CITY HOLDING CO
Form 10-Q
May 04, 2007

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended March 31, 2007
OR
[ ] TRANSITION REPORT PURSANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Transition Period From ____________To_____________.

Commission File number **0-11733**

CITY HOLDING COMPANY
(Exact name of registrant as specified in its charter)

West Virginia	**55-0619957**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
25 Gatewater Road Charleston, West Virginia	25313
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock, $2.50 Par Value - 17,155,787 shares as of May 2, 2007.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Result of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such information involves risks and uncertainties that could result in the Company's actual results differing from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to: (1) the Company may incur additional provision for loan losses 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 continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on this asset; (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; and (12) the Company may experience difficulties growing loan and deposit balances. 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.

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City Holding Company and Subsidiaries

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PART I, ITEM 1 - FINANCIAL STATEMENTS
Consolidated Balance Sheets
City Holding Company and Subsidiaries
(in thousands)

	March 31 2007 (Unaudited)	December 31 2006 (Note A)
Assets		
Cash and due from banks	**$ 53,011**	$ 58,014
Interest-bearing deposits in depository institutions	**6,041**	27,434
Federal funds sold	**20,000**	25,000
Cash and Cash Equivalents	**79,052**	110,448
Investment securities available for sale, at fair value	**540,261**	472,398
Investment securities held-to-maturity, at amortized cost (approximate fair value at March 31, 2007 and December 31, 2006 - $48,458 and $49,955)	**46,396**	47,500
Total Securities	**586,657**	519,898
Gross loans	**1,691,748**	1,677,469
Allowance for loan losses	**(16,082)**	(15,405)
Net Loans	**1,675,666**	1,662,064
Bank owned life insurance	**55,687**	55,195
Premises and equipment	**45,190**	44,689
Accrued interest receivable	**12,371**	12,337
Net deferred tax asset	**23,551**	23,652
Intangible assets	**58,681**	58,857
Other assets	**22,157**	20,667
Total Assets	**$ 2,559,012**	$ 2,507,807
Liabilities		
Deposits:		
Noninterest-bearing	**$ 338,332**	$ 321,038
Interest-bearing:		
Demand deposits	**435,069**	422,925
Savings deposits	**343,366**	321,075
Time deposits	**922,384**	920,179
Total Deposits	**2,039,151**	1,985,217
Short-term borrowings	**156,062**	136,570
Long-term debt	**21,940**	48,069
Other liabilities	**38,505**	32,644
Total Liabilities	**2,255,658**	2,202,500
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 and outstanding at March 31, 2007 and December 31, 2006, less 1,278,095 and 1,009,095 shares in treasury, respectively	**46,249**	46,249

Capital surplus	**103,373**	104,043
Retained earnings	**201,977**	194,213
Cost of common stock in treasury	**(43,561)**	(33,669)
Accumulated other comprehensive income:		
Unrealized loss on securities available-for-sale	**(1,926)**	(2,649)
Unrealized loss on derivative instruments	**(88)**	(210)
Underfunded pension liability	**(2,670)**	(2,670)
Total Accumulated Other Comprehensive Loss	**(4,684)**	(5,529)
Total Shareholders' Equity	**303,354**	305,307
Total Liabilities and Shareholders' Equity	**$ 2,559,012**	$ 2,507,807

See notes to consolidated financial statements.

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Consolidated Statements of Income *(Unaudited)*
City Holding Company and Subsidiaries
(in thousands, except earnings per share data)

	Three Months Ended March 31	
	2007	2006
Interest Income		
Interest and fees on loans	**$ 31,464**	$ 29,564
Interest on investment securities:		
Taxable	**6,933**	7,260
Tax-exempt	**427**	467
Interest on deposits in depository institutions	**117**	150
Interest on federal funds sold	**257**	-
Total Interest Income	**39,198**	37,441
Interest Expense		
Interest on deposits	**12,712**	9,201
Interest on short-term borrowings	**1,513**	1,127
Interest on long-term debt	**531**	1,260
Total Interest Expense	**14,756**	11,588
Net Interest Income	**24,442**	25,853
Provision for loan losses	**900**	1,000
Net Interest Income After Provision for Loan Losses	**23,542**	24,853
Non-interest Income		
Investment securities gains (losses)	**-**	-
Service charges	**10,063**	9,862
Insurance commissions	**1,012**	614
Trust and investment management fee income	**568**	566
Bank owned life insurance	**696**	537
Gain on sale of credit card merchant agreements	**1,500**	-
Other income	**532**	810
Total Non-interest Income	**14,371**	12,389
Non-Interest Expense		
Salaries and employee benefits	**9,057**	8,632
Occupancy and equipment	**1,637**	1,599
Depreciation	**1,070**	1,050
Professional fees	**403**	395
Postage, delivery, and statement mailings	**777**	644
Advertising	**852**	774
Telecommunications	**455**	476
Bankcard expenses	**518**	543
Insurance and regulatory	**385**	388
Office supplies	**455**	383
Repossessed asset (gains) losses, net of expenses	**(14)**	4
Loss on early extinguishment of debt	**-**	282
Other expenses	**2,021**	2,327
Total Non-interest Expense	**17,616**	17,497
Income Before Income Taxes	**20,297**	19,745

Income tax expense		**7,066**		6,879
Net Income		**13,231**	$	12,866
Basic earnings per common share	**$**	**0.76**	$	0.71
Diluted earnings per common share	**$**	**0.76**	$	0.71
Dividends declared per common share	**$**	**0.31**	$	0.28
Average common shares outstanding:				
Basic		**17,369**		18,006
Diluted		**17,424**		18,067

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Shareholders' Equity*(Unaudited)*
City Holding Company and Subsidiaries
Three Months Ended March 31, 2007 and 2006
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at December 31, 2005	$ 46,249	$ 104,435	$ 160,747	$ (11,278)	$ (8,012)	$ 292,141
Comprehensive income:						
Net income			12,866			12,866
Other comprehensive loss, net of deferred income taxes of $950:						
Unrealized losses on available-for-sale securities of $1,528, net of taxes					(917)	(917)
Net unrealized loss on interest rate floors of $848					(509)	(509)
Total comprehensive income						11,440
Cash dividends declared ($0.28 per share)			(4,988)			(4,988)
Issuance of stock awards, net		(78)		245		167
Exercise of 26,875 stock options		(630)		987		357
Excess tax benefit on stock -based compensation		173				173
Purchase of 300,572 treasury shares				(10,914)		(10,914)
Balances at March 31, 2006	$ 46,249	$ 103,900	$ 168,625	$ (20,960)	$ (9,438)	$ 288,376

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at December 31, 2006	**$ 46,249**	**$ 104,043**	**$ 194,213**	**$ (33,669)**	**$ (5,529)**	**$ 305,307**
Comprehensive income:						
Cumulative effect of adopting FIN 48			**(125)**			**(125)**
Net income			**13,231**			**13,231**
Other comprehensive loss, net of deferred income taxes of $563:						

Unrealized losses on available-for-sale securities of $1,205, net of taxes					**723**	**723**
Net unrealized loss on interest rate floors of $203, net of taxes					**122**	**122**
Total comprehensive income						**14,076**
Cash dividends declared ($0.31 per share)			**(5,342)**			**(5,342)**
Issuance of stock awards, net		**(536)**		**800**		**264**
Exercise of 5,300 stock options		**(134)**		**216**		**82**
Purchase of 274,300 treasury shares				**(10,908)**		**(10,908)**
Balances at March 31, 2007	$ **46,249**	$ **103,373**	$ **201,977**	$ **(43,561)**	$ **(4,684)**	$ **303,354**

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows *(Unaudited)*
City Holding Company and Subsidiaries
(in thousands)

	Three Months Ended March 31	
	2007	2006
Operating Activities		
Net income	$ **13,231**	$ 12,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion	**(428)**	(786)
Provision for loan losses	**900**	1,000
Depreciation of premises and equipment	**1,071**	1,050
Deferred income tax (benefit) expense	**(462)**	550
Net periodic employee benefit cost	**59**	46
Loss on early extinguishment of debt	**-**	282
Gain on sale of credit card merchant agreements	**(1,500)**	-
Loss on disposal of premises and equipment	**-**	7
Proceeds from bank-owned life insurance	**204**	-
Increase in value of bank-owned life insurance	**(696)**	(537)
(Increase) decrease in accrued interest receivable	**(34)**	1,139
Increase in other assets	**(1,344)**	(135)
Increase in other liabilities	**5,497**	2,756
Net Cash Provided by Operating Activities	**16,498**	18,238
Investing Activities		
Proceeds from maturities and calls of securities held-to-maturity	**1,058**	253
Proceeds from sale of money market and mutual fund securities available-for-sale	**261,385**	254,900
Purchases of money market and mutual fund securities available-for-sale	**(357,702)**	(307,007)
Proceeds from sales of securities available-for-sale	**989**	613
Proceeds from maturities and calls of securities available-for-sale	**29,694**	19,874
Purchases of securities available-for-sale	**(1,198)**	(800)
Net increase in loans	**(13,787)**	(9,957)
Purchases of premises and equipment	**(1,572)**	(727)
Proceeds from sale of credit card merchant agreements	**1,650**	-
Net Cash Used in Investing Activities	**(79,483)**	(42,851)
Financing Activities		
Net increase (decrease) in noninterest-bearing deposits	**17,294**	(20,551)
Net increase in interest-bearing deposits	**36,640**	55,985
Net (decrease) increase in short-term borrowings	**(6,542)**	2,977
Repayment of long-term debt	**(79)**	(826)
Redemption of trust preferred securities	**-**	(2,705)
Purchases of treasury stock	**(10,908)**	(10,914)
Exercise of stock options	**82**	357
Excess tax benefits from stock-based compensation arrangements	**-**	173
Dividends paid	**(4,898)**	(4,520)
Net Cash Provided by Financing Activities	**31,589**	19,976

Decrease in Cash and Cash Equivalents		**(31,396)**		(4,637)
Cash and cash equivalents at beginning of period		**110,448**		86,273
Cash and Cash Equivalents at End of Period	**$**	**79,052**	$	81,636

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)
March 31, 2007
Note A - Basis of Presentation

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of City Holding Company ("the Parent Company") and its wholly-owned subsidiaries (collectively, "the Company"). All material intercompany transactions have been eliminated. The consolidated financial statements include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition for each of the periods presented. Such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2007. The Company's accounting and reporting policies conform with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management's estimates.

The consolidated balance sheet as of December 31, 2006 has been extracted from audited financial statements included in the Company's 2006 Annual Report to Stockholders. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the 2006 Annual Report of the Company.

Note B -Previously Securitized Loans

Between 1997 and 1999, the Company completed six securitization transactions involving approximately $760 million in 125% of fixed rate, junior-lien underlying mortgages. The Company retained a financial interest in each of the securitizations until 2004. Principal amounts owed to investors were evidenced by securities ("Notes"). During 2003 and 2004, the Company exercised its early redemption options on each of those securitizations. Once the Notes were redeemed, the Company became the beneficial owner of the mortgage loans and recorded the loans as assets of the Company within the loan portfolio. The table below summarizes information regarding delinquencies, net credit recoveries, and outstanding collateral balances of previously securitized loans for the dates presented:

(in thousands)	As of and for the Three Months Ended March 31, **2007**	As of and for the Three Months Ended March 31, 2006	As of and for the Year Ended December 31, 2006
		(in thousands)	
Previously Securitized Loans:			
Total principal amount of loans outstanding	**$ 30,880**	$ 43,493	$ 33,334
Discount	**(18,136)**	(17,575)	(17,737)
Net book value	**$ 12,744**	$ 25,918	$ 15,597
Principal amount of loans between 30 and 89 days past due	**$ 596**	$ 1,217	$ 1,062
Principal amount of loans 90 days and above past due	**-**	202	48
Net credit recoveries during the period	**1,108**	973	4,124

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The Company accounts for the difference between the carrying value and the total expected cash flows from these loans as an adjustment of the yield earned 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. Additionally, the collectibility of previously securitized loans is evaluated over the remaining lives of the loans. An impairment charge on previously securitized loans would be provided through the Company's provision for loan losses if the discounted present value of estimated future cash flows declines below the recorded value of previously securitized loans. No such impairment charges were recorded for the three months ended March 31, 2007, or for the year ending December 31, 2006.

As of March 31, 2007, the Company reported a book value of previously securitized loans of $12.7 million whereas the actual contractual outstanding balance of previously securitized loans at March 31, 2007 was $30.9 million. The difference ("the discount") between the book value and the expected total cash flows from previously securitized loans is accreted into interest income over the life of the loans.

During the first three months of 2007 and 2006, the Company recognized $1.8 million and $2.7 million, respectively, of interest income from its previously securitized loans.

Note C -Derivative Instruments

The Company utilizes interest rate floors to mitigate exposure to interest rate risk. As of March 31, 2007, the Company has entered into eight interest rate floor contracts with a total notional amount of $600 million, seven of which (total notional amount of $500 million) are designated as cash flow hedges. The objective of these interest rate floors is to protect the overall cash flows from the Company's portfolio of $500 million of variable-rate loans outstanding from the risk of a decrease in those cash flows.

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

	March 31, 2007		December 31, 2006	
(*in thousands*)	**Notional Value**	**Estimated Fair Value**	Notional Value	Estimated Fair Value
Interest rate floors on variable-rate loans	**$ 500,000**	**$ 4,384**	$ 500,000	$ 4,239

The weighted-average strike rates for interest rate floors outstanding at March 31, 2007 range from 6.00% to 8.00%.

Interest rate contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. These counterparties must have an investment grade credit rating and be approved by the Company's Asset and Liability Committee.

For cash flow hedges, the effective portion of the gain or loss on the derivative hedging instrument is reported in other comprehensive income, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is recorded in current earnings as other income or other expense. The Company recognized the increase in market value of $0.1 million, net of taxes, in Other Comprehensive Income for the three months ending March 31, 2007 on these derivative instruments.

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During the second quarter of 2006, the Company redesignated an interest rate floor contract with a total notional amount of $100 million that had previously been accounted for as a freestanding derivative. This interest rate floor has no fair value at March 31, 2007, matures in 14 months and has a strike rate of 6.00%.

Note D - Short-term borrowings

The components of short-term borrowings are summarized below:

(in thousands)	**March 31, 2007**	December 31, 2006
Security repurchase agreements	**$ 109,858**	$ 115,675
Short-term FHLB advances	**46,204**	20,895
Total short-term borrowings	**$ 156,062**	$ 136,570

Securities sold under agreement to repurchase were sold to corporate and government customers as an alternative to available deposit products. The underlying securities included in repurchase agreements remain under the Company's control during the effective period of the agreements.

Note E - Long-Term Debt

The components of long-term debt are summarized below:

(dollars in thousands)	Maturity	**March 31, 2007**	**Weighted Average Interest Rate**
FHLB Advances	2009	**$ 415**	**7.03%**
FHLB Advances	2010	**4,000**	**6.03%**
FHLB Advances	2011	**689**	**4.48%**
Junior subordinated debentures owed to City Holding Capital Trust	2028 (a)	**16,836**	**9.15%**
Total long-term debt		**$ 21,940**	

(a) Junior Subordinated Debentures owed to City Holding Capital Trust are redeemable prior to maturity at the option of the Company (i) on or after April 1, 2008, in whole at any time or in part from time-to-time, at declining redemption prices ranging from 104.58% to 100.00% on April 1, 2018, 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.

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

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The Capital Securities issued by the statutory business trust qualify as Tier 1 capital for the Company under the Federal Reserve Board guidelines. In March 2005, the Federal Reserve Board issued a final rule that allows the inclusion of trust preferred securities issued by unconsolidated subsidiary trusts in Tier 1 capital, but with stricter limits. Under ruling, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. The Company expects to include all of its $16 million in trust preferred securities in Tier 1 capital. The trust preferred securities could be redeemed without penalty if they were no longer permitted to be included in Tier 1 capital.

Note F - Employee Benefit Plans

The Company accounts for share-based compensation in accordance with SFAS No. 123R, "Share-Based Payment." The Company transitioned to SFAS No. 123R on January 1, 2006, using the modified prospective application method. A summary of the Company's stock option activity and related information is presented below for the three months ended March 31:

	2007			2006		
	Options		**Weighted-Average Exercise Price**	Options		Weighted-Average Exercise Price
Outstanding at January 1	**271,709**	**$**	**30.51**	318,132	$	28.56
Granted	**47,500**		**39.34**	-		-
Exercised	**(5,300)**		**15.53**	(26,875)		13.30
Forfeited	**(3,000)**		**34.45**	-		-
Outstanding at March 31	**310,909**	**$**	**32.08**	291,257	$	29.97

Additional information regarding stock options outstanding and exercisable at March 31, 2007, is provided in the following table:

Ranges of Exercise Prices	No. of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Months)	Aggregate Intrinsic Value (in thousands)	No. of Options Currently Exercisable	Weighted-Average Exercise Price of Options Currently Exercisable	Weighted-Average Remaining Contractual Life (Months)	Aggregate Intrinsic Value of Options Currently Exercisable (in thousands)
$13.30	16,800	$ 13.30	58	$ 446	16,800	$ 13.30	58	$ 446
$28.00 - $36.90	294,109	33.14	93	1,978	191,984	31.94	86	1,522
	310,909			$ 2,424	208,784			$ 1,968

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Proceeds from stock option exercises totaled $0.1 million and $0.4 million during the three months ended March 31, 2007 and March 31, 2006, respectively. 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 the three months ended March 31, 2007 and March 31, 2006 all shares issued in connection with stock option exercises and restricted stock awards were issued from available treasury stock.

The total intrinsic value of stock options exercised was $0.1 million and $0.6 million during the three months ended March 31, 2007 and March 31, 2006, respectively.

Stock-based compensation expense totaled $0.1 million for both the three months ended March 31, 2007 and March 31, 2006. Unrecognized stock-based compensation expense related to stock options totaled $0.7 million at March 31, 2007. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.7 years.

The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following weighted average assumptions were used to estimate the fair value of options granted during the three months ended March 31, 2007:

Risk-free interest rate	**4.38%**
Expected dividend yield	**3.15%**
Volatility factor	**39.06%**
Expected life of option	**5.8 years**

No options were granted during the three months ended March 31, 2006.

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

Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases and any compensation cost previously recognized is reversed in the period of forfeiture. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. Unrecognized stock-based compensation expense related to non-vested restricted shares was $0.8 million at March 31, 2007. At March 31, 2007, this unrecognized expense is expected to be recognized over 4.3 years based on the weighted average-life of the restricted shares.

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

	2007		2006	
	Options	**Average Market Price at Grant**	Options	Average Market Price at Grant
Outstanding at January 1	**15,600**		14,000	
Granted	**15,500**	**$ 39.51**	1,700	$ 36.17
Forfeited/Vested	**(666)**		-	
Outstanding at March 31	**30,434**		15,700	

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 they generate. The Company's total expense associated with the retirement benefit plan approximated $0.1 million for the three month periods ended March 31, 2007 and March 31, 2006.

The Company also maintains a defined benefit pension plan ("the Defined Benefit Plan") that covers approximately 300 current and former employees. The Defined Benefit Plan was frozen in 1999 subsequent to the Company's acquisition of the plan sponsor. The Defined Benefit Plan maintains an October 31 year-end for purposes of computing its benefit obligations. The Company made a contribution of $0.2 million to the Defined Benefit Plan during the three months ended March 31, 2007, while no such contribution was made during the three months ended March 31, 2006.

The following table presents the components of the net periodic pension cost of the Defined Benefit Plan:

	Three months ended March 31,	
(in thousands)	**2007**	2006
Components of net periodic cost:		
Interest cost	**$ 164**	$ 129
Expected return on plan assets	**(185)**	(144)
Net amortization and deferral	**80**	61
Net Periodic Pension Cost	**$ 59**	$ 46

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Note G - Commitments and Contingencies

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

(in thousands)	**March 31, 2007**	December 31, 2006
Commitments to extend credit:		
Home equity lines	**$ 138,165**	$ 140,479
Commercial real estate	**39,625**	48,489
Other commitments	**143,824**	131,428
Standby letters of credit	**12,513**	12,735
Commercial letters of credit	**385**	617

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

Note H - Total Comprehensive Income

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

	Three months ended March 31,	
(in thousands)	**2007**	2006
Net income	**$ 13,231**	$ 12,866
Unrealized security gains arising during the period	**1,205**	(1,528)
Reclassification adjustment for gains included in income	**-**	-
	1,205	(1,528)
Unrealized gains on interest rate floors	**203**	(848)
Other comprehensive income before income taxes	**14,699**	10,490

Tax effect		**(563)**		950
Total comprehensive income	**$**	**14,076**	$	11,440

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Note I - Earnings per Share

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

(in thousands, except per share data)	Three months ended March 31, **2007**		2006	
Net income	**$**	**13,231**	$	12,866
Average shares outstanding		**17,369**		18,006
Effect of dilutive securities:				
Employee stock options		**55**		61
Shares for diluted earnings per share		**17,424**		18,067
Basic earnings per share	**$**	**0.76**	$	0.71
Diluted earnings per share	**$**			