61. However, there can be no assurance that the Company will continue to reacquire its common shares or to what extent the repurchase program will be successful.

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

Accumulated other comprehensive income increased \$2.9 million, net of tax, during 2010 due to a favorable change in the unrealized gain on the Company’s available for sale investment securities (see Note Three of Notes to Consolidated Financial Statements). This increase was partially offset by the recognition of \$2.8 million, net of tax, unrealized gains on interest rate floors.

Regulatory guidelines require the Company to maintain a minimum total capital to risk-adjusted assets ratio of 8.00%, with at least one-half of capital consisting of tangible common shareholders’ equity and a minimum Tier I leverage ratio of 4.00%. Similarly, City National is also required to maintain minimum capital levels as set forth by various regulatory agencies. Under capital adequacy guidelines, City National is required to maintain minimum total capital, Tier I capital, and leverage ratios of 8.00%, 4.00%, and 4.00%, respectively. To be classified as “well capitalized,” City National must maintain total capital, Tier I capital, and leverage ratios of 10.00%, 6.00%, and 5.00%, respectively.

The Capital Securities issued by City Holding Capital Trust III (“Trust III”) qualify as regulatory capital for the Company under guidelines established by the Federal Reserve Board. The Company’s regulatory capital ratios remained strong for both City Holding and City National as of December 31, 2010, as illustrated in the following table:

| | Minimum | Well-Capitalized | Actual | |
|-----------------------|---------|------------------|---------------|--------|
| | | | December 31 | |
| | | | 2010 | 2009 |
| City Holding: | | | | |
| Total | 8.00% | 10.00% | 14.81% | 14.60% |
| Tier I Risk-based | 4.00 | 6.00 | 13.88 | 13.63 |
| Tier I Leverage | 4.00 | 5.00 | 10.54 | 10.23 |
| City National: | | | | |
| Total | 8.00% | 10.00% | 13.61% | 12.25% |
| Tier I Risk-based | 4.00 | 6.00 | 12.67 | 11.26 |
| Tier I Leverage | 4.00 | 5.00 | 9.62 | 8.41 |

LEGAL ISSUES

In 2010, City National was named as a defendant in a putative class action alleging that the manner in which City National assessed overdraft fees to its consumer checking accounts violates the West Virginia Consumer Credit and Protection Act, breached an implied covenant of good faith and fair dealing and creates an unjust enrichment to City National. The amount claimed by the plaintiffs has not been determined, but could be material. On October 8, 2010, City National filed a Motion to Dismiss, which was heard on December 13, 2010. Proposed orders were submitted to the Circuit Court on December 30, 2010, but no ruling has been made.

We cannot estimate any possible loss or range of loss, if any, at this time. No assurance can be given at this time that the litigation against us will be resolved amicably, that if this litigation results in an adverse decision that we will be successful in seeking indemnification, that this litigation will not be costly to defend, that this litigation will not have an impact on our financial condition or results of operations or that, ultimately, any such impact will not be material.

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

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

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

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

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements that are included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such information involves risks and uncertainties that could cause the Company’s actual results to differ from those projected in the forward-looking information. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to those set forth in the Company’s Annual Report on Form 10-K under “Risk Factors” and the following: (1) the Company may incur additional loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company may experience increases in the default rates on previously securitized loans that would result in impairment losses or lower the yield on such loans; (4) the Company may not continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on these assets; (5) the Company could have adverse legal actions of a material nature; (6) the Company may face competitive loss of customers; (7) the Company may be unable to manage its expense levels; (8) the Company may have difficulty retaining key employees; (9) changes in the interest rate environment may have results on the Company’s operations materially different from those anticipated by the Company’s market risk management functions; (10) changes in general economic conditions and increased competition could adversely affect the Company’s operating results; (11) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company’s operating results; (12) the Company may experience difficulties growing loan and deposit balances; (13) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (14) continued deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in the securities of other financial institutions resulting in either actual losses or other-than-temporary impairments on such investments; and (15) the effects of the Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) recently adopted by the United States Congress. Forward-looking statements made herein reflect management’s expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment, management believes that, as of December 31, 2010, the Company's system of internal control over financial reporting is effective based on those criteria. Ernst & Young, LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting. This report appears on page 24.

March 8, 2011

/s/ Charles R. Hageboeck

Charles R. Hageboeck

President and Chief Executive Officer

/s/ David L. Bumgarner

David L. Bumgarner

Chief Financial Officer

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

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

We have audited City Holding Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). City Holding Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on City Holding Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, City Holding Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 of City Holding Company and our report dated March 8, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 8, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated balance sheets of City Holding Company and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of City Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of City Holding Company and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), City Holding Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 8, 2011

CONSOLIDATED BALANCE SHEETS **CITY HOLDING COMPANY AND SUBSIDIARIES**

| (in thousands) | December 31 | |
|---|---------------------|---------------------|
| | 2010 | 2009 |
| Assets | | |
| Cash and due from banks | \$ 50,043 | \$ 59,116 |
| Interest-bearing deposits in depository institutions | 5,336 | 3,519 |
| Federal Funds Sold | 11,000 | - |
| Cash and Cash Equivalents | 66,379 | 62,635 |
| Investment securities available-for-sale, at fair value | 429,720 | 485,767 |
| Investment securities held-to-maturity, at amortized cost (approximate fair value at December 31, 2010 and 2009 - \$23,100 and \$25,020, respectively) | 23,865 | 28,164 |
| Total Investment Securities | 453,585 | 513,931 |
| Gross loans | 1,865,000 | 1,792,434 |
| Allowance for loan losses | (18,224) | (18,541) |
| Net Loans | 1,846,776 | 1,773,893 |
| Bank-owned life insurance | 76,231 | 73,388 |
| Premises and equipment | 64,530 | 64,193 |
| Accrued interest receivable | 7,264 | 7,969 |
| Net deferred tax assets | 29,235 | 29,480 |
| Intangible assets | 56,573 | 57,010 |
| Other assets | 36,722 | 40,121 |
| Total Assets | \$ 2,637,295 | \$ 2,622,620 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 337,927 | \$ 328,440 |
| Interest-bearing: | | |
| Demand deposits | 486,737 | 457,293 |
| Savings deposits | 397,042 | 379,893 |
| Time deposits | 949,669 | 998,096 |
| Total Deposits | 2,171,375 | 2,163,722 |
| Short-term borrowings | 112,710 | 118,329 |
| Long-term debt | 16,495 | 16,959 |
| Other liabilities | 21,854 | 14,708 |
| Total Liabilities | 2,322,434 | 2,313,718 |
| Shareholders' Equity | | |
| Preferred stock, par value \$25 per share: 500,000 shares authorized; none issued | - | - |
| Common stock, par value \$2.50 per share: 50,000,000 shares authorized; 18,499,282 shares issued at December 31, 2010 and 2009, less 2,994,501 and 2,616,161 shares in treasury, respectively | 46,249 | 46,249 |
| Capital surplus | 103,057 | 102,917 |
| Retained earnings | 270,905 | 253,167 |
| Cost of common stock in treasury | (102,853) | (90,877) |
| Accumulated other comprehensive loss: | | |
| Unrealized gain (loss) on securities available-for-sale | 1,022 | (1,880) |
| Unrealized gain on derivative instruments | 295 | 3,063 |
| Underfunded pension liability | (3,814) | (3,737) |
| Total Accumulated Other Comprehensive Loss | (2,497) | (2,554) |
| Total Shareholders' Equity | 314,861 | 308,902 |
| Total Liabilities and Shareholders' Equity | \$ 2,637,295 | \$ 2,622,620 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands, except per share data) | Year Ended December 31 | | |
|--|------------------------|------------------|------------------|
| | 2010 | 2009 | 2008 |
| Interest Income | | | |
| Interest and fees on loans | \$ 99,456 | \$ 107,142 | \$ 122,127 |
| Interest on investment securities: | | | |
| Taxable | 20,594 | 23,200 | 23,852 |
| Tax-exempt | 1,837 | 1,683 | 1,523 |
| Interest on deposits in depository institutions | - | 11 | 171 |
| Interest on federal funds sold | 29 | - | - |
| Total Interest Income | 121,916 | 132,036 | 147,673 |
| Interest Expense | | | |
| Interest on deposits | 26,608 | 35,230 | 41,906 |
| Interest on short-term borrowings | 362 | 529 | 2,629 |
| Interest on long-term debt | 658 | 844 | 1,383 |
| Total Interest Expense | 27,628 | 36,603 | 45,918 |
| Net Interest Income | 94,288 | 95,433 | 101,755 |
| Provision for loan losses | 7,093 | 6,994 | 10,515 |
| Net Interest Income After Provision for Loan Losses | 87,195 | 88,439 | 91,240 |
| Noninterest Income | | | |
| Total investment securities impairment losses | (9,400) | (11,100) | (38,270) |
| Noncredit impairment losses recognized in other comprehensive income | 3,336 | 5,762 | - |
| Net investment securities impairment losses | (6,064) | (5,338) | (38,270) |
| Gain (loss) on sale of investment securities | 1,397 | (826) | 5 |
| Service charges | 40,002 | 45,013 | 45,995 |
| Insurance commissions | 5,490 | 5,576 | 4,212 |
| Trust and investment management fee income | 2,767 | 2,343 | 2,239 |
| Bank-owned life insurance | 3,396 | 3,271 | 2,932 |
| VISA IPO Gain | - | - | 3,289 |
| Other income | 1,951 | 1,944 | 1,534 |
| Total Noninterest Income | 48,939 | 51,983 | 21,936 |
| Noninterest Expense | | | |
| Salaries and employee benefits | 38,241 | 37,526 | 37,263 |
| Occupancy and equipment | 7,697 | 7,689 | 6,871 |
| Depreciation | 4,675 | 4,746 | 4,523 |
| Professional fees | 1,677 | 1,505 | 1,680 |
| Postage, delivery, and statement mailings | 2,371 | 2,600 | 2,549 |
| Advertising | 3,692 | 3,503 | 2,899 |
| Telecommunications | 1,732 | 1,865 | 1,916 |
| Bankcard expenses | 1,953 | 2,599 | 2,689 |
| Insurance and regulatory | 4,869 | 3,379 | 1,388 |
| Office supplies | 1,931 | 2,005 | 2,021 |
| Loss on early extinguishment of debt | - | - | 1,208 |
| Other expenses | 9,883 | 9,827 | 10,573 |
| Total Noninterest Expense | 78,721 | 77,244 | 75,580 |
| Income Before Income Taxes | 57,413 | 63,178 | 37,596 |
| Income tax expense | 18,453 | 20,533 | 9,487 |
| Net Income Available to Common Shareholders | \$ 38,960 | \$ 42,645 | \$ 28,109 |
| Average common shares outstanding | 15,589 | 15,877 | 16,118 |
| Effect of dilutive securities: | | | |
| Employee stock options | 62 | 55 | 49 |
| Shares for diluted earnings per share | 15,651 | 15,932 | 16,167 |
| Basic earnings per common share | \$ 2.48 | \$ 2.69 | \$ 1.74 |
| Diluted earnings per common share | \$ 2.47 | \$ 2.68 | \$ 1.74 |
| Dividends declared per common share | \$ 1.36 | \$ 1.36 | \$ 1.36 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Common Stock (Par Value) | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Shareholders' Equity |
|--|-----------------------------------|--------------------|----------------------|--|-------------------|----------------------------------|
| Balances at December 31, 2007 | \$ 46,249 | \$ 104,557 | \$ 224,386 | \$ 633 | \$ (80,664) | \$ 295,161 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 28,109 | - | - | 28,109 |
| Other comprehensive gain, net of deferred income taxes of \$12,143: | | | | | | |
| Unrealized loss on securities of \$16,452, net of tax | - | - | - | (9,978) | - | (9,978) |
| Unrealized gain on interest rate floors of \$8,074, net of tax | - | - | - | 4,897 | - | 4,897 |
| Increase in underfunded pension liability of \$3,766, net of tax | - | - | - | (2,284) | - | (2,284) |
| Total comprehensive income | | | | | | 20,744 |
| Cash dividends declared (\$1.36 per share) | - | - | (21,882) | - | - | (21,882) |
| Issuance of stock award shares, net | - | (12) | - | - | 491 | 479 |
| Exercise of 66,454 stock options | - | (749) | - | - | 2,418 | 1,669 |
| Excess tax benefit on stock-based compensation | - | 266 | - | - | - | 266 |
| Purchase of 337,060 common shares for treasury | - | - | - | - | (10,974) | (10,974) |
| Balances at December 31, 2008 | \$ 46,249 | \$ 104,062 | \$ 230,613 | \$ (6,732) | \$ (88,729) | \$ 285,463 |
| Comprehensive income: | | | | | | |
| Cumulative effect of adoption of FASB ASC 320 | - | - | 1,561 | (1,561) | - | - |
| Net income | - | - | 42,645 | - | - | 42,645 |
| Other comprehensive loss, net of deferred income tax benefit of \$9,317: | | | | | | |
| Unrealized gain on securities of \$18,575, net of tax | - | - | - | 11,442 | - | 11,442 |
| Unrealized loss on interest rate floors of \$10,104, net of tax | - | - | - | (6,224) | - | (6,224) |
| Decrease in underfunded pension liability of \$846, net of tax | - | - | - | 521 | - | 521 |
| Total comprehensive income | | | | | | 48,384 |
| Cash dividends declared (\$1.36 per share) | - | - | (21,652) | - | - | (21,652) |
| Issuance of stock award shares, net | - | (1,135) | - | - | 1,699 | 564 |
| Exercise of 1,350 stock options | - | (10) | - | - | 39 | 29 |
| Purchase of 133,286 common shares for treasury | - | - | - | - | (3,886) | (3,886) |
| Balances at December 31, 2009 | \$ 46,249 | \$ 102,917 | \$ 253,167 | \$ (2,554) | \$ (90,877) | \$ 308,902 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Common Stock (Par Value) | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Shareholders' Equity |
|---|---|----------------------------|------------------------------|---|---------------------------|---|
| Balances at December 31, 2009 | \$ 46,249 | \$ 102,917 | \$ 253,167 | \$ (2,554) | \$ (90,877) | \$ 308,902 |
| Comprehensive income: | | | | | | |
| Net income | — | — | 38,960 | — | — | 38,960 |
| Other comprehensive gain, net of deferred income taxes of \$92: | | | | | | |
| Unrealized gain on securities of \$4,711, net of tax | — | — | — | 2,902 | — | 2,902 |
| Unrealized loss on interest rate floors of \$4,494, net of tax | — | — | — | (2,768) | — | (2,768) |
| Decrease in underfunded pension liability of \$125, net of tax | — | — | — | (77) | — | (77) |
| Total comprehensive income | | | | | | 39,017 |
| Cash dividends declared (\$1.36 per share) | — | — | (21,222) | — | — | (21,222) |
| Issuance of stock award shares, net | — | 137 | — | — | 693 | 830 |
| Excess tax benefit on stock-based compensation | — | 15 | — | — | — | 15 |
| Exercise of 7,962 stock options | — | (12) | — | — | 233 | 221 |
| Purchase of 408,151 common shares for treasury | — | — | — | — | (12,902) | (12,902) |
| Balances at December 31, 2010 | \$ 46,249 | \$ 103,057 | \$ 270,905 | \$ (2,497) | \$ (102,853) | \$ 314,861 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 2010 | 2009 | 2008 |
| Operating Activities | | | |
| Net income | \$ 38,960 | \$ 42,645 | \$ 28,109 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization and accretion | 1,004 | 171 | (1,195) |
| Depreciation of premises and equipment | 4,675 | 4,746 | 4,523 |
| Provision for loan losses | 7,093 | 7,050 | 10,423 |
| Loss on early extinguishments of debt | — | — | 1,208 |
| Deferred income tax (benefit) expense | (1,235) | 8,647 | (14,449) |
| Accretion of gain from sale of interest rate floors | (2,768) | (6,224) | — |
| Net periodic pension cost | 232 | 200 | 50 |
| Increase in value of bank-owned life insurance | (3,397) | (3,270) | (2,933) |
| Proceeds from bank-owned life insurance | 657 | 282 | — |
| Loss on sale of premises and equipment | 33 | 87 | 125 |
| Net realized investment securities losses | 4,667 | 6,164 | 38,265 |
| Decrease in accrued interest receivable | 705 | 1,055 | 2,230 |
| Decrease (increase) in other assets | 3,296 | (6,178) | (17,712) |
| Increase (decrease) in other liabilities | 8,857 | (30,344) | 5,916 |
| Net Cash Provided by Operating Activities | 62,779 | 25,031 | 54,560 |
| Investing Activities | | | |
| Proceeds from maturities and calls of securities held to maturity | 3,216 | 1,200 | 1,468 |
| Proceeds from sale of money market and mutual fund available-for-sale securities | 903,650 | 808,313 | 972,269 |
| Purchases of money market and mutual fund available-for-sale securities | (888,336) | (823,385) | (972,375) |
| Proceeds from sales of securities available-for-sale | 11,195 | 3,791 | 3,019 |
| Proceeds from maturities and calls of securities available-for-sale | 119,655 | 96,611 | 56,765 |
| Purchases of securities available-for-sale | (91,404) | (129,376) | (159,246) |
| Net (increase) decrease in loans | (79,520) | 10,868 | (47,445) |
| Sales of premises and equipment | — | — | 340 |
| Purchases of premises and equipment | (5,045) | (8,888) | (10,491) |
| Investment in bank owned life insurance | — | — | (3,000) |
| Proceeds from sale of VISA stock | — | — | 2,334 |
| Proceeds from sale of derivative instruments | — | — | 20,454 |
| Net Cash Used in Investing Activities | (26,589) | (40,866) | (135,908) |
| Financing Activities | | | |
| Net increase (decrease) in noninterest-bearing deposits | 9,487 | 29,910 | (15,701) |
| Net (decrease) increase in interest-bearing deposits | (1,834) | 92,682 | 66,750 |
| Net (decrease) increase in short-term borrowings | (6,005) | (78,134) | 47,106 |
| Proceeds from long-term debt | — | — | 16,495 |
| Repayment of long-term debt | (78) | (85) | (100) |
| Redemption of trust preferred securities | — | — | (17,569) |
| Purchases of treasury stock | (12,902) | (3,886) | (10,974) |
| Proceeds from stock options exercises | 221 | 29 | 1,669 |
| Excess tax benefits from stock-based compensation arrangements | 15 | — | 266 |
| Dividends paid | (21,350) | (21,675) | (21,483) |
| Net Cash (Used in) Provided by Financing Activities | (32,446) | 18,841 | 66,459 |
| Increase (Decrease) in Cash and Cash Equivalents | 3,744 | 3,006 | (14,889) |
| Cash and cash equivalents at beginning of year | 62,635 | 59,629 | 74,518 |
| Cash and Cash Equivalents at End of Year | \$ 66,379 | \$ 62,635 | \$ 59,629 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE ONE

SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on net income for any period presented and increased shareholders’ equity by \$1.2 million with a corresponding decrease to other liabilities by the same amount at December 31, 2009, 2008, and 2007.

Description of Principal Markets and Services: The Company is a bank holding company headquartered in Charleston, West Virginia, and conducts its principal activities through its wholly-owned subsidiary, City National Bank of West Virginia (“City National”). City National is a retail and consumer-oriented community bank with 68 offices in West Virginia, Kentucky, and Ohio. Principal activities include providing deposit, credit, trust and investment management, and insurance related products and services. The Company conducts its business activities through one reportable business segment - community banking.

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

Securities: Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold debt securities to maturity, they are classified as investment securities held-to-maturity and are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts. Debt securities for which the Company may not hold to maturity are classified as investment securities available-for-sale along with the Company’s investment in equity securities. Securities available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, reported in comprehensive income. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors.

On a quarterly basis, the Company performs a review of investment securities to determine if any unrealized losses are other than temporarily impaired. Management considers the following, among other things, in its determination of the nature of the unrealized losses, (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to all for any anticipated recovery in fair value. The Company continues to actively monitor the market value of these investments along with the financial strength of the issuers behind these securities, as well as its entire investment portfolio. Based on the market information available, the Company believes that the recent declines in market value are temporary and that the Company does not have the intent to sell any of the securities classified as available for sale and believes it is more likely than not that the Company will not have to sell any such securities before recovery of costs. The Company cannot guarantee that such securities will recover and if additional information becomes available in the future to suggest that the losses are other than temporary, the Company may need to record impairment charges in future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

CITY HOLDING COMPANY AND SUBSIDIARIES

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

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

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding, using methods that generally result in level rates of return. Loan origination fees, and certain direct costs, are deferred and amortized as an adjustment to the yield over the term of the loan. The accrual of interest income generally is discontinued when a loan becomes 90 days past due as to principal or interest for all loan types. However, any loan may be placed on non-accrual if the Company receives information that indicates a borrower is unable to meet the contractual terms of their respective loan agreement. Other indicators considered for placing a loan on non-accrual status include the borrower's involvement in bankruptcies, foreclosures, repossessions, litigation and any other situation resulting in doubt as to whether full collection of contractual principal and interest is attainable. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in process of collection.

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

Generally, all loan types are considered past due when the contractual terms of a loan are not met and the borrower is 30 days or more past due on a payment. Furthermore, residential and home equity loans are generally subject to charge-off when the loan becomes 120 days past due, depending on the estimated fair value of the collateral less cost to dispose, versus the outstanding loan balance. Unsecured commercial loans are generally charged off when the loan becomes 120 days past due. Secured commercial loans are generally evaluated for charge-off when the loan becomes 180 days past due. Closed-end consumer loans are generally charged off when the loan becomes 120 days past due and open-end consumer loans are generally charged off when the loan becomes 180 days past due.

Previously Securitized Loans: Amounts reported in Note Four of Notes to Consolidated Financial Statements as "previously securitized loans" represent the carrying value of loans beneficially owned by the Company as a result of having fully redeemed the obligations owed to investors ("notes") in certain of the Company's securitization transactions. The loans were recorded at the lower of fair value or their carrying values, which was the carrying value of the related retained interest asset underlying the securitization plus amounts remitted by the Company to the noteholders to redeem the notes. Because the carrying value of the retained interests incorporated assumptions with regard to expected prepayment and default rates on the loans and also considered the expected timing and amount of cash flows to be received by the Company, the carrying value of the retained interests and the carrying value of the loans was less than the actual outstanding balance of the loans.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Allowance for Loan Losses: The allowance for loan losses is maintained at a level that represents management's best estimate of probable losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions, and other relevant factors. This determination is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. These evaluations are conducted at least quarterly and more frequently if deemed necessary. The allowance for loan losses related to loans considered to be impaired is generally evaluated based on the discounted cash flows using the impaired loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Loan losses are charged against the allowance and recoveries of amounts previously charged are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the adequacy of the allowance after considering factors noted above, among others.

In evaluating the adequacy of its allowance for loan losses, the Company stratifies the loan portfolio into six major groupings, including commercial real estate, commercial and industrial, residential real estate, home equity, and others. Historical loss experience, as adjusted, is applied to the then outstanding balance of loans in each classification to estimate probable losses inherent in each segment of the portfolio. Historical loss experience is adjusted using a systematic weighted probability of potential risk factors that could result in actual losses deviating from prior loss experience. Risk factors considered by the Company in completing this analysis include: (1) unemployment and economic trends in the Company's markets, (2) concentrations of credit, if any, among any industries, (3) trends in loan growth, loan mix, delinquencies, losses or credit impairment, (4) adherence to lending policies and others. Each risk factor is designated as low, moderate/increasing, or high based on the Company's assessment of the risk to loss associated with each factor. Each risk factor is then weighted to consider probability of occurrence.

Additionally, all loans within the portfolio are subject to internal risk grading. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. Based on an individual loan's risk grade, estimated loss percentages are applied to the outstanding balance of the loan to determine the amount of probable loss.

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

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

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

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities sold primarily consists of U.S. government, federal agency, and municipal securities pledged as collateral under these financing arrangements and cannot be repledged or sold, unless replaced by the secured party.

Insurance Commissions: Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. The Company maintains a reserve for commission adjustments based on estimated policy cancellations. This reserve was not significant at December 31, 2010 or 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Derivative Financial Instruments: The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. All derivative instruments are carried at fair value on the balance sheet. The change in the fair value of the hedged item related to the risk being hedged is recognized in earnings in the same period and in the same income statement caption as the change in the fair value of the derivative. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. The Company has no fair value hedges as of December 31, 2010 and 2009. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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

For the Company's cash flow hedges, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge's inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued. The Company has no cash flow hedges at December 31, 2010 and 2009.

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

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

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

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

Advertising Costs: Advertising costs are expensed as incurred.

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

Basic and Diluted Earnings per Common Share: Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding, excluding participating securities. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding, excluding participating securities, increased by the number of shares of common stock which would be issued assuming the exercise of stock options and other common stock equivalents. The incremental shares related to stock options were 62,000, 55,000, and 49,000 in 2010, 2009, and 2008, respectively.

Recent Accounting Pronouncements: ASU No. 2009-17, "Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASC Topic 810 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" requires new disclosures related to fair value measurements including 1) significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, and 2) activity in Level 3 of the fair value hierarchy including separate gross presentation of purchase, sales, issuances and settlements. ASU 2010-06 also clarifies that 1) disclosures should be presented for each class of assets and liabilities (rather than major category) and 2) disclosures should include the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring measurements included in Level 2 or Level 3 of the fair value hierarchy. The disclosure for gross presentation of transactions in Level 3 will be effective January 1, 2011 and is not expected to have a significant impact on the Company's financial statements. The remaining disclosures and clarifications became effective for the company on January 1, 2010. See Note 19 – Fair Values of Financial Instruments.

ASU No. 2010-09, "Subsequent Events (Topic 855)" clarified that an entity which is an SEC filer should evaluate subsequent events through the date that financial statements are issued; an entity which is not an SEC filer is not required to disclose the date through which subsequent events have been evaluated. ASC 2010-09 became effective for the Company on July 1, 2010 and did not have a significant impact on the Company's financial statements.

ASC No. 2010-18, "Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset" (Topic 310) provides guidance on the accounting for loan modifications when the loan is part of a pool of loans accounted for as a single asset such as acquired loans that have evidence of credit deterioration upon acquisition that are accounted for under the guidance in ASC 310-20. ASCU No. 2010-18 addresses diversity in practice on whether a loan that is part of a pool of loans accounted for as a single asset should be removed from that pool upon a modification that would constitute a troubled debt restructuring or remain in the pool after modification. ASU No. 2010-18 clarifies that modification of loans that are accounted for within a pool under ASC 310-20 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if the expected cash flows for the pool change. The amendments in this update do not require any additional disclosures and are effective for modifications of loans accounted for within pools under ASC 310-20 occurring in the first interim or annual period ending on or after July 15, 2010. ASU 2010-18 did not have a material impact on the Company's results of operations, financial position or disclosures.

ASU No. 2010-20, "Receivables (Topic 830) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 was effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the Company's financial statements that include periods beginning on or after January 1, 2011.

Statements of Cash Flows: Cash paid for interest, including interest paid on long-term debt and trust preferred securities, was \$28.5 million, \$37.5 million, and \$47.4 million in 2010, 2009, and 2008, respectively. During 2010, 2009 and 2008, the Company paid \$15.0 million, \$23.5 million, and \$26.7 million, respectively, for income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE TWO

RESTRICTIONS ON CASH AND DUE FROM BANKS

City National is required to maintain an average reserve balance with the Federal Reserve Bank of Richmond to compensate for services provided by the Federal Reserve and to meet statutory required reserves for demand deposits. The average amount of the reserve balance for the year ended December 31, 2010 was approximately \$15.6 million.

NOTE THREE

INVESTMENTS

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

| (in thousands) | December 31, 2010 | | | |
|--|-------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Securities available-for-sale: | | | | |
| Obligations of states and political subdivisions | \$ 65,634 | \$ 759 | \$ (467) | \$ 65,926 |
| Mortgage-backed securities: | | | | |
| US government agencies | 259,046 | 8,264 | (493) | 266,817 |
| Private label | 8,031 | 87 | — | 8,118 |
| Trust preferred securities | 58,517 | 1,031 | (4,938) | 54,610 |
| Corporate securities | 16,214 | 63 | (884) | 15,393 |
| Total Debt Securities | 407,442 | 10,204 | (6,782) | 410,864 |
| Marketable equity securities | 5,207 | 8 | (522) | 4,693 |
| Non-marketable equity securities | 12,553 | — | — | 12,553 |
| Investment funds | 1,617 | — | (7) | 1,610 |
| Total Securities Available-for-Sale | \$ 426,819 | \$ 10,212 | \$ (7,311) | \$ 429,720 |
| Securities held-to-maturity: | | | | |
| Obligations of states and political subdivisions | \$ 438 | \$ 5 | \$ — | \$ 443 |
| Trust preferred securities | 23,427 | — | (770) | 22,657 |
| Total Securities Held-to-Maturity | \$ 23,865 | \$ 5 | \$ (770) | \$ 23,100 |

| (in thousands) | December 31, 2009 | | | |
|--|-------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Securities available-for-sale: | | | | |
| Obligations of states and political subdivisions | \$ 52,474 | \$ 712 | \$ (451) | \$ 52,735 |
| Mortgage-backed securities: | | | | |
| US government agencies | 293,662 | 9,241 | (109) | 302,794 |
| Private label | 12,414 | — | (426) | 11,988 |
| Trust preferred securities | 70,048 | 521 | (6,832) | 63,737 |
| Corporate securities | 20,771 | 23 | (1,306) | 19,488 |
| Total Debt Securities | 449,369 | 10,497 | (9,124) | 450,742 |
| Marketable equity securities | 8,603 | — | (3,509) | 5,094 |
| Non-marketable equity securities | 13,023 | — | — | 13,023 |
| Investment funds | 16,930 | — | (22) | 16,908 |
| Total Securities Available-for-Sale | \$ 487,925 | \$ 10,497 | \$ (12,655) | \$ 485,767 |
| Securities held-to-maturity: | | | | |
| Obligations of states and political subdivisions | \$ 1,642 | \$ 15 | \$ — | \$ 1,657 |
| Trust preferred securities | 26,522 | — | (3,159) | 23,363 |
| Total Securities Held-to-Maturity | \$ 28,164 | \$ 15 | \$ (3,159) | \$ 25,020 |

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

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities) as of December 31, 2010 and 2009. The following table shows the gross unrealized losses and fair value of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

| December 31, 2010 | | | | | | | |
|--|-------------------------|-----------------|--------------------------|------------------|----------------------|------------------|--|
| | Less Than Twelve Months | | Twelve Months or Greater | | Total | | |
| (in thousands) | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | |
| Securities available-for-sale: | | | | | | | |
| Obligations of states and political subdivisions | \$ 16,242 | \$ 253 | \$ 2,141 | \$ 214 | \$ 18,383 | \$ 467 | |
| Mortgage-backed securities: | | | | | | | |
| US Government agencies | 20,160 | 493 | - | - | 20,160 | 493 | |
| Trust preferred securities | 6,910 | 686 | 6,831 | 4,252 | 13,741 | 4,938 | |
| Corporate securities | 2,010 | 26 | 3,511 | 858 | 5,521 | 884 | |
| Marketable equity securities | 1,038 | 221 | 1,260 | 301 | 2,298 | 522 | |
| Investment funds | 1,493 | 7 | - | - | 1,493 | 7 | |
| Total | \$ 47,853 | \$ 1,686 | \$ 13,743 | \$ 5,625 | \$ 61,596 | \$ 7,311 | |
| Securities held-to-maturity: | | | | | | | |
| Trust preferred securities | \$ 6,623 | \$ 198 | \$ 7,889 | \$ 572 | \$ 14,512 | \$ 770 | |
| | | | | | | | |
| December 31, 2009 | | | | | | | |
| | Less Than Twelve Months | | Twelve Months or Greater | | Total | | |
| (in thousands) | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | |
| Securities available-for-sale: | | | | | | | |
| Obligations of states and political subdivisions | \$ 8,081 | \$ 216 | \$ 3,444 | \$ 235 | \$ 11,525 | \$ 451 | |
| Mortgage-backed securities: | | | | | | | |
| US Government agencies | 29,532 | 109 | - | - | 29,532 | 109 | |
| Private-label | 4,877 | 16 | 7,538 | 410 | 12,415 | 426 | |
| Trust preferred securities | 478 | 46 | 38,179 | 6,786 | 38,657 | 6,832 | |
| Corporate securities | - | - | 5,101 | 1,306 | 5,101 | 1,306 | |
| Marketable equity securities | 2,098 | 1,942 | 2,953 | 1,567 | 5,051 | 3,509 | |
| Investment funds | - | - | 1,478 | 22 | 1,478 | 22 | |
| Total | \$ 45,066 | \$ 2,329 | \$ 58,693 | \$ 10,326 | \$ 103,759 | \$ 12,655 | |
| Securities held-to-maturity: | | | | | | | |
| Trust preferred securities | \$ - | \$ - | \$ 12,829 | \$ 3,159 | \$ 12,829 | \$ 3,159 | |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

During 2009, the Company recorded \$5.3 million of net other-than-temporary impairment losses. The charges deemed to be other-than-temporary were related to pooled bank trust preferreds (\$3.8 million impairment for the full year) with a remaining book value of \$9.6 million at December 31, 2009 and community bank and bank holding company equity positions (\$1.5 million impairment for the full year) with a remaining book value of \$5.1 million at December 31, 2009. The impairment charges of \$3.8 million related to the pooled bank trust preferred securities were based on the Company's quarterly review of its investment securities for indications of losses considered to be other-than-temporary. Based on management's assessment of the securities the Company owns, the seniority position of the securities within the pools, the level of defaults and deferred payments with the pools, and a review of the financial strength of the banks within the respective pools, management concluded that credit related impairment charges of \$3.8 million on the pooled bank trust preferred securities were necessary for the year ended December 31, 2009. The impairment charges of \$1.5 million related to community bank and bank holding company equity positions were due to poor financial performance of the bank holding companies and the length of time and extent to which the market values have been below the Company's cost basis in these positions.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent to sell the investment security and if it's more likely than not the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holdings. Although the regional community bank stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.1% of each respective company being traded on a daily basis. Another factor influencing the market value of these equity securities is a depressed stock market, particularly in the smaller community bank financial sector. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2010, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions will not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of December 31, 2010, management believes the unrealized losses detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period of the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

At December 31, 2010, the book value of the Company's five pooled trust preferred securities totaled \$7.8 million with an estimated fair value of \$3.4 million. All of these securities are mezzanine tranches. Pooled trust preferred securities represent beneficial interests in securitized financial assets that the Company analyzes within the scope of FASB ASC 320, Investments—Debt and Equity Securities and are evaluated quarterly for other-than-temporary-impairment ("OTTI"). Management performs an analysis of OTTI utilizing its internal methodology as described below to estimate expected cash flows to be received in the future. The Company reviews each of its pooled trust preferred securities to determine if an OTTI charge would be recognized in current earnings in accordance with FASB ASC 320, Investments—Debt and Equity Securities. There is risk that continued collateral deterioration could cause the Company to recognize additional OTTI charges in earnings in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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

During the first quarter of 2010, the Company further refined its process by utilizing a third party model to compute the present value of expected cash flows which considers the structure and term of each of the five respective pooled trust preferred securities and the financial condition of the underlying issuers. Specifically, the third party model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. As in the past, for issuing banks that have defaulted, management assumes no recovery. For issuing banks that have deferred its interest payments, management excludes the collateral balance associated with these banks and assumes no recoveries of such collateral balance in the future. The exclusion of such issuing banks in a current deferral position is based on such bank experiencing a certain level of financial difficulty that raises doubt about its ability to satisfy its contractual debt obligation, and accordingly, the Company excludes the associated collateral balance from its estimate of expected cash flows. Other assumptions used in the estimate of expected cash flows include expected future default rates and prepayments. Specifically, the model assumes annual prepayment of 1.0% with 100% at maturity and assumes 150 basis points of additional annual defaults from banks that are currently not in default or deferral. In addition, the model assumes no recoveries except for one trust preferred security which assumes that 31% of the banks currently deferring or in default will cure such positions between June 2011 and July 2015. Management compares the present value of expected cash flows to those previously projected to determine if an adverse change in cash flows has occurred. If an adverse change in cash flows has occurred, management determines the credit loss to be recognized in the current period and the portion related to noncredit factors to be recognized in other comprehensive income.

Based upon the quarterly analysis performed by management throughout 2010, the Company recognized \$1.8 million of credit-related OTTI charged during the year ended December 31, 2010.

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

| (in thousands) | For the period ended December 31, 2010 |
|------------------------------|---|
| Balance at January 1, 2010 | \$ 18,694 |
| Additions: | |
| Initial credit impairment | - |
| Additional credit impairment | 1,782 |
| Balance December 31, 2010 | \$ 20,476 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

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

(Dollars in thousands)

| Deal Name | Type | Class | Original Cost | Amortized Cost | Fair Value | Difference ⁽¹⁾ | Lowest Credit Rating | # of issuers currently performing | Actual deferrals/ defaults (as a % of original dollar) | Expected deferrals/ defaults (as a % of remaining of performing collateral) | Excess Subordination as a Percentage of Current Performing Collateral ⁽⁴⁾ |
|--|--------|-------|---------------|----------------|------------|---------------------------|----------------------|-----------------------------------|--|---|--|
| Pooled trust preferred securities: | | | | | | | | | | | |
| Other-than-temporarily impaired Available for Sale: | | | | | | | | | | | |
| P1(5) | Pooled | Mezz | \$ 1,124 | \$ 508 | \$ 150 | \$ (358) | Ca | 21 | 31.0% | 25.2%(2) | - |
| P2(6) | Pooled | Mezz | 3,778 | 1,197 | 772 | (425) | Ca | 26 | 25.5% | 24.2%(2) | 13.0% |
| P3(7) | Pooled | Mezz | 2,962 | 1,545 | 406 | (1,139) | Caa3 | 27 | 22.8% | 23.3%(2) | 4.3% |
| P4(8) | Pooled | Mezz | 4,060 | 1,205 | 541 | (664) | Ca | 14 | 25.3% | - (3) | 3.2% |
| P5(9) | Pooled | Mezz | 5,147 | 826 | 167 | (659) | Ca | 23 | 34.6% | 24.4%(2) | 20.2% |
| Held to Maturity: | | | | | | | | | | | |
| P6(10) | Pooled | Mezz | 2,175 | 986 | 299 | (687) | Ca | 21 | 31.0% | 25.2%(2) | - |
| P7(6) | Pooled | Mezz | 4,956 | 1,581 | 1,030 | (551) | Ca | 26 | 25.5% | 24.2%(2) | 13.0% |
| Single issuer trust preferred securities: | | | | | | | | | | | |
| Available for Sale: | | | | | | | | | | | |
| S1 | Single | | 1,149 | 1,043 | 1,043 | - | Ba2 | 1 | - | - | - |
| S2(11) | Single | | 1,700 | 944 | 375 | (569) | NR | 1 | - | - | - |
| S3 | Single | | 5,119 | 5,089 | 5,025 | (64) | BB+ | 1 | - | - | - |
| S4 | Single | | 535 | 512 | 508 | (4) | BB+ | 1 | - | - | - |
| S5(12) | Single | | 261 | 235 | 94 | (141) | NR | 1 | - | - | - |
| S6 | Single | | 4,691 | 4,696 | 5,095 | 399 | B2 | 1 | - | - | - |
| S7 | Single | | 1,046 | 1,029 | 1,050 | 21 | NR | 1 | - | - | - |
| S8 | Single | | 1,000 | 1,000 | 1,000 | - | Caa1 | 1 | - | - | - |
| Held to Maturity: | | | | | | | | | | | |
| S9 | Single | | 4,000 | 4,000 | 4,000 | - | NR | 1 | - | - | - |
| S10 | Single | | 3,360 | 3,123 | 2,640 | (483) | NR | 1 | - | - | - |
| S11 | Single | | 3,564 | 3,539 | 3,465 | (74) | NR | 1 | - | - | - |
| S12 | Single | | 4,321 | 4,145 | 4,145 | - | Ba1 | 1 | - | - | - |

(1) The differences noted consist of unrealized losses recorded at December 31, 2010 and noncredit other-than-temporary impairments recorded subsequent to April 1, 2009 that have not been reclassified as credit losses.

(2) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. This model for this security assumes that all collateral that is currently deferring will default with a zero recovery rate. The underlying issuers can cure, thus this bond could recover at a higher percentage upon default than zero.

(3) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. The model for this security assumes that 31% of all collateral that is currently deferring will cure between June 2011 and July 2015. If additional underlying issuers cure, this bond could recover at a higher percentage.

(4) Excess subordination is defined as the additional defaults/deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a "break in yield." This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The "percent of current performing collateral" is the ratio of the "excess subordination amount" to current performing collateral—a higher percent means there is more excess subordination to absorb additional defaults/deferrals, and the better our security is protected from loss.

(5) Other-than-temporary impairment losses of \$370,000 were recognized during year ended December 31, 2010. No other-than-temporary impairment losses were incurred during the year ended December 31, 2009.

(6) No other-than-temporary impairment losses were incurred during the years ended December 31, 2010 and 2009.

(7) Other-than-temporary impairment losses of \$72,000 and \$1,379,000 were recognized during the years ended December 31, 2010 and 2009, respectively.

(8) Other-than-temporary impairment losses of \$619,000 and \$1,674,000 were recognized during the years ended December 31, 2010 and 2009, respectively.

(9) Other-than-temporary impairment losses of \$1,750,000 were recognized during the year ended December 31, 2009. No other-than-temporary impairment losses were incurred during the year ended December 31, 2010.

(10) Other-than-temporary impairment losses of \$706,000 were recognized during the year ended December 31, 2010. No other-than-temporary impairment losses were incurred during the year ended December 31, 2009.

(11) Other-than-temporary impairment losses of \$638,000 were recognized during the year ended December 31, 2010. No other-than-temporary impairment losses were incurred during the year ended December 31, 2009.

(12) Other-than-temporary impairment losses of \$15,000 were recognized during the year ended December 31, 2010. No other-than-temporary impairment losses were incurred during the year ended December 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The amortized cost and estimated fair value of debt securities at December 31, 2010, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

| (in thousands) | Cost | Estimated Fair Value |
|--|-------------------|----------------------|
| Securities Available-for-Sale | | |
| Due in one year or less | \$ 8,652 | \$ 8,697 |
| Due after one year through five years | 62,608 | 62,892 |
| Due after five years through ten years | 90,388 | 86,612 |
| Due after ten years | 245,794 | 252,663 |
| | <u>\$ 407,442</u> | <u>\$ 410,864</u> |
| Securities Held-to-Maturity | | |
| Due in one year or less | \$ 130 | \$ 130 |
| Due after one year through five years | 308 | 313 |
| Due after five years through ten years | - | - |
| Due after ten years | 23,427 | 22,657 |
| | <u>\$ 23,865</u> | <u>\$ 23,100</u> |

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

| (in thousands) | 2010 | 2009 | 2008 |
|------------------------------------|-----------------|-----------------|-------------|
| Gross realized gains | \$ 1,397 | \$ 259 | \$ 8 |
| Gross realized losses | - | (1,085) | (3) |
| Investment security (losses) gains | <u>\$ 1,397</u> | <u>\$ (826)</u> | <u>\$ 5</u> |

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

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated \$204.6 million and \$204.2 million at December 31, 2010 and 2009, respectively.

NOTE FOUR

LOANS

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

| (in thousands) | 2010 | 2009 |
|-------------------------------|---------------------|---------------------|
| Residential real estate | \$ 610,369 | \$ 595,678 |
| Home equity | 416,172 | 398,752 |
| Commercial and industrial (1) | 134,612 | 137,093 |
| Commercial real estate (1) | 661,758 | 614,959 |
| Consumer (1) | 38,424 | 41,684 |
| DDA overdrafts (1) | 2,876 | 2,555 |
| Previously securitized loans | 789 | 1,713 |
| Gross Loans | <u>1,865,000</u> | <u>1,792,434</u> |
| Allowance for loan losses | <u>(18,224)</u> | <u>(18,541)</u> |
| Net Loans | <u>\$ 1,846,776</u> | <u>\$ 1,773,893</u> |

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

The Company's commercial and residential real estate construction loans are primarily secured by real estate within the Company's principal markets. These loans were originated under the Company's loan policy, which is focused on the risk characteristics of the loan portfolio, including construction loans. Adequate consideration has been given to these loans in establishing the Company's allowance for loan losses.

NOTE FIVE

ALLOWANCE FOR LOAN LOSSES

Financing receivables on nonaccrual status, segregated by loans, were as follows:

| (in thousands) | 2010 | 2009 |
|------------------------------|------------------|------------------|
| Commercial and industrial | \$ 237 | \$ 369 |
| Commercial real estate | 7,705 | 10,951 |
| Consumer | - | - |
| Residential real estate | 1,352 | 1,859 |
| Home equity | 1,392 | 355 |
| DDA overdrafts | - | - |
| Previously securitized loans | 131 | 49 |
| Total | <u>\$ 10,817</u> | <u>\$ 13,583</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

An age analysis of the recorded investment of past due financing receivables, segregated by class of loans, as of December 31, 2010 is reflected in the following table:

| (in thousands) | Loans 30-59 Days Past Due | Loans 60-89 Days Past Due | Loans 90 or More Days Past Due | Total Past Due Loans | Current Loans | Total Loans | Recorded Investment 90 or More Days Past Due |
|------------------------------|------------------------------|------------------------------|-----------------------------------|-------------------------|---------------|----------------|---|
| Commercial and industrial | \$ - | \$ - | \$ - | \$ - | \$ 134,375 | \$ 134,612 | \$ - |
| Commercial real estate | 775 | - | - | 775 | 653,278 | 661,758 | - |
| Consumer | 122 | 20 | 5 | 147 | 38,277 | 38,424 | 5 |
| Residential real estate | 3,512 | 667 | 595 | 4,774 | 604,243 | 610,369 | 595 |
| Home equity | 1,817 | 278 | 181 | 2,276 | 412,504 | 416,172 | 181 |
| DDA overdrafts | 354 | 6 | 1 | 361 | 2,515 | 2,876 | 1 |
| Previously securitized loans | 247 | 44 | 54 | 345 | 313 | 789 | 54 |
| Total | \$ 6,827 | \$ 1,015 | \$ 836 | \$ 8,678 | \$ 1,845,505 | \$ 1,865,000 | \$ 836 |

Impaired loans as of December 31, 2010 and 2009 are as follows:

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|------------------------------------|------------------------|-----------------------------|-------------------|--------------------------------|-------------------------------|
| 2010 | | | | | |
| With no related allowance recorded | | | | | |
| Commercial and industrial | \$ - | \$ - | \$ - | \$ - | \$ - |
| Commercial real estate | 13,755 | 18,390 | - | 13,849 | 367 |
| Consumer | - | - | - | - | - |
| Residential real estate | 483 | 483 | - | 485 | 32 |
| Home equity | 1,048 | 1,048 | - | 485 | 10 |
| DDA overdrafts | - | - | - | - | - |
| Previously securitized loans | - | - | - | - | - |
| With an allowance recorded | | | | | |
| Commercial and industrial | 237 | 237 | 113 | 221 | - |
| Commercial real estate | 3,670 | 4,199 | 554 | 3,542 | - |
| Consumer | 5 | 5 | 1 | - | - |
| Residential real estate | 1,947 | 1,947 | 487 | 1,616 | - |
| Home equity | 824 | 824 | 206 | 183 | - |
| DDA overdrafts | 1 | 1 | 1 | - | - |
| Previously securitized loans | 185 | 185 | 46 | 170 | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|------------------------------------|------------------------|-----------------------------|-------------------|--------------------------------|-------------------------------|
| 2009 | | | | | |
| With no related allowance recorded | | | | | |
| Commercial and industrial | \$ - | \$ - | \$ - | \$ - | \$ - |
| Commercial real estate | 6,494 | 10,869 | - | 11,434 | 85 |
| Consumer | - | - | - | - | - |
| Residential real estate | 489 | 489 | - | 492 | 32 |
| Home equity | 298 | 298 | - | 298 | 10 |
| DDA overdrafts | - | - | - | - | - |
| Previously securitized loans | - | - | - | - | - |
| With an allowance recorded | | | | | |
| Commercial and industrial | 402 | 402 | 138 | 613 | - |
| Commercial real estate | 9,898 | 10,415 | 1,468 | 14,251 | 148 |
| Consumer | - | - | - | - | - |
| Residential real estate | 2,177 | 2,177 | 544 | 3,220 | - |
| Home equity | 385 | 385 | 96 | 343 | - |
| DDA overdrafts | - | - | - | - | - |
| Previously securitized loans | 128 | 128 | 32 | 98 | - |

The average recorded investment in impaired loans during 2010, 2009, and 2008 was \$20.4 million, \$21.4 million, and \$21.1 million, respectively. The Company recognized approximately \$0.4 million, \$0.2 million, and \$0.3 million of interest income received in cash on non-accrual and impaired loans in 2010, 2009 and 2008, respectively. Approximately \$0.5 million, \$0.9 million and \$0.7 million of interest income would have been recognized during 2010, 2009 and 2008, respectively, if such loans had been current in accordance with their original terms. There were no commitments to provide additional funds on non-accrual, impaired, or other potential problem loans at December 31, 2010 and 2009. The Company recognized interest income of \$0.4 million, \$0.2 million and \$0.2 million using the accrual method of income recognition during the time period the loans were impaired for 2010, 2009 and 2008, respectively.

Corporate Credit Exposure

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

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

Exceptional - loans classified as exceptional are secured with liquid collateral conforming to the internal loan policy. Loans rated within this category pose minimal risk of loss to the bank and the risk grade within this pool of loans is generally updated on an annual basis.

Good - loans classified as good have similar characteristics that include a strong balance sheet, satisfactory debt service coverage ratios, strong management and/or guarantors, and little exposure to economic cycles. Loans within this category are generally reviewed on an annual basis. Loans in this category generally have a low chance of loss to the bank.

Acceptable - loans classified as acceptable have acceptable liquidity levels, adequate debt service coverage ratios, experienced management, and have average exposure to economic cycles. Loans within this category generally have a low risk of loss to the bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Pass/Watch – loans classified as pass/watch have erratic levels of leverage and/or liquidity, cash flow is volatile and the borrower is subject to moderate economic risk. A borrower in this category poses a low to moderate risk of loss to the bank.

Special Mention – loans classified as special mention have a potential weakness(es) that deserves management's close attention. The potential weakness could result in deterioration of the loan repayment or the bank's credit position at some future date. A loan rated in this category poses a moderate loss risk to the bank.

Substandard – loans classified as substandard reflect a customer with well defined weakness that jeopardize the liquidation of the debt. Loans in this category have the possibility that the bank will sustain some loss if the deficiencies are not corrected and the bank's collateral value is weakened by the financial deterioration of the borrower.

Doubtful – loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that make collection of the full contract amount highly improbable. Loans rated in this category are most likely to cause the bank to have a loss due to a collateral shortfall or a negative capital position.

The following presents loans by internally assigned grade as of December 31, 2010 and 2009:

| (in thousands) | Commercial and Industrial | | Commercial Real Estate | |
|-----------------|---------------------------|-------------------|------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Risk Grade: | | | | |
| Exceptional | \$ 3,241 | \$ 2,169 | \$ 47 | \$ 2 |
| Good | 5,693 | 16,752 | 68,417 | 61,170 |
| Acceptable | 98,067 | 89,914 | 396,072 | 349,436 |
| Pass/Watch | 20,675 | 18,218 | 142,223 | 156,006 |
| Special Mention | 4,030 | 7,115 | 28,547 | 23,458 |
| Substandard | 2,693 | 2,743 | 26,354 | 24,558 |
| Doubtful | 213 | 182 | 98 | 329 |
| Total | <u>\$ 134,612</u> | <u>\$ 137,093</u> | <u>\$ 661,758</u> | <u>\$ 614,959</u> |

The following presents loans by credit risk profile based on payment activity:

| (in thousands) | Performing | Non-Performing | Total |
|------------------------------|------------|----------------|------------|
| December 31, 2010: | | | |
| Residential real estate | \$ 608,422 | \$ 1,947 | \$ 610,369 |
| Home Equity | 414,599 | 1,573 | 416,172 |
| Consumer | 38,419 | 5 | 38,424 |
| DDA overdrafts | 2,875 | 1 | 2,876 |
| Previously securitized loans | 604 | 185 | 789 |
| December 31, 2009: | | | |
| Residential real estate | 593,501 | 2,177 | 595,678 |
| Home Equity | 398,367 | 385 | 398,752 |
| Consumer | 41,684 | - | 41,684 |
| DDA overdrafts | 2,555 | - | 2,555 |
| Previously securitized loans | 1,585 | 128 | 1,713 |

Allowance for loan loss

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

Individual credits are selected throughout the year for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the adequacy of the allowance. Due to the nature of commercial lending, evaluation of the adequacy of the allowance as it relates to these loan types is often based more upon specific credit review, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for general economic conditions and other inherent risk factors.

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

| (in thousands) | 2010 | 2009 | 2008 |
|------------------------------------|------------------|------------------|------------------|
| Balance at January 1 | \$ 18,541 | \$ 22,164 | \$ 17,399 |
| Provision for possible loan losses | 7,093 | 6,994 | 10,515 |
| Charge-offs | (9,638) | (12,816) | (8,048) |
| Recoveries | 2,228 | 2,199 | 2,298 |
| Balance at December 31 | <u>\$ 18,224</u> | <u>\$ 18,541</u> | <u>\$ 22,164</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE SIX

PREVIOUSLY SECURITIZED LOANS

Between 1997 and 1999, the Company completed six securitization transactions involving approximately \$759.8 million of fixed rate, junior lien mortgage loans. As described in Note One, the Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to investors were evidenced by securities ("Notes"). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio. The table below summarizes information regarding delinquencies, net credit losses, and outstanding collateral balances of previously securitized loans for the dates presented:

| (in thousands) | 2010 | December 31 | |
|--|-----------|-------------|-----------|
| | | 2009 | 2008 |
| Total principal amount of loans outstanding | \$ 12,098 | \$ 15,119 | \$ 18,955 |
| Discount | (11,309) | (13,406) | (14,733) |
| Net book value | \$ 789 | \$ 1,713 | \$ 4,222 |
| Principal amount of loans between 30 and 89 days past due | \$ 345 | \$ 1,023 | \$ 999 |
| Principal amount of loans between 90 and 119 days past due | 54 | 79 | 10 |
| Net credit (recoveries) during the year | (182) | (312) | (351) |

Because the book value of the mortgage loans incorporates assumptions for expected cash flows considering prepayment and default rates, the carrying value of the loans is generally less than the actual contractual outstanding balance of the mortgage loans. As of December 31, 2010 and 2009, the Company reported a book value of previously securitized loans of \$0.8 million and \$1.7 million, respectively, while the actual outstanding balance of previously securitized loans at December 31, 2010 and 2009 was \$12.1 million and \$15.1 million, respectively. The difference ("the discount") between the book value and actual outstanding balance of previously securitized loans is accreted into interest income over the life of the loans. If the discounted present value of estimated future cash flows from previously securitized loans declines below the recorded value, an impairment charge would be provided through the Company's provision and allowance for loan losses. No such impairment charges were recorded during the three years in the period ended December 31, 2010.

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

| | December 31 | |
|--------------------------------------|-------------|-------|
| | 2010 | 2009 |
| Prepayment speed (CPR): | | |
| From January 2010 – December 2012 | 5% | 6% |
| Thereafter | 5% | 5% |
| Weighted-average cumulative defaults | 9.02% | 9.26% |

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

During 2010, 2009, and 2008 the Company recognized \$4.0 million, \$3.9 million, and \$5.6 million, respectively, of interest income on the previously securitized loans and received cash of \$4.6 million, \$6.3 million, and \$8.7 million, respectively, comprised of principal and interest payments from borrowers. During the second quarter of 2010, the Company recognized \$1.1 million of additional interest income related to three of the six pools of previously securitized loans that had a negative carrying value due to actual recoveries that exceed estimates and discount accretion previously recognized. As a result, the December 31, 2010 carrying value for these three pools is \$0 and future cash receipts related to these three pools will be recognized in interest income as received.

NOTE SEVEN

PREMISES AND EQUIPMENT

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

| (in thousands) | Estimated Useful Life | | |
|-------------------------------|-----------------------|-----------|-----------|
| | | 2010 | 2009 |
| Land | | \$ 25,007 | \$ 23,901 |
| Buildings and improvements | 10 to 30 yrs. | 71,028 | 70,095 |
| Equipment | 3 to 7 yrs. | 35,444 | 43,215 |
| | | 131,479 | 137,211 |
| Less accumulated depreciation | | (66,949) | (73,018) |
| Net premises and equipment | | \$ 64,530 | \$ 64,193 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE EIGHT

GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill approximated \$54.9 million at December 31, 2010 and 2009, respectively. The Company completed its annual assessment of the carrying value of goodwill during 2010 and concluded that its carrying value was not impaired.

The following table summarizes core deposit intangibles as of December 31, 2010 and 2009, which are subject to amortization:

| (in thousands) | 2010 | 2009 |
|------------------------------------|-----------------|-----------------|
| Gross carrying amount | \$ 4,404 | \$ 4,404 |
| Accumulated amortization | (2,721) | (2,284) |
| Net core deposit intangible | \$ 1,683 | \$ 2,120 |

During 2010, 2009, and 2008, the Company recognized pre-tax amortization expense of \$437,000, \$469,000, and \$639,000, respectively, associated with its core deposit intangible assets. The estimated amortization expense for core deposit intangible assets for each of the next five years is as follows:

| (in thousands) | Projected Amortization Expense |
|----------------|--------------------------------|
| 2011 | \$ 409 |
| 2012 | 392 |
| 2013 | 376 |
| 2014 | 359 |
| 2015 | 147 |
| | \$ 1,683 |

NOTE NINE

SCHEDULED MATURITIES OF TIME DEPOSITS

Scheduled maturities of time deposits outstanding at December 31, 2010 are summarized as follows:

| (in thousands) | |
|-----------------|-------------------|
| 2011 | \$ 574,126 |
| 2012 | 236,646 |
| 2013 | 63,585 |
| 2014 | 34,816 |
| 2015 | 40,433 |
| Over five years | 63 |
| Total | \$ 949,669 |

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

| (in thousands) | 2010 | 2009 |
|-------------------------------|-------------------|-------------------|
| Within one year | \$ 178,909 | \$ 146,790 |
| Over one through two years | 69,899 | 94,771 |
| Over two through three years | 16,216 | 29,556 |
| Over three through four years | 9,914 | 6,800 |
| Over four through five years | 13,697 | 8,718 |
| Total | \$ 288,635 | \$ 286,635 |

NOTE TEN

SHORT-TERM BORROWINGS

A summary of short-term borrowings are as follows:

| (dollars in thousands) | 2010 | 2009 | 2008 |
|------------------------------------|-------------------|-------------------|-------------------|
| Balance at end of year: | | | |
| Securities repurchase agreements | \$ 112,335 | \$ 116,329 | \$ 122,904 |
| FHLB advances | 375 | 2,000 | 71,559 |
| Total | \$ 112,710 | \$ 118,329 | \$ 194,463 |
| Avg. outstanding during the year: | | | |
| Securities repurchase agreements | \$ 110,891 | \$ 125,024 | \$ 132,030 |
| FHLB advances | 1,684 | 8,992 | 4,837 |
| Max. outstanding at any month end: | | | |
| Securities repurchase agreements | \$ 119,174 | \$ 154,577 | \$ 137,921 |
| FHLB advances | 2,000 | 42,256 | 71,559 |
| Weighted-average interest rate: | | | |
| During the year: | | | |
| Securities repurchase agreements | 0.25% | 0.26% | 1.89% |
| FHLB advances | 4.93% | 2.27% | 2.74% |
| End of the year: | | | |
| Securities repurchase agreements | 0.25% | 0.25% | 0.38% |
| FHLB advances | 4.38% | 6.30% | 0.84% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE ELEVEN LONG-TERM DEBT

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

| (in thousands) | Maturity | Weighted-Average Interest Rate | 2010 | 2009 |
|---|----------|--------------------------------|------------------|------------------|
| FHLB Advances | 2011 | 4.45% | - | 464 |
| Junior subordinated debentures owed to City Holding Capital Trust III | 2038 | 3.79% | 16,495 | 16,495 |
| Total Long-term debt | | | \$ 16,495 | \$ 16,959 |

Through City National, the Company has purchased 58,255 shares of Federal Home Loan Bank ("FHLB") stock at par value as of December 31, 2010. Such purchases are required based on City National's maximum borrowing capacity with the FHLB. Additionally, FHLB stock entitles the Company to dividends declared by the FHLB and provides an additional source of short-term and long-term funding, in the form of collateralized advances. Financing obtained from the FHLB is based, in part, on the amount of qualifying collateral available, specifically U.S. Treasury, U.S. agency debentures and mortgage-backed securities and 1-4 family residential mortgages. At December 31, 2010 and 2009, collateral pledged to the FHLB included approximately \$456.0 million and \$395.0 million, respectively, in investment securities and one-to-four-family residential property loans. Therefore, in addition to the short-term (see Note Ten) and long-term financing discussed above, at December 31, 2010 and 2009, City National had an additional \$455.7 million and \$392.5 million, respectively, available from unused portions of lines of credit with the FHLB and other financial institutions.

The Company formed a statutory business trust, City Holding Capital Trust III, under the laws of the state of Delaware ("Capital Trust III"). Capital Trust III was created for the exclusive purpose of (i) issuing trust preferred securities ("Capital Securities"), which represent preferred undivided beneficial interests in the assets of the trusts, (ii) using the proceeds from the sale of the Capital Securities to acquire junior subordinated debentures ("Debentures") issued by the Company, and (iii) engaging in only those activities necessary or incidental thereto. The trust is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, the accounts of the trust are not included in the Company's consolidated financial statements (see Note 1).

Distributions on the Debentures are cumulative and will be payable quarterly at an interest rate of 3.50% over the three month LIBOR rate, reset quarterly. Interest payments are due in March, June, September and December. The Debentures are redeemable prior to maturity at the option of the Company (i) in whole or at any time or in part from time-to-time, at declining redemption prices ranging from 103.525% to 100.000% on June 15, 2013, and thereafter, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of certain pre-defined events.

Payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities are guaranteed by the Company. The Company also entered into an agreement as to expenses and liabilities with the trust pursuant to which it agreed, on a subordinated basis, to pay any costs, expenses or liabilities of the trust other than those arising under the trust preferred securities. The obligations of the Company under the junior subordinated debentures, the related indentures, the trust agreement establishing the trust, the guarantees and the agreements as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust preferred securities. The Capital Securities issued by the statutory business trusts qualify as Tier 1 capital for the Company under current Federal Reserve Board guidelines.

NOTE TWELVE DERIVATIVE INSTRUMENTS

The Company utilized interest rate floors to mitigate exposure to interest rate risk. During 2005 and 2006, the Company entered into interest rate floors with a total notional value of \$600 million, seven of which (total notional amount of \$500 million) were designated as cash flow hedges. These derivative instruments provided the Company protection against the impact of declining interest rates on future income streams from the Company's portfolio of \$500 million of variable-rate loans outstanding. The interest rate floors had maturities between May 2008 and June 2011 and strike rates ranging from 6.00% to 8.00%. During 2008, interest rate floors with a total notional value of \$150 million matured. The remaining interest rate floors with a total notional value of \$450 million were sold during 2008. The gains from the sales of \$16.8 million will be recognized over the remaining lives of the various hedged loans. At December 31, 2010, the unrecognized gain was approximately \$1.1 million or \$0.3 million net of taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

As of December 31, 2010 and 2009, the Company has derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. The following table summarizes the fair value of these derivative financial instruments:

| (in thousands) | December 31, 2010 | December 31, 2009 |
|----------------------|----------------------|----------------------|
| Fair Value | | |
| Other Assets | \$ 2,116 | \$ 19 |
| Other Liabilities | 2,116 | 19 |
| Change in Fair Value | | |
| Noninterest income | \$ 2,097 | \$ (2,048) |
| Noninterest expense | 2,097 | (2,048) |

NOTE THIRTEEN

INCOME TAXES

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

| (in thousands) | 2010 | 2009 |
|---------------------------------------|------------------|------------------|
| Deferred tax assets: | | |
| Previously securitized loans | \$ 6,533 | \$ 8,126 |
| Allowance for loan losses | 6,803 | 7,035 |
| Deferred compensation payable | 2,972 | 2,763 |
| Underfunded pension liability | 2,346 | 2,366 |
| Unrealized securities losses | - | 831 |
| Accrued expenses | 781 | 1,164 |
| Impaired building and premises | 1,195 | 1,019 |
| Impaired security losses | 10,265 | 8,013 |
| Other | 1,222 | 1,235 |
| Total Deferred Tax Assets | 32,117 | 32,552 |
| Deferred tax liabilities: | | |
| Intangible assets | 1,579 | 1,951 |
| Unrealized securities gains | 629 | - |
| Deferred loan fees | 16 | 222 |
| Other | 658 | 899 |
| Total Deferred Tax Liabilities | 2,882 | 3,072 |
| Net Deferred Tax Assets | \$ 29,235 | \$ 29,480 |

No valuation allowance for deferred tax assets was recorded at December 31, 2010 and 2009 as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

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

| (in thousands) | 2010 | 2009 | 2008 |
|---|-------------------|-------------------|--------------------|
| Current: | | | |
| Federal | \$ 17,147 | \$ 10,083 | \$ 23,322 |
| State | 2,541 | 1,803 | 614 |
| Total current | 19,688 | 11,886 | 23,936 |
| Total deferred | (1,235) | 8,647 | (14,449) |
| Income tax expense | \$ 18,453 | \$ 20,533 | \$ 9,487 |
| Income tax (benefit) expense attributable to securities transactions | \$ (2,310) | \$ (2,426) | \$ (15,306) |

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

| (in thousands) | 2010 | 2009 | 2008 |
|--|------------------|------------------|-----------------|
| Computed federal taxes at statutory rate | \$ 20,096 | \$ 22,111 | \$ 13,159 |
| State income taxes, net of federal tax benefit | 1,586 | 1,669 | (671) |
| Tax effects of: | | | |
| Tax-exempt interest income | (804) | (748) | (686) |
| Bank-owned life insurance | (1,269) | (1,195) | (1,026) |
| Tax reserve adjustment | (85) | (64) | (1,095) |
| Other items, net | (1,071) | (1,240) | (194) |
| Income tax expense | \$ 18,453 | \$ 20,533 | \$ 9,487 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The entire amount of the Company's unrecognized tax benefits if recognized, would favorably affect the Company's effective tax rate. The Company does not expect that the amounts of unrecognized tax positions will change significantly within the next 12 months. A reconciliation of the beginning and ending balance of unrecognized tax benefits for the year ended December 31, 2010 is as follows:

| (in thousands) | |
|--|-----------------|
| Balance at December 31, 2009 | \$ - |
| Additions for current year tax positions | 3,645 |
| Additions for prior year tax positions | - |
| Decreases for prior year tax positions | - |
| Decreases for settlements with tax authorities | - |
| Decreases related to lapse of applicable statute of limitation | - |
| Balance at December 31, 2010 | <u>\$ 3,645</u> |

Interest and penalties on income tax uncertainties are included in income tax expense. During 2010, 2009, and 2008, the provision related to interest and penalties was \$0.1 million, \$0.3 million, and \$0.4 million, respectively. The balance of accrued interest and penalties at December 31, 2010 and 2009 was \$0.3 million and \$0.4 million, respectively.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2007 through 2010. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2007 through 2010. A tax examination by the State of West Virginia for the years 2004 through 2006 was completed during the third quarter of 2008.

NOTE FOURTEEN

EMPLOYEE BENEFIT PLANS

During 2003, shareholders approved the City Holding Company 2003 Incentive Plan ("the Plan"), replacing the Company's 1993 Stock Incentive Plan that expired on March 8, 2003. Employees, directors, and individuals who provide service to the Company (collectively "Plan Participants") are eligible to participate in the Plan. Pursuant to the terms of the Plan, the Compensation Committee of the Board of Directors, or its delegate, may, from time-to-time, grant stock options, stock appreciation rights ("SARs"), or stock awards to Plan Participants. A maximum of 1,000,000 shares of the Company's common stock may be issued upon the exercise of stock options and SARs and stock awards, but no more than 350,000 shares of common stock may be issued as stock awards. These limitations may be adjusted in the event of a change in the number of outstanding shares of common stock by reason of a stock dividend, stock split, or other similar event. Specific terms of options and SARs awarded, including vesting periods, exercise prices (stock price at date of grant), and expiration dates are determined at the date of grant and are evidenced by agreements between the Company and the awardee. The exercise price of the option grants equals the market price of the Company's stock on the date of grant. All incentive stock options and SARs will be exercisable up to ten years from the date granted and all options and SARs are exercisable for the period specified in the individual agreement. As of December 31, 2010, 363,250 stock options had been awarded pursuant to the terms of the Plan and 115,525 stock awards had been granted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Each award from the Plan is evidenced by an award agreement that specifies the option price, the duration of the option, the number of shares to which the option pertains, and such other provisions as the Compensation Committee, or its delegate, determines. The option price for each grant is equal to the fair market value of a share of the Company's common stock on the date of grant. Options granted expire at such time as the Compensation Committee determines at the date of grant and in no event does the exercise period exceed a maximum of ten years. Upon a change-in-control of the Company, as defined in the plans, all outstanding options immediately vest.

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

| | 2010 | | 2009 | | 2008 | |
|--------------------------------|----------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| Outstanding at January 1 | 280,605 | \$ 33.56 | 270,455 | \$ 33.96 | 305,909 | \$ 32.05 |
| Granted | 15,500 | 32.09 | 17,500 | 27.98 | 31,000 | 34.28 |
| Exercised | (7,962) | 27.81 | (1,350) | 21.99 | (66,454) | 25.11 |
| Forfeited | (750) | 33.54 | (6,000) | 37.90 | - | - |
| Outstanding at December 31 | 287,393 | \$ 33.64 | 280,605 | \$ 33.56 | 270,455 | \$ 33.96 |
| Exercisable at end of year | 178,393 | 32.75 | 169,230 | 32.61 | 157,205 | 32.72 |
| Nonvested at beginning of year | 111,375 | \$ 35.01 | 113,250 | \$ 35.68 | 102,125 | \$ 35.40 |
| Granted during year | 15,500 | 32.09 | 17,500 | 27.98 | 31,000 | 34.28 |
| Vested during year | (17,625) | 31.88 | (17,875) | 31.91 | (19,875) | 32.07 |
| Forfeited during year | (250) | 33.54 | (1,500) | 40.88 | - | - |
| Nonvested at end of year | 109,000 | \$ 35.10 | 111,375 | \$ 35.01 | 113,250 | \$ 35.68 |

Additional information regarding stock options outstanding and exercisable at December 31, 2010, is provided in the following table:

| Ranges of Exercise Prices | No. of Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Months) | Intrinsic Value | No. of Options Currently Exercisable | Weighted-Average Exercise Price of Options Currently Exercisable | Weighted-Average Remaining Contractual Life (Months) | Intrinsic Value |
|---------------------------|----------------------------|---------------------------------|--|-----------------|--------------------------------------|--|--|-----------------|
| \$ 13.30 | 1,100 | \$ 13.30 | 13 | \$ 25 | 1,100 | \$ 13.30 | 13 | \$ 25 |
| \$ 26.62 - \$33.90 | 193,793 | 31.41 | 59 | 934 | 142,293 | 31.89 | 44 | 617 |
| \$ 35.36 - \$40.88 | 92,500 | 38.56 | 70 | 1 | 35,000 | 36.84 | 60 | 1 |
| | <u>287,393</u> | | | <u>\$ 960</u> | <u>178,393</u> | | | <u>\$ 643</u> |

Proceeds from stock option exercises were \$0.2 million in 2010, less than \$0.1 million in 2009, and \$1.7 million in 2008. Shares issued in connection with stock option exercises are issued from available treasury shares. If no treasury shares are available, new shares are issued from available authorized shares. During 2010, 2009, and 2008, all shares issued in connection with stock option exercises and restricted stock awards were issued from available treasury stock.

The total intrinsic value of stock options exercised was less than \$0.1 million in 2010, less than \$0.1 million in 2009, and \$1.1 million in 2008.

Stock-based compensation expense totaled \$0.3 million in 2010, \$0.3 million in 2009, and \$0.2 million in 2008. The total income tax benefit recognized in the accompanying consolidated statements of income related to stock-based compensation was less than \$0.1 million in 2010. Unrecognized stock-based compensation expense related to stock options totaled \$0.5 million at December 31, 2010. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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

| | 2010 | 2009 | 2008 |
|-------------------------|---------|---------|---------|
| Risk-free interest rate | 3.24% | 2.52% | 3.98% |
| Expected dividend yield | 4.24% | 4.86% | 2.59% |
| Volatility factor | 0.427 | 0.463 | 0.498 |
| Expected life of option | 8 years | 8 years | 8 years |

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

Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases and any compensation cost previously recognized is reversed in the period of forfeiture. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. The Company recognized \$0.5 million and \$0.4 million of compensation expense for the years ended December 31, 2010 and December 31, 2009, respectively, within salaries and employee benefits in the Company's Consolidated Statements of Income associated with the restricted stock awards issued. Unrecognized stock-based compensation expense related to non-vested restricted shares was \$2.1 million at December 31, 2010. At December 31, 2010, this unrecognized expense is expected to be recognized over 5.9 years based on the weighted average-life of the restricted shares.

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

| | 2010 | | 2009 | |
|----------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | Restricted Awards | Average Market Price At Grant | Restricted Awards | Average Market Price At Grant |
| Outstanding at January 1 | 88,109 | | 36,175 | |
| Granted | 13,750 | \$ 31.47 | 59,100 | \$ 30.67 |
| Vested | (5,799) | | (7,166) | |
| Outstanding at December 31 | 96,060 | | 88,109 | |

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

The Company provides retirement benefits to its employees through the City Holding Company 401(k) Plan and Trust ("the 401(k) Plan"), which is intended to be compliant with Employee Retirement Income Security Act (ERISA) section 404(c). Any employee who has attained age 21 is eligible to participate beginning the first day of the month following employment. Unless specifically chosen otherwise, every employee is automatically enrolled in the 401(k) Plan and may make before-tax contributions of between 1% and 15% of eligible pay up to the dollar limit imposed by Internal Revenue Service regulations. The first 6% of an employee's contribution is matched 50% by the Company. The employer matching contribution is invested according to the investment elections chosen by the employee. Employees are 100% vested in both employee and employer contributions and the earnings generated by such contributions. As of December 31, 2010, there were 17 investment options, including City Holding Company common stock, available under the 401(k) Plan.

The Company's total expense associated with the 401(k) Plan approximated \$605,000, \$609,000, and \$597,000, in 2010, 2009, and 2008, respectively. The total number of shares of the Company's common stock held by the 401(k) Plan as of December 31, 2010 and 2009 is 309,259 and 313,263, respectively. Other than the 401(k) Plan, the Company offers no postretirement benefits.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Primarily as a result of the interest rate environment over the past two years, the benefit obligation exceeded the estimated fair value of plan assets as of December 31, 2010 and December 31, 2009. The Company has recorded a pension liability of \$2.5 million and \$2.4 million as of December 31, 2010 and 2009, respectively, included in Other Liabilities within the Consolidated Balance Sheets, and a \$3.8 million and \$3.7 million, net of tax, underfunded pension liability in Accumulated Other Comprehensive Income within Shareholders' Equity at December 31, 2010 and 2009, respectively. The following table summarizes activity within the Defined Benefit Plan in 2010 and 2009:

| (in thousands) | Pension Benefits | |
|---|-------------------|-------------------|
| | 2010 | 2009 |
| Change in fair value of plan assets: | | |
| Fair value at beginning of measurement period | \$ 9,154 | \$ 7,195 |
| Actual gain on plan assets | 1,076 | 1,775 |
| Contributions | 163 | 879 |
| Benefits paid | (725) | (694) |
| Fair value at end of measurement period | 9,668 | 9,155 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of measurement period | (11,604) | (11,181) |
| Interest cost | (674) | (678) |
| Actuarial loss | (649) | (440) |
| Benefits paid | 725 | 694 |
| Benefit obligation at end of measurement period | (12,202) | (11,605) |
| Funded status | (2,534) | (2,450) |
| Unrecognized net actuarial gain | 6,164 | 6,149 |
| Other comprehensive loss | (6,164) | (6,149) |
| Accrued Benefit Cost | \$ (2,534) | \$ (2,450) |
| Weighted-average assumptions as of December 31: | | |
| Discount rate | 5.50% | 6.00% |
| Expected return on plan assets | 8.00% | 8.00% |

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

| (in thousands) | Pension Benefits | | |
|-------------------------------------|------------------|---------------|--------------|
| | 2010 | 2009 | 2008 |
| Components of net periodic benefit: | | | |
| Interest cost | \$ 674 | \$ 678 | \$ 662 |
| Expected return on plan assets | (812) | (797) | (857) |
| Net amortization and deferral | 370 | 319 | 245 |
| Net Periodic Pension Cost | \$ 232 | \$ 200 | \$ 50 |

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

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

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

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

| | Target Allocation 2010 | Allowable Allocation Range | Percentage of Plan Assets at December 31 | |
|-------------------|------------------------|----------------------------|--|-------------|
| | | | 2010 | 2009 |
| Equity securities | 70-75% | 40-80% | 59% | 63% |
| Debt securities | 20-25% | 20-40% | 31% | 32% |
| Other | 0-5% | 3-10% | 10% | 5% |
| Total | | | 100% | 100% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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

| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
|----------------------------|--------------|--------------|--------------|----------|
| 2010 | | | | |
| Cash and cash equivalents | \$ 457 | \$ 457 | \$ - | \$ - |
| Mutual funds | 1,965 | 1,112 | 853 | - |
| Common stocks | 5,198 | 4,834 | 364 | - |
| Mortgage-backed securities | 348 | - | 348 | - |
| Government and GSE bonds | 1,407 | - | 1,407 | - |
| Corporate Bonds | 293 | - | 293 | - |
| Total | 9,668 | 6,403 | 3,265 | - |
| 2009 | | | | |
| Cash and cash equivalents | \$ 389 | \$ 389 | \$ - | \$ - |
| Mutual funds | 2,115 | 971 | 1,144 | - |
| Common stocks | 4,805 | 4,431 | 374 | - |
| Mortgage-backed securities | 1,303 | - | 1,303 | - |
| Government and GSE bonds | 543 | - | 543 | - |
| Total | 9,155 | 5,791 | 3,364 | - |

Mutual funds include large value and fixed income funds. Common stocks include investments in small to mid cap funds and large cap funds primarily located inside of the United States. Common stocks also include funds invested in commercial real estate as well as international value funds. Government and GSE bonds include U.S. Treasury notes with varying maturity dates. Corporate bonds include taxable bonds issued by U.S. corporations.

The Company anticipates making a contribution to the plan of \$0.4 million for the year ending December 31, 2011. The following table summarizes the expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter:

| Plan Year Ending December 31 | Expected Benefits to be Paid (in thousands) |
|------------------------------|--|
| 2011 | \$ 779 |
| 2012 | 774 |
| 2013 | 786 |
| 2014 | 796 |
| 2015 | 806 |
| 2016 through 2020 | 4,277 |

In addition, the Company and its subsidiary participate in the Pentegra multi-employer pension plan (the "multi-employer plan"). This non-contributory defined benefit plan covers current and former employees of Classic Bancshares (acquired by the Company during 2005). It is the policy of the Company to fund the normal cost of the multiemployer plan on an annual basis. No contributions were required for the years ended December 31, 2010 and 2009. The benefits of the multi-employer plan were frozen prior to the acquisition of Classic Bancshares in 2005, and it is the intention of the Company to fund benefit amounts when assets of the plan are sufficient.

The Company has entered into employment contracts with certain of its current and former executive officers. The employment contracts provide for, among other things, the payment of termination compensation in the event an executive officer either voluntarily or involuntarily terminates his employment with the Company for other than "Just Cause." The cost of these benefits was accrued over the four-year service period for each executive and is included in Other Liabilities within the Consolidated Balance Sheets. The liability was \$2.0 million and \$2.0 million at December 31, 2010 and 2009, respectively. No charge to operations was incurred for the years ended December 31, 2010 and December 31, 2009.

Certain entities previously acquired by the Company had entered into individual deferred compensation and supplemental retirement agreements with certain current and former directors and officers. The Company has assumed the liabilities associated with these agreements, the cost of which is being accrued over the period of active service from the date of the respective agreement. The cost of such agreements approximated \$0.2 million, \$0.2 million, and \$0.2 million, during 2010, 2009, and 2008, respectively. The liability for such agreements approximated \$4.3 million and \$4.4 million at December 31, 2010 and December 31, 2009, respectively and is included in Other Liabilities in the accompanying Consolidated Balance Sheets.

To assist in funding the above liabilities, the acquired entities had insured the lives of certain current and former directors and officers. The Company is the current owner and beneficiary of insurance policies with a cash surrender value approximating \$7.1 million and \$7.0 million at December 31, 2010 and 2009, respectively, which is included in Other Assets in the accompanying Consolidated Balance Sheets.

NOTE FIFTEEN

RELATED PARTY TRANSACTIONS

City National has granted loans to certain non-executive officers and directors of the Company and its subsidiaries, and to their associates totaling \$39.8 million at December 31, 2010 and \$41.2 million at December 31, 2009. The loans were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third-party lending arrangements. During 2010, total principal additions were \$2.7 million and total principal reductions were \$4.1 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE SIXTEEN

COMMITMENTS AND CONTINGENT LIABILITIES

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

| (in thousands) | 2010 | 2009 |
|-------------------------------|------------|------------|
| Commitments to extend credit: | | |
| Home equity lines | \$ 141,162 | \$ 132,757 |
| Commercial real estate | 29,916 | 33,191 |
| Other commitments | 160,535 | 177,759 |
| Standby letters of credit | 19,864 | 18,092 |
| Commercial letters of credit | 1,096 | 30 |

Loan commitments, standby letters of credit and commercial letters of credit have credit risks essentially the same as that involved in extending loans to customers and are subject to the Company's standard credit policies. Collateral is obtained based on management's credit assessment of the customer. Management does not anticipate any material losses as a result of these commitments.

In 2010, City National was named as a defendant in a putative class action alleging that the manner in which City National assessed overdraft fees to its consumer checking accounts violates the West Virginia Consumer Credit and Protection Act, breached an implied covenant of good faith and fair dealing and creates an unjust enrichment to City National. The amount claimed by the plaintiffs has not been determined, but could be material. On October 8, 2010, City National filed a Motion to Dismiss, which was heard on December 13, 2010. Proposed orders were submitted to the Circuit Court on December 30, 2010, but no ruling has been made.

We cannot estimate any possible loss or range of loss, if any, at this time. No assurance can be given at this time that the litigation against us will be resolved amicably, that if this litigation results in an adverse decision that we will be successful in seeking indemnification, that this litigation will not be costly to defend, that this litigation will not have an impact on our financial condition or results of operations or that, ultimately, any such impact will not be material.

In addition, the Company and City National are involved in various legal actions arising in the ordinary course of business. There can be no assurance that the ultimate resolution of the current actions will not materially impact the financial statements or that no material actions will be presented in the future.

NOTE SEVENTEEN

PREFERRED STOCK AND SHAREHOLDER RIGHTS PLAN

The Company's Board of Directors has the authority to issue preferred stock, and to fix the designation, preferences, rights, dividends, and all other attributes of such preferred stock, without any vote or action by the shareholders. As of December 31, 2010, no such shares are outstanding, nor are any expected to be issued, except as might occur pursuant to the Stock Rights Plan discussed below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE EIGHTEEN

REGULATORY REQUIREMENTS AND CAPITAL RATIOS

The principal source of income and cash for City Holding (the "Parent Company") is dividends from City National. Dividends paid by City National to the Parent Company are subject to certain legal and regulatory limitations. Generally, any dividends in amounts that exceed the earnings retained by City National in the current year plus retained net profits for the preceding two years must be approved by regulatory authorities. Approval is also required if dividends declared would cause City National's regulatory capital to fall below specified minimum levels. At December 31, 2010, City National could pay dividends up to \$30.2 million plus net profits for 2011, as defined by statute, up to the dividend declaration date without prior regulatory permission.

During 2010, the Parent Company used cash obtained from the dividends received primarily to: (1) pay common dividends to shareholders, (2) remit interest payments on the Company's junior subordinated debentures, and (3) fund repurchases of the Company's common shares. As of December 31, 2010, the Parent Company reported a cash balance of approximately \$2.2 million. Management believes that the Parent Company's available cash balance, together with cash dividends from City National, is adequate to satisfy its funding and cash needs in 2011.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and City National to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of December 31, 2010, that the Company and City National met all capital adequacy requirements to which they were subject.

As of December 31, 2010, the most recent notifications from banking regulatory agencies categorized the Company and City National as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since these notifications that management believes have changed the institutions' categories. The Company's and City National's actual capital amounts and ratios are presented in the following table.

| (dollars in thousands) | 2010 | | 2009 | | Well Capitalized Ratio | Minimum Ratio |
|---|------------|-------|------------|-------|------------------------|---------------|
| | Amount | Ratio | Amount | Ratio | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated | \$ 273,554 | 14.8% | \$ 262,535 | 14.6% | 10.0% | 8.0% |
| City National | 246,419 | 13.6 | 213,389 | 12.3 | 10.0 | 8.0 |
| Tier I Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated | 291,861 | 13.9 | 281,221 | 13.6 | 6.0 | 4.0 |
| City National | 264,726 | 12.7 | 232,075 | 11.3 | 6.0 | 4.0 |
| Tier I Capital (to Average Assets): | | | | | | |
| Consolidated | 291,861 | 10.5 | 281,221 | 10.2 | 5.0 | 4.0 |
| City National | 264,726 | 9.6 | 232,075 | 8.4 | 5.0 | 4.0 |

NOTE NINETEEN

FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted FASB ASC Topic 820 "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements.

ASC Topic 820 defines fair value as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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

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

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

The Company has determined that its pooled trust preferred securities should be priced using Level 3 inputs in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures and guidance issued by the SEC. The Company has determined that there are few observable transactions and market quotations available for pooled trust preferred securities and they are not reliable for purposes of determining fair value at December 31, 2010. Due to these circumstances, the Company has elected to utilize an income valuation approach produced by a third party pricing source. This third party model utilizes deferral and default probabilities for the underlying issuers, estimated prepayment rates and assumes no future recoveries of any defaults or deferrals. The Company then compares the values provided by the third party model with other external sources. At such time as there are observable transactions or quoted prices that are associated with an orderly and active market for pooled trust preferred securities, the Company will incorporate such market values in its estimate of fair values for these securities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 2009:

| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
|--|-----------|---------|-----------|---------|
| 2010 | | | | |
| Assets: | | | | |
| Obligations of states and political subdivisions | \$ 65,926 | \$ - | \$ 65,926 | \$ - |
| Mortgage-backed securities: | | | | |
| U.S. Government agencies | 266,817 | - | 266,817 | - |
| Private label | 8,118 | - | 8,118 | - |
| Trust preferred securities | 54,610 | - | 52,106 | 2,504 |
| Corporate securities | 15,393 | - | 15,393 | - |
| Marketable equity securities | 4,693 | 4,693 | - | - |
| Investment funds | 1,610 | 1,610 | - | - |
| Derivative assets | 2,116 | - | 2,116 | - |
| Derivative liabilities | 2,116 | - | 2,116 | - |
| 2009 | | | | |
| Assets: | | | | |
| Obligations of states and political subdivisions | \$ 52,735 | \$ - | \$ 52,735 | \$ - |
| Mortgage-backed securities: | | | | |
| U.S. Government agencies | 302,794 | - | 302,794 | - |
| Private label | 11,988 | - | 11,988 | - |
| Trust preferred securities | 63,735 | - | 59,730 | 4,005 |
| Corporate securities | 19,488 | - | 19,488 | - |
| Marketable equity securities | 5,094 | 5,094 | - | - |
| Investment funds | 16,908 | 16,908 | - | - |
| Derivative assets | 19 | - | 19 | - |
| Derivative liabilities | 19 | - | 19 | - |

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis for Level 3 assets for the year ended December 31, 2010 and 2009.

| (in thousands) | Investment Securities Available for Sale |
|---|--|
| Balance, December 31, 2008 | \$ 7,519 |
| Total gains/losses (realized and unrealized): | |
| Impairment losses on investment securities | (3,838) |
| Included in other comprehensive income | 324 |
| Transfers into Level 3 | - |
| Balance, December 31, 2009 | \$ 4,005 |
| Total gains/losses (realized and unrealized): | |
| Impairment losses on investment securities | (5,358) |
| Included in other comprehensive income | 3,857 |
| Transfers into Level 3 | - |
| Balance, December 31, 2010 | \$ 2,504 |

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

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. At December 31, 2010 and 2009, the Company has \$21.3 million and \$19.5 million, respectively of impaired loans that are measured at fair value on a nonrecurring basis. These assets are considered to be measured at Level 2 in the fair value measurement hierarchy.

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

Long-lived assets held for sale. Long-lived assets held for sale include real estate owned. The fair value of real estate owned is determined by utilizing a market based approach based on independent full appraisals and real estate broker's price opinions, less estimated selling costs. Certain properties require assumptions that are not observable in an active market in the determination of fair value. Assets that are acquired through foreclosure, repossession or return are initially recorded at the lower of the loan or lease carrying amount or fair value less estimated selling costs at the time of transfer to real estate owned. At December 31, 2010 and 2009, the Company has \$9.3 million and \$11.7 million, respectively of long-lived assets held for sale that are measured at fair value on a nonrecurring basis. These assets are considered to be measured at Level 2 in the fair value measurement hierarchy. The Company wrote down approximately \$0.9 million and \$0.4 million of long-lived assets held for sale to their fair value during the year ended December 31, 2010 and 2009, respectively.

Impaired Loans. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ACS Topic 310, "Receivables." The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2010 and 2009, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. The Company recorded \$0.8 million in fair value losses on impaired loans during the year ended December 31, 2010 based on the estimated fair value of the underlying collateral. This amount is included in the provision for loan losses on the consolidated statements of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

Previously Securitized Loans. The Company utilizes an income valuation approach through the use of an internal valuation model that calculates the present value of estimated future cash flows. The internal valuation model incorporates assumptions such as loan prepayment and default rates. Using cash flow modeling techniques that incorporate these assumptions, the Company estimated total future cash collections expected to be received from these loans and determined the yield at which the resulting discount would be accreted into income. Previously securitized loans are reported at fair value utilizing Level 3 inputs. The Company recognized \$1.0 million of accretion for the year ended December 31, 2010 associated with these loans. No impairment losses were recorded during 2010 or 2009 on the previously securitized loans related to the change in fair value.

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

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

| (in thousands) | Fair Value of Financial Instruments | | | |
|-------------------------------|-------------------------------------|------------|-----------------|------------|
| | 2010 | | 2009 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 66,379 | \$ 66,379 | \$ 62,635 | \$ 62,635 |
| Securities available-for-sale | 429,720 | 429,720 | 485,767 | 485,767 |
| Securities held-to-maturity | 23,865 | 23,100 | 28,164 | 25,020 |
| Net loans | 1,846,776 | 1,889,986 | 1,773,893 | 1,857,566 |
| Liabilities: | | | | |
| Deposits | 2,171,375 | 2,091,402 | 2,163,722 | 2,050,830 |
| Short-term borrowings | 112,710 | 112,722 | 118,329 | 118,401 |
| Long-term debt | 16,495 | 16,495 | 16,959 | 16,986 |

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

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

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

Net loans: The fair value of the loan portfolio is estimated using discounted cash flow analyses at interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying value of accrued interest approximates its fair value.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CITY HOLDING COMPANY AND SUBSIDIARIES

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

NOTE TWENTY

CITY HOLDING COMPANY (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Condensed Balance Sheets

| (in thousands) | December 31 | |
|---|-------------------|-------------------|
| | 2010 | 2009 |
| Assets | | |
| Cash | \$ 2,249 | \$ 16,084 |
| Securities available-for-sale | 4,693 | 5,094 |
| Investment in subsidiaries | 321,798 | 303,336 |
| Deferred tax asset | 3,440 | 3,123 |
| Fixed assets | 13 | 14 |
| Other assets | 4,480 | 3,194 |
| Total Assets | \$ 336,673 | \$ 330,845 |
| Liabilities | | |
| Junior subordinated debentures | \$ 16,495 | \$ 16,495 |
| Dividends payable | 5,272 | 5,400 |
| Accrued interest payable | 27 | 27 |
| Other liabilities | 18 | 21 |
| Total Liabilities | 21,812 | 21,943 |
| Shareholders' Equity | 314,861 | 308,902 |
| Total Liabilities and Shareholders' Equity | \$ 336,673 | \$ 330,845 |

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

Condensed Statements of Income

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 2010 | 2009 | 2008 |
| Income | | | |
| Dividends from subsidiaries | \$ 17,200 | \$ 39,500 | \$ 40,900 |
| Other income | 156 | 262 | 286 |
| | 17,356 | 39,762 | 41,186 |
| Expenses | | | |
| Interest expense | 641 | 757 | 1,170 |
| Investment securities losses | 3,643 | 1,720 | 1,954 |
| Loss on early extinguishment of debt | — | — | 1,208 |
| Other expenses | 594 | 571 | 413 |
| | 4,878 | 3,048 | 4,745 |
| Income Before Income Tax Benefit and Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries | 12,478 | 36,714 | 36,441 |
| Income tax benefit | (2,066) | (1,172) | (1,930) |
| Income Before Equity in Undistributed Net Income (Excess Dividends) of Subsidiaries | 14,544 | 37,886 | 38,371 |
| Equity in undistributed net income (excess dividends) of subsidiaries | 24,416 | 4,759 | (10,262) |
| Net Income | \$ 38,960 | \$ 42,645 | \$ 28,109 |

Condensed Statements of Cash Flows

| (in thousands) | Year Ended December 31 | | |
|---|------------------------|------------------|-----------------|
| | 2010 | 2009 | 2008 |
| Operating Activities | | | |
| Net income | \$ 38,960 | \$ 42,645 | \$ 28,109 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Realized investment securities losses | 3,643 | 1,720 | 1,954 |
| Amortization and accretion | 19 | 19 | 17 |
| Depreciation | 1 | 4 | 22 |
| (Increase) in other assets | (2,806) | (161) | (463) |
| Increase (decrease) in other liabilities | 827 | 573 | (463) |
| (Equity in undistributed net income) excess dividends of subsidiaries | (24,416) | (4,759) | 10,263 |
| Net Cash Provided by Operating Activities | 16,228 | 40,041 | 39,439 |
| Investing Activities | | | |
| Purchases of available for sale securities | (248) | (2,753) | (5,312) |
| Proceeds from sales of available for sale securities | — | 317 | 186 |
| Investment in subsidiaries | 4,201 | 2,600 | (11,687) |
| Net Cash Provided by (Used in) Investing Activities | 3,953 | 164 | (16,813) |
| Financing Activities | | | |
| Proceeds from long-term debt | — | — | 16,495 |
| Redemption of junior subordinated debentures | — | — | (16,836) |
| Dividends paid | (21,350) | (21,675) | (21,483) |
| Purchases of treasury stock | (12,902) | (3,886) | (10,974) |
| Exercise of stock options | 221 | 29 | 1,669 |
| Excess tax benefits from stock-based compensation arrangements | 15 | — | 266 |
| Net Cash Used in Financing Activities | (34,016) | (25,532) | (30,863) |
| (Decrease) Increase in Cash and Cash Equivalents | (13,835) | 14,673 | (8,237) |
| Cash and cash equivalents at beginning of year | 16,084 | 1,411 | 9,648 |
| Cash and Cash Equivalents at End of Year | \$ 2,249 | \$ 16,084 | \$ 1,411 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
CITY HOLDING COMPANY AND SUBSIDIARIES

NOTE TWENTY-ONE

SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information for 2010 and 2009 follows:

| (in thousands, except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|------------------|-------------------|------------------|-------------------|
| 2010 | | | | |
| Interest income | \$ 30,935 | \$ 31,770 | \$ 29,970 | \$ 29,241 |
| Taxable equivalent adjustment | 255 | 246 | 244 | 244 |
| Interest income (FTE) | 31,190 | 32,016 | 30,214 | 29,485 |
| Interest expense | 7,444 | 7,092 | 6,810 | 6,282 |
| Net interest income | 23,746 | 24,924 | 23,404 | 23,203 |
| Provision for loan losses | 1,080 | 1,823 | 1,847 | 2,343 |
| Investment securities losses | (1,651) | (231) | (1,566) | (1,219) |
| Noninterest income | 13,763 | 13,509 | 13,209 | 13,125 |
| Noninterest expense | 20,551 | 19,965 | 19,804 | 18,401 |
| Income before income tax expense | 14,227 | 16,414 | 13,396 | 14,365 |
| Income tax expense | 4,659 | 5,453 | 4,129 | 4,212 |
| Taxable equivalent adjustment | 255 | 246 | 244 | 244 |
| Net income | \$ 9,313 | \$ 10,715 | \$ 9,023 | \$ 9,909 |
| Net earnings available to common shareholders | \$ 9,263 | \$ 10,647 | \$ 8,970 | \$ 9,849 |
| Basic earnings per common share | \$ 0.59 | \$ 0.68 | \$ 0.58 | \$ 0.64 |
| Diluted earnings per common share | 0.58 | 0.68 | 0.58 | 0.64 |
| Average common shares outstanding: | | | | |
| Basic | 15,793 | 15,656 | 15,496 | 15,439 |
| Diluted | 15,851 | 15,721 | 15,552 | 15,508 |
| 2009 | | | | |
| Interest income | \$ 34,534 | \$ 32,964 | \$ 32,651 | \$ 31,887 |
| Taxable equivalent adjustment | 220 | 219 | 236 | 234 |
| Interest income (FTE) | 34,754 | 33,183 | 32,887 | 32,121 |
| Interest expense | 9,780 | 9,526 | 8,995 | 8,302 |
| Net interest income | 24,974 | 23,657 | 23,892 | 23,819 |
| Provision for loan losses | 1,650 | 2,150 | 1,675 | 1,575 |
| Investment securities losses | (2,075) | (332) | (2,320) | (1,437) |
| Noninterest income | 14,508 | 14,619 | 14,660 | 14,360 |
| Noninterest expense | 18,834 | 20,336 | 18,802 | 19,216 |
| Income before income tax expense | 16,923 | 15,458 | 15,755 | 15,951 |
| Income tax expense | 5,779 | 5,093 | 5,022 | 4,639 |
| Taxable equivalent adjustment | 220 | 219 | 236 | 234 |
| Net income | \$ 10,924 | \$ 10,146 | \$ 10,497 | \$ 11,078 |
| Net earnings available to common shareholders | \$ 10,908 | \$ 10,134 | \$ 10,496 | \$ 11,068 |
| Basic earnings per common share | \$ 0.69 | \$ 0.64 | \$ 0.66 | \$ 0.70 |
| Diluted earnings per common share | 0.69 | 0.64 | 0.66 | 0.70 |
| Average common shares outstanding: | | | | |
| Basic | 15,921 | 15,908 | 15,893 | 15,838 |
| Diluted | 15,933 | 15,949 | 15,952 | 15,897 |

NOTE TWENTY-TWO

EARNINGS PER SHARE

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

| (in thousands, except per share data) | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|
| Distributed earnings allocated to common stock | \$ 20,956 | \$ 21,481 | \$ 21,644 |
| Undistributed earnings allocated to common stock | 17,767 | 21,185 | 6,414 |
| Net earnings allocated to common shareholders | \$ 38,723 | \$ 42,666 | \$ 28,058 |
| Average shares outstanding | 15,589 | 15,877 | 16,118 |
| Effect of dilutive securities: | | | |
| Employee stock options | 62 | 55 | 49 |
| Shares for diluted earnings per share | 15,651 | 15,932 | 16,167 |
| Basic earnings per share | \$ 2.48 | \$ 2.69 | \$ 1.74 |
| Diluted earnings per share | \$ 2.47 | \$ 2.68 | \$ 1.74 |

Options to purchase 112,500, 199,418 and 97,500 shares of common stock at exercise prices between \$33.90 and \$40.88, \$31.32 and \$40.88, and \$36.48 and 40.88 per share were outstanding during 2010, 2009, and 2008, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares and therefore, the effect would be antidilutive.

Subsidiaries of City Holding Company

As of December 31, 2010, the subsidiaries, each wholly-owned, of City Holding Company included:

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of City Holding Company of our reports dated March 8, 2011, with respect to the consolidated financial statements of City Holding Company and the effectiveness of internal control over financial reporting of City Holding Company, included in the 2010 Annual Report to Shareholders of City Holding Company.

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

- 1) Registration Statements (Forms S-8 Nos. 333-115282 and 333-87667) of City Holding Company pertaining to the 2003 Incentive Plan and the 1993 Stock Incentive Plan, and
- 2) Registration Statement (Form S-3 No. 333-155344) of City Holding Company

of our reports dated March 8, 2011, with respect to the consolidated financial statements of City Holding Company and the effectiveness of internal control over financial reporting of City Holding Company included in the Annual Report (Form 10-K) for the year ended December 31, 2010.

/s/ Ernst & Young LLP

Charleston, West Virginia
March 8, 2011

CERTIFICATION

I, Charles R. Hageboeck certify that:

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

Date: March 8, 2011

/s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief Executive Officer

CERTIFICATION

I, David L. Bumgarner certify that:

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

Date: March 8, 2011

/s/ David L. Bumgarner

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

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

In connection with the Annual Report on Form 10-K of City Holding Company (the "Company") for the period ending December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Hageboeck, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: March 8, 2011

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

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of City Holding Company (the "Company") for the period ending December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Bumgarner, Senior Vice President, Chief Financial Officer and Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: March 8, 2011

/s/ David L. Bumgarner

David L. Bumgarner

Senior Vice President, Chief Financial Officer and Principal Accounting Officer