

CITY HOLDING CO  
Form 10-Q  
November 05, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Quarterly Period Ended September 30, 2014

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  No

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

Yes  No

Indicate by check mark 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

Non-accelerated filer  Smaller reporting company

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

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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 – 15,217,692 shares as of November 4, 2014.

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## 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 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 the Company's financial condition and results of operations; (12) deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments; and (13) the effects of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the regulations promulgated and to be promulgated thereunder, which may subject the Company and its subsidiaries to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses. 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 - Financial Information

## Item 1 - Financial Statements

## Consolidated Balance Sheets

## City Holding Company and Subsidiaries

(in thousands)

	September 30, 2014	December 31, 2013
Assets	(Unaudited)	
Cash and due from banks	\$79,836	\$75,999
Interest-bearing deposits in depository institutions	11,656	9,877
Cash and Cash Equivalents	91,492	85,876
Investment securities available for sale, at fair value	250,481	352,660
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2014 and December 31, 2013, - \$95,343 and \$5,335, respectively)	93,089	4,117
Other securities	14,234	13,343
Total Investment Securities	357,804	370,120
Gross loans	2,630,742	2,606,197
Allowance for loan losses	(20,487	) (20,575
Net Loans	2,610,255	2,585,622
Bank owned life insurance	94,338	92,047
Premises and equipment, net	78,999	82,548
Accrued interest receivable	7,751	6,866
Net deferred tax asset	36,654	42,165
Goodwill and other intangible assets	74,434	75,142
Other assets	33,580	27,852
Total Assets	\$3,385,307	\$3,368,238
Liabilities		
Deposits:		
Noninterest-bearing	\$498,491	\$493,228
Interest-bearing:		
Demand deposits	620,880	601,527
Savings deposits	640,009	612,772
Time deposits	1,034,015	1,077,606
Total Deposits	2,793,395	2,785,133
Short-term borrowings:		
Customer repurchase agreements	146,115	137,798
Long-term debt	16,495	16,495
Other liabilities	37,629	41,189
Total Liabilities	2,993,634	2,980,615
Shareholders' Equity	—	—

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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 September 30, 2014 and December 31, 2013, 46,249  
less 3,152,647 and 2,748,922 shares in treasury, respectively 46,249

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Capital surplus	107,062	107,596	
Retained earnings	353,721	333,970	
Cost of common stock in treasury	(112,438	) (95,202	)
Accumulated other comprehensive income (loss):			
Unrealized loss on securities available-for-sale	(41	) (2,110	)
Underfunded pension liability	(2,880	) (2,880	)
Total Accumulated Other Comprehensive Loss	(2,921	) (4,990	)
Total Shareholders' Equity	391,673	387,623	
Total Liabilities and Shareholders' Equity	\$3,385,307	\$3,368,238	

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	\$29,292	\$32,983	\$87,647	\$94,693
Interest and dividends on investment securities:				
Taxable	2,864	2,392	8,797	7,774
Tax-exempt	282	299	840	935
Interest on federal funds sold	—	—	—	22
Total Interest Income	32,438	35,674	97,284	103,424
Interest Expense				
Interest on deposits	2,730	3,068	8,220	9,490
Interest on short-term borrowings	86	82	246	232
Interest on long-term debt	152	154	453	464
Total Interest Expense	2,968	3,304	8,919	10,186
Net Interest Income	29,470	32,370	88,365	93,238
Provision for loan losses	1,872	1,154	3,670	4,903
Net Interest Income After Provision for Loan Losses	27,598	31,216	84,695	88,335
Non-interest Income				
Gains on sale of investment securities	71	—	972	93
Service charges	6,934	7,169	19,833	20,601
Bankcard revenue	3,796	3,468	11,319	10,117
Insurance commissions	1,396	1,365	4,740	4,563
Trust and investment management fee income	1,103	939	3,251	2,893
Bank owned life insurance	771	805	2,292	2,416
Other income	538	734	1,646	2,376
Total Non-interest Income	14,609	14,480	44,053	43,059
Non-interest Expense				
Salaries and employee benefits	13,144	12,930	39,260	38,519
Occupancy and equipment	2,531	2,409	7,541	7,381
Depreciation	1,542	1,437	4,553	4,289
FDIC insurance expense	432	500	1,199	1,352
Advertising	799	712	2,548	2,266
Bankcard expenses	843	680	2,482	2,173
Postage, delivery, and statement mailings	557	541	1,662	1,698
Office supplies	405	416	1,235	1,320
Legal and professional fees	476	591	1,497	1,561
Telecommunications	510	721	1,354	1,631
Reposessed asset losses, net of expenses	31	896	552	718
Merger related costs	—	(150)	) —	5,455
Other expenses	3,055	2,982	8,123	9,664
Total Non-interest Expense	24,325	24,665	72,006	78,027
Income Before Income Taxes	17,882	21,031	56,742	53,367

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Income tax expense	6,010	7,056	18,310	18,398
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Net Income Available to Common Shareholders	\$ 11,872	\$ 13,975	\$ 38,432	\$ 34,969
Total comprehensive income	\$ 11,460	\$ 13,342	\$ 40,501	\$ 30,217
Average common shares outstanding	15,363	15,608	15,509	15,545
Effect of dilutive securities:				
Employee stock awards and warrant outstanding	82	182	85	168
Shares for diluted earnings per share	15,445	15,790	15,594	15,713
Basic earnings per common share	\$0.76	\$0.89	\$2.45	\$2.23
Diluted earnings per common share	\$0.76	\$0.88	\$2.44	\$2.21
Dividends declared per common share	\$0.40	\$0.37	\$1.20	\$1.11

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income (Unaudited)  
City Holding Company and Subsidiaries  
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$11,872	\$13,975	\$38,432	\$34,969
Unrealized gains (losses) on available-for-sale securities arising during the period	(582	) (1,004	) 4,252	(7,438
Reclassification adjustment for gains	(71	) —	(972	) (93
Other comprehensive income (loss) before income taxes	(653	) (1,004	) 3,280	(7,531
Tax effect	241	371	(1,211	) 2,779
Other comprehensive income (loss), net of tax	(412	) (633	) 2,069	(4,752
Comprehensive income, net of tax	\$11,460	\$13,342	\$40,501	\$30,217

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)  
City Holding Company and Subsidiaries  
Nine Months Ended September 30, 2014 and 2013  
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	\$46,249	\$103,524	\$309,270	\$(124,347)	(1,422)	\$333,274
Net income			34,969			34,969
Other comprehensive loss					(4,752)	(4,752)
Acquisition of Community Financial Corporation		4,236		24,272		28,508
Cash dividends declared (\$1.11 per share)			(17,686)			(17,686)
Stock-based compensation expense, net		(315)		1,278		963
Exercise of 107,140 stock options		(170)		2,936		2,766
Balance at September 30, 2013	\$46,249	\$107,275	\$326,553	\$(95,861)	\$(6,174)	\$378,042
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2013	46,249	\$107,596	\$333,970	(95,202)	\$(4,990)	\$387,623
Net income			38,432			38,432
Other comprehensive income					2,069	2,069
Cash dividends declared (\$1.20 per share)			(18,681)			(18,681)
Stock-based compensation expense, net		(262)		1,472		1,210
Exercise of 19,000 stock options		(272)		825		553
Purchase of 456,856 treasury shares				(19,533)		(19,533)
Balance at September 30, 2014	46,249	\$107,062	\$353,721	(112,438)	\$(2,921)	\$391,673

See notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2014	2013
Net income	\$38,432	\$34,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion and amortization	(3,889	) (7,885
Provision for loan losses	3,670	4,903
Depreciation of premises and equipment	4,553	4,289
Deferred income tax expense	3,921	4,945
Net periodic employee benefit cost	393	586
Realized investment securities gains	(972	) (93
Stock-compensation expense	1,210	963
Increase in value of bank-owned life insurance	(2,291	) (2,413
Loans originated for sale	(4,911	) (20,895
Proceeds from the sale of loans originated for sale	5,075	25,816
Gain on sale of loans	(131	) (553
Change in accrued interest receivable	(885	) (22
Change in other assets	(5,829	) 20,734
Change in other liabilities	(3,763	) (6,922
Net Cash Provided by Operating Activities	34,583	58,422
Proceeds from sales of securities available-for-sale	1,821	18,398
Proceeds from maturities and calls of securities available-for-sale	37,071	78,671
Proceeds from maturities and calls of securities held-to-maturity	4,124	9,504
Purchases of securities available-for-sale	(17,058	) (42,295
Purchases of securities held-to-maturity	(10,226	) —
Net increase in loans	(23,454	) (39,643
Purchases of premises and equipment	(1,085	) (4,663
Acquisition of Community Financial Corporation, net of cash acquired of \$8,888	—	(21,852
Net Cash Used in Investing Activities	(8,807	) (1,880
Net increase in noninterest-bearing deposits	5,263	25,440
Net increase (decrease) in interest-bearing deposits	3,597	(9,360
Net increase in short-term borrowings	8,317	36,297
Purchases of treasury stock	(19,533	) —
Proceeds from exercise of stock options, net of tax benefit	553	2,766
Dividends paid	(18,357	) (17,058
Net Cash (Used in) Provided by Financing Activities	(20,160	) 38,085
Increase in Cash and Cash Equivalents	5,616	94,627
Cash and cash equivalents at beginning of period	85,876	84,994
Cash and Cash Equivalents at End of Period	\$91,492	\$179,621

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)  
September 30, 2014

Note A –Background and Basis of Presentation

City Holding Company is a financial 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 operates a network of 82 branch offices primarily along the I-64 corridor from Grayson, Kentucky through Lexington, Virginia; and along the I-81 corridor through the Shenandoah Valley from Staunton, Virginia to Martinsburg, West Virginia. City's branch network includes 57 offices in West Virginia, 14 offices in Virginia, 8 offices in Kentucky and 3 offices in Ohio. City National provides credit, deposit, investment advisory and insurance products and services to a broad geographical area that includes many rural and small community markets in addition to larger cities such as Charleston (WV), Huntington (WV), Winchester (VA), Staunton (VA), Virginia Beach (VA), Ashland (KY) and Martinsburg (WV). In addition to its branch network, the bank's delivery channels include ATMs, mobile banking, on-line banking, debit cards, cash management tools and telephone banking systems.

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of the City Holding 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 nine months ended September 30, 2014 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2014. 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, 2013 has been derived from audited financial statements included in the Company's 2013 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 2013 Annual Report of the Company.

Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on shareholders' equity or net income for any period.

Note B - Recent Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects." This ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment. The ASU also requires reporting entities to disclose information that enable users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of



operations. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-01 is not expected to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through similar legal agreement. Additionally, the amendments require interim and annual disclosures of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local

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requirements of the applicable jurisdiction. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's financial statements.

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" This ASU changes the requirements for reporting discontinued operations. A disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations when certain criteria are met. Additional disclosures are also required for disposals that meet the criteria to be reported in discontinued operations. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-08 is not expected to have a material impact on the Company's financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle will be achieved using a five step process. This ASU will become effective for the Company on January 1, 2016. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's financial statements.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". The amendments in this update require two accounting changes. First, the amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counter-party, which will result in secured borrowing accounting for the repurchase agreement. This update also requires certain disclosures for these types of transactions. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-11 is not expected to have a material impact on the Company's financial statements.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Performance targets should not be reflected in estimating the grant date fair value of the award, but compensation cost should be recognized in the period for which the requisite service has already been rendered. This ASU will become effective for the Company on January 1, 2016, with early adoption permitted. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's financial statements.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-14, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-14 is not expected to have a material impact on the Company's financial statements.

Note C –Investments

The amortized cost and estimated fair values of the Company's securities are shown in the following table (in thousands):

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	September 30, 2014				December 31, 2013			
	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:								
U.S. Treasuries and U.S. government agencies	\$1,923	\$ 20	\$ —	\$1,943	\$2,317	\$ 48	\$ —	\$2,365
Obligations of states and political subdivisions	41,096	729	13	41,812	41,027	627	106	41,548
Mortgage-backed securities:								
U.S. government agencies	183,470	2,950	3,123	183,297	282,653	2,765	7,310	278,108
Private label	1,767	11	—	1,778	2,184	16	3	2,197
Trust preferred securities	10,164	300	1,648	8,816	12,943	2,113	1,900	13,156
Corporate securities	7,802	203	375	7,630				