CITY HOLDING CO
Form 10-Q
November 08, 2011

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 September 30, 2011
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 – 14,811,289 shares as of November 8, 2011.

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 Results 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 loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company could have adverse legal actions of a material nature; (4) the Company may face competitive loss of customers; (5) the Company may be unable to manage its expense levels; (6) the Company may have difficulty retaining key employees; (7) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (8) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (9) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (10) the Company may experience difficulties growing loan and deposit balances; (11) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; (12) continued deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in the securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments; (13) the effects of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") recently adopted by the United States Congress; and (14) disruptions to the credit and financial markets including any impact of the downgrade of U. S. government obligations by one of the credit ratings agencies and the adverse effects of the debt crisis in Europe. 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.

Index
City Holding Company and Subsidiaries

Table of Contents

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

	September 30 2011 (Unaudited)	December 31 2010 (Note A)
Assets		
Cash and due from banks	$42,188	$50,043
Interest-bearing deposits in depository institutions	6,599	5,336
Federal funds sold	35,000	11,000
Cash and Cash Equivalents	83,787	66,379
Investment securities available for sale, at fair value	393,261	429,720
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2011 and December 31, 2010 - $23,550 and $23,100, respectively)	23,759	23,865
Total Investment Securities	417,020	453,585
Gross loans	1,925,798	1,865,000
Allowance for loan losses	(19,848)	(18,224)
Net Loans	1,905,950	1,846,776
Bank owned life insurance	78,233	76,231
Premises and equipment, net	64,813	64,530
Accrued interest receivable	6,800	7,264
Net deferred tax asset	31,000	29,235
Intangible assets	56,266	56,573
Other assets	41,377	36,722
Total Assets	$2,685,246	$2,637,295
Liabilities		
Deposits:		
Noninterest-bearing	$363,504	$337,927
Interest-bearing:		
Demand deposits	505,863	486,737
Savings deposits	433,298	397,042
Time deposits	891,656	949,669
Total Deposits	2,194,321	2,171,375
Short-term borrowings		
FHLB borrowings	305	375
Customer repurchase agreements	127,576	112,335
Long-term debt	16,495	16,495
Other liabilities	36,657	21,854
Total Liabilities	2,375,354	2,322,434
Shareholders' Equity		
Preferred stock, par value $25 per share: 500,000 shares authorized; none issued	-	-
	46,249	46,249

Common stock, par value $2.50 per share: 50,000,000 shares authorized; 18,499,282 shares issued at September 30, 2011 and December 31, 2010, less 3,640,993 and 2,994,501 shares in treasury, respectively		
Capital surplus	103,120	103,057
Retained earnings	286,535	270,905
Cost of common stock in treasury	(123,311)	(102,853)
Accumulated other comprehensive (loss):		
Unrealized gain on securities available-for-sale	1,113	1,022
Unrealized gain on derivative instruments	-	295
Underfunded pension liability	(3,814)	(3,814)
Total Accumulated Other Comprehensive Loss	(2,701)	(2,497)
Total Shareholders' Equity	309,892	314,861
Total Liabilities and Shareholders' Equity	$2,685,246	$2,637,295

See notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	$23,326	$24,487	$70,416	$75,332
Interest on investment securities:				
Taxable	4,639	5,019	13,694	15,947
Tax-exempt	392	452	1,299	1,383
Interest on federal funds sold	13	12	39	13
Total Interest Income	28,370	29,970	85,448	92,675
Interest Expense				
Interest on deposits	4,550	6,551	15,829	20,566
Interest on short-term borrowings	90	86	239	284
Interest on long-term debt	159	173	474	496
Total Interest Expense	4,799	6,810	16,542	21,346
Net Interest Income	23,571	23,160	68,906	71,329
Provision for loan losses	-	1,847	2,372	4,750
Net Interest Income After Provision for Loan Losses	23,571	21,313	66,534	66,579
Non-interest Income				
Total investment securities impairment losses	(1,849)	(3,028)	(1,849)	(7,468)
Noncredit impairment losses recognized in other comprehensive income	1,494	127	1,494	2,623
Net investment securities impairment losses	(355)	(2,901)	(355)	(4,845)
Gains on sale of investment securities	627	1,335	3,756	1,397
Net investment securities gains (losses)	272	(1,566)	3,401	(3,448)
Service charges	9,840	9,702	28,749	30,378
Insurance commissions	1,388	1,346	4,513	3,987
Trust and investment management fee income	699	618	2,181	2,047
Bank owned life insurance	952	1,104	2,455	2,645
Other income	380	439	1,434	1,424
Total Non-interest Income	13,531	11,643	42,733	37,033
Non-interest Expense				
Salaries and employee benefits	10,302	9,817	30,397	29,311
Occupancy and equipment	2,057	1,917	6,084	5,836
Depreciation	1,131	1,145	3,408	3,537
FDIC insurance expense	392	963	2,276	2,775
Advertising	546	891	1,854	3,045
Bankcard expenses	559	481	1,693	1,405

Postage, delivery, and statement mailings	551	599	1,615	1,823
Office supplies	492	497	1,483	1,474
Legal and professional fees	567	414	4,547	1,175
Telecommunications	371	413	1,217	1,304
Repossessed asset losses, net of expenses	109	234	300	1,258
Other expenses	2,611	2,433	7,585	7,377
Total Non-interest Expense	19,688	19,804	62,459	60,320
Income Before Income Taxes	17,414	13,152	46,808	43,292
Income tax expense	5,837	4,129	15,784	14,241
Net Income Available to Common Shareholders	$11,577	$9,023	$31,024	$29,051
Basic earnings per common share	$0.77	$0.58	$2.03	$1.85
Diluted earnings per common share	$0.76	$0.58	$2.02	$1.84
Dividends declared per common share	$0.34	$0.34	$1.02	$1.02
Average common shares outstanding:				
Basic	15,003	15,496	15,165	15,646
Diluted	15,071	15,552	15,242	15,710

See notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
City Holding Company and Subsidiaries
Nine Months Ended September 30, 2011 and 2010
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2009	$46,249	$102,917	$253,167	$(90,877)	$ (2,554)	$ 308,902
Comprehensive income:						
Net income			29,051			29,051
Other comprehensive gain, net of deferred income taxes of $3,149:						
Net unrealized gain on available-for-sale securities of $11,897, net of taxes					7,329	7,329
Net unrealized loss on interest rate floors of $3,696, net of taxes					(2,277)	(2,277)
Total comprehensive income						34,103
Cash dividends declared ($1.02 per share)			(15,952)			(15,952)
Issuance of stock awards, net		(38)		682		644
Exercise of 1,700 stock options		(12)		58		46
Purchase of 408,151 treasury shares				(12,902)		(12,902)
Balances at September 30, 2010	$46,249	$102,867	$266,266	$(103,039)	$ 2,498	$ 314,841

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2010	$46,249	$103,057	$270,905	$(102,853)	$ (2,497)	$ 314,861
Comprehensive income:						
Net income			31,024			31,024
Other comprehensive gain, net of deferred income taxes of $124:						

Net unrealized gain on available-for-securities of $149, net of taxes					91	91
Net unrealized loss on interest rate floors of $477, net of taxes					(295)	(295)
Total comprehensive income						30,820
Cash dividends declared ($1.02 per share)			(15,394)			(15,394)
Issuance of stock awards, net		83		784		867
Exercise of 6,576 stock options		(20)		188		168
Purchase of 675,501 treasury shares				(21,430)		(21,430)
Balances at September 30, 2011	$46,249	$103,120	$286,535	$(123,311)	$ (2,701)	$ 309,892

See notes to consolidated financial statements.

6

Table of Contents

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

	Nine Months Ended September 30	
	2011	2010
Operating Activities		
Net income	$31,024	$29,051
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion	1,296	674
Provision for loan losses	2,372	4,750
Depreciation of premises and equipment	3,408	3,537
Deferred income tax benefit	(1,802)	(877)
Accretion of gain from sale of interest rate floors	(295)	(2,277)
Net periodic employee benefit	289	174
Realized investment securities (gains) losses	(3,756)	-
Net investment securities impairment losses	355	4,845
Increase in value of bank-owned life insurance	(2,455)	(2,645)
Proceeds from bank-owned life insurance	492	657
Decrease (increase) in accrued interest receivable	464	(329)
Increase in other assets	(4,694)	(14,076)
Increase in other liabilities	15,577	11,909
Net Cash Provided by Operating Activities	42,275	35,393
Investing Activities		
Proceeds from maturities and calls of securities held-to-maturity	1,338	3,217
Proceeds from sale of money market and mutual fund securities available-for-sale	617,230	677,250
Purchases of money market and mutual fund securities available-for-sale	(617,337)	(661,949)
Proceeds from sales of securities available-for-sale	56,371	10,849
Proceeds from maturities and calls of securities available-for-sale	88,807	84,789
Purchases of securities available-for-sale	(107,050)	(45,494)
Net increase in loans	(61,800)	(37,912)
Purchases of premises and equipment	(3,691)	(4,335)
Net Cash (Used in) Provided by Investing Activities	(26,132)	26,415
Financing Activities		
Net increase (decrease) in noninterest-bearing deposits	25,577	(11,219)
Net (decrease) increase in interest-bearing deposits	(2,631)	6,247
Net increase (decrease) in short-term borrowings	15,171	(7,695)
Repayment of long-term debt	-	(67)
Purchases of treasury stock	(21,429)	(12,902)
Proceeds from exercise of stock options	168	46
Dividends paid	(15,591)	(16,083)
Net Cash Provided by (Used in) Financing Activities	1,265	(41,673)
Increase in Cash and Cash Equivalents	17,408	20,135
Cash and cash equivalents at beginning of period	66,379	62,635
Cash and Cash Equivalents at End of Period	$83,787	$82,770

See notes to consolidated financial statements.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011
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 nine months ended September 30, 2011 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2011. 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, 2010 has been derived from audited financial statements included in the Company's 2010 Annual Report to Shareholders. Certain information and footnote disclosures normally included in annual 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 2010 Annual Report of the Company.

Note B –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.

	September 30, 2011				December 31, 2010			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
US Government agencies	$6,377	$ 203	$ -	$6,580	$7,837	$ 165	$ -	$8,002
Obligations of states and political subdivisions	56,198	1,589	(89)	57,698	65,634	759	(467)	65,926
Mortgage-backed securities:								
US government agencies	238,206	8,398	(250)	246,354	251,209	8,099	(493)	258,815
Private label	5,647	50	(12)	5,685	8,031	87	-	8,118
Trust preferred securities	48,958	680	(5,082)	44,556	58,517	1,031	(4,938)	54,610
Corporate securities	16,223	21	(1,443)	14,801	16,214	63	(884)	15,393
Total Debt Securities	371,609	10,941	(6,876)	375,674	407,442	10,204	(6,782)	410,864
Marketable equity securities	5,236	-	(1,128)	4,108	5,207	8	(522)	4,693
Non-marketable equity securities	11,709	-	-	11,709	12,553	-	-	12,553

Investment funds	1,724	46	-	1,770	1,617	-	(7)	1,610
Total Securities Available-for-Sale	$390,278	$ 10,987	$ (8,004)	$393,261	$426,819	$ 10,212	$ (7,311)	$429,720

Table of Contents

(In thousands)	September 30, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	December 31, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held-to-maturity								
Obligations of states and political subdivisions	$309	$ 1	$ -	$310	$438	$ 5	$ -	$443
Trust preferred securities	23,450	974	(1,184)	23,240	23,427	-	(770)	22,657
Total Securities Held-to-Maturity	$23,759	$ 975	$ (1,184)	$23,550	$23,865	$ 5	$ (770)	$23,100

Securities with limited marketability, such as stock in the Federal Reserve Bank ("FRB") or the Federal Home Loan Bank ("FHLB"), 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 September 30, 2011 and December 31, 2010. The following table shows the gross unrealized losses and fair value of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2011 and December 31, 2010.

	September 30, 2011					
	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	$1,781	$75	$236	$14	$2,017	$89
Mortgage-backed securities:						
US Government agencies	4,456	250	-	-	4,456	250
Private label	3,529	12	-	-	3,529	12
Trust preferred securities	6,162	428	5,314	4,655	11,476	5,083
Corporate securities	1,682	351	3,278	1,092	4,960	1,443
Marketable equity securities	2,836	795	1,230	332	4,066	1,127
Total	$20,446	$1,911	$10,058	$6,093	$30,504	$8,004
Securities held-to-maturity:						
Trust preferred securities	$4,614	$423	$7,954	$761	$12,568	$1,184

	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

Table of Contents

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 the first nine months of 2011, the Company recorded $0.4 million of credit-related net investment impairment losses. The charges deemed to be other-than-temporary were related to pooled trust preferred securities, with a remaining book value of $7.5 million at September 30, 2011. The credit-related net impairment charges were based on the Company's quarterly review of its investment securities for indications of losses considered to be other than temporary. This loss was offset by realized investment gains of $3.8 million for the first nine months of 2011. During the first quarter of 2010, the Company recognized a credit-related impairment charge of $0.6 million related to a single issuer bank trust preferred security (Cascade Capital Trust I issued by Cascade Financial Corporation of Everett, Washington). In the second quarter of 2011, Cascade Financial Corporation ("Cascade") was acquired by Opus Bank. In connection with this acquisition, Opus Bank called Cascade's trust preferred security, along with the accrued interest that had previously been deferred. As a result of this repayment, the Company recognized an investment gain of $0.6 million during the three months ended September 30, 2011.

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 preferred securities ($1.7 million credit-related net impairment losses for the full year) with a remaining book value of $7.8 million at December 31, 2010, single issuer bank trust preferred securities ($0.8 million credit-related net impairment losses for the full year) 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 for the full year) with a 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 (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. The $3.6 million of credit-related net impairment charges recognized on the community bank and bank holding equity positions was 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 did not expect the market value of these securities to recover in the near future. These losses were partially offset by realized investment gains of $1.4 million as the Company sold certain single issuer trust preferred securities with a remaining book value of $75.3 million during the year ended December 31, 2010.

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

Table of Contents

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 September 30, 2011, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and unprecedented market volatility. These conditions will not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of September 30, 2011, management believes the unrealized losses detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting 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 September 30, 2011, the book value of the Company's five pooled trust preferred securities totaled $7.5 million with an estimated fair value of $3.2 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 Topic ASC 320, Investments-Debt and Equity Securities, ("ASC 320") and are evaluated quarterly for other-than-temporary-impairment ("OTTI"). Management performs an analysis of OTTI utilizing its internal methodology as described below to estimate expected cash flows to be received in the future. The Company reviews each of its pooled trust preferred securities to determine if an OTTI charge would be recognized in current earnings in accordance with ASC 320. There is a risk that continued collateral deterioration could cause the Company to recognize additional OTTI charges in earnings in the future.

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

The Company utilizes a third party model to compute the present value of expected cash flows which considers the structure and term of each of the five respective pooled trust preferred securities and the financial condition of the underlying issuers. Specifically, the third party model details interest rates, 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 generally assumes no recovery. For issuing banks that have deferred its interest payments, management excludes the collateral balance associated with these banks and assumes no recoveries of such collateral balance in the future. The exclusion of such issuing banks in a current deferral position is based on such bank experiencing a certain level of financial difficulty that raises doubt about its ability to satisfy its contractual debt obligation, and accordingly, the Company excludes the associated collateral balance from its estimate of expected cash flows. Other assumptions used in the estimate of expected cash flows include expected future default rates and prepayments. Specifically, the model assumes annual prepayments of 1.0% with 100% at maturity and assumes 150 basis points of additional annual defaults from banks that are currently not in default or deferral. In addition, the model assumes no recoveries except for one trust preferred security which assumes that three of the banks currently deferring will cure such positions between December 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.

Table of Contents

Based upon the analysis performed by management as of September 30, 2011, $0.4 million of credit-related OTTI charges were recognized during the three and nine months ended September 30, 2011. During the three and nine months ended September 30, 2010, the Company recognized $0.7 million and $1.7 million, respectively, of credit-related OTTI charges.

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

	For the nine months ended	
(In thousands)	September 30, 2011	September 30, 2010
Balance, beginning of period	$ 20,476	$ 18,694
Additions:		
Initial credit impairment	-	-
Additional credit impairment	355	2,358
Deductions:		
Dispositions	(638)	-
Balance, end of period	$ 20,193	$ 21,052

The amortized cost and estimated fair value of debt securities at September 30, 2011, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

(In thousands)	Cost	Estimated Fair Value
Securities Available-for-Sale		
Due in one year or less	$ 8,613	$ 8,668
Due after one year through five years	48,108	48,431
Due after five years through ten years	60,763	56,462
Due after ten years	254,125	262,113
	$ 371,609	$ 375,674
Securities Held-to-Maturity		
Due in one year or less	$ -	$ -
Due after one year through five years	309	310
Due after five years through ten years	-	-
Due after ten years	23,450	23,240
	$ 23,759	$ 23,550

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Gross realized gains	$627	$1,335	$3,756	$1,397
Gross realized losses	-	-	-	-
Gain (loss) on sale of investment securities	$627	$1,335	$3,756	$1,397

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 $219.1 million and $204.6 million at September 30, 2011 and December 31, 2010, respectively.

Table of Contents

The following table presents additional information about the Company's trust preferred securities with a credit rating of below investment grade as of September 30, 2011:
(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	$ 1,175	$ 505	$ 197	$ (308)	Ca	17	28.7 %	14.8 %(2)	17.0 %
P2	(6)	Pooled	Mezz	3,944	1,197	840	(357)	Ca	20	25.8 %	20.7 %(2)	14.7 %
P3	(7)	Pooled	Mezz	2,962	1,431	376	(1,055)	Caa3	26	24.5 %	22.5 %(2)	0.0 %
P4	(8)	Pooled	Mezz	4,060	965	208	(757)	Ca	13	25.4 %	0.0 %(3)	0.0 %
P5	(9)	Pooled	Mezz	5,650	826	221	(605)	Ca	16	35.6 %	22.7 %(2)	24.6 %
		Held to Maturity:										
P6	(10)	Pooled	Mezz	2,274	980							