

COMMUNITY TRUST BANCORP INC /KY/

Form 10-Q

May 09, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-11129

COMMUNITY TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0979818
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.

346 North Mayo Trail	41501
Pikeville, Kentucky	(Zip Code)
(address of principal executive offices)	

(606) 432-1414
(Registrant's telephone number)

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

Yes ☒

No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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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 “accelerated filer, large 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 ☐

(Do not check if a 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 ☐

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

Common stock – 15,538,293 shares outstanding at April 30, 2012

**CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS**

Certain of the statements contained herein that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. CTBI's actual results may differ materially from those included in the forward-looking statements. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions or future conditional verbs such as "will," "should," "would," and "could." These forward-looking statements involve risks and uncertainties including, but not limited to, economic conditions, portfolio growth, the credit performance of the portfolios, including bankruptcies, and seasonal factors; changes in general economic conditions including the performance of financial markets, prevailing inflation and interest rates, realized gains from sales of investments, gains from asset sales, and losses on commercial lending activities; results of various investment activities; the effects of competitors' pricing policies, changes in laws and regulations, competition, and demographic changes on target market populations' savings and financial planning needs; industry changes in information technology systems on which we are highly dependent; failure of acquisitions to produce revenue enhancements or cost savings at levels or within the time frames originally anticipated or unforeseen integration difficulties; the adoption by CTBI of a Federal Financial Institutions Examination Council (FFIEC) policy that provides guidance on the reporting of delinquent consumer loans and the timing of associated credit charge-offs for financial institution subsidiaries; and the resolution of legal proceedings and related matters. In addition, the banking industry in general is subject to various monetary and fiscal policies and regulations, which include those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and state regulators, whose policies and regulations could affect CTBI's results. These statements are representative only on the date hereof, and CTBI undertakes no obligation to update any forward-looking statements made.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The accompanying information has not been audited by independent registered public accountants; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2011 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

	(unaudited) March 31 2012	December 31 2011
(dollars in thousands)		
Assets:		
Cash and due from banks	\$ 69,240	\$69,723
Interest bearing deposits	170,525	166,057
Federal funds sold	3,456	2,701
Cash and cash equivalents	243,221	238,481
Certificates of deposit in other banks	12,992	11,875
Securities available-for-sale at fair value (amortized cost of \$600,513 and \$511,731, respectively)	613,978	527,398
Securities held-to-maturity at amortized cost (fair value of \$1,664 and \$1,661, respectively)	1,662	1,662
Loans held for sale	1,642	536
Loans	2,542,168	2,556,548
Allowance for loan losses	(33,172)	(33,171)
Net loans	2,508,996	2,523,377
Premises and equipment, net	54,725	54,297
Federal Home Loan Bank stock	25,674	25,673
Federal Reserve Bank stock	4,883	4,883
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$7,552 and \$7,499, respectively)	1,063	1,117
Bank owned life insurance	43,827	43,483
Mortgage servicing rights	2,640	2,282
Other real estate owned	59,154	56,965
Other assets	34,066	33,660
Total assets	\$ 3,674,013	\$3,591,179
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$629,293	\$584,735
Interest bearing	2,318,260	2,293,624
Total deposits	2,947,553	2,878,359
Repurchase agreements	225,301	217,177
Federal funds purchased and other short-term borrowings	20,753	13,104
Advances from Federal Home Loan Bank	1,562	21,609
Long-term debt	61,341	61,341
Other liabilities	42,507	32,723
Total liabilities	3,299,017	3,224,313
Shareholders' equity:		

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Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2012 – 15,526,895; 2011 – 15,429,992	77,635	77,151
Capital surplus	158,092	156,101
Retained earnings	130,517	123,431
Accumulated other comprehensive income, net of tax	8,752	10,183
Total shareholders' equity	374,996	366,866
 Total liabilities and shareholders' equity	 \$ 3,674,013	 \$3,591,179

Community Trust Bancorp, Inc.
Condensed Consolidated Statements of Income and Other Comprehensive Income
(unaudited)

	Three Months Ended March 31	
(in thousands except per share data)	2012	2011
Interest income:		
Interest and fees on loans, including loans held for sale	\$35,052	\$36,686
Interest and dividends on securities		
Taxable	2,771	2,282
Tax exempt	477	396
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	364	356
Other, including interest on federal funds sold	162	140
Total interest income	38,826	39,860
Interest expense:		
Interest on deposits	4,471	5,830
Interest on repurchase agreements and other short-term borrowings	338	428
Interest on advances from Federal Home Loan Bank	11	28
Interest on long-term debt	1,000	1,000
Total interest expense	5,820	7,286
 Net interest income	 33,006	 32,574
Provision for loan losses	1,160	4,387
Net interest income after provision for loan losses	31,846	28,187
 Noninterest income:		
Service charges on deposit accounts	5,872	5,880
Gains on sales of loans, net	617	381
Trust income	1,613	1,616
Loan related fees	1,287	883
Bank owned life insurance	428	410
Other noninterest income	1,370	1,568
Total noninterest income	11,187	10,738
 Noninterest expense:		
Officer salaries and employee benefits	2,356	2,173
Other salaries and employee benefits	10,457	9,911
Occupancy, net	1,853	2,097

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Equipment	918	868
Data processing	1,579	1,792
Bank franchise tax	1,155	1,164
Legal fees	601	930
Professional fees	260	406
FDIC insurance	657	1,124
Other real estate owned provision and expense	790	846
Other noninterest expense	5,124	5,236
Total noninterest expense	25,750	26,547
Income before income taxes	17,283	12,378
Income taxes	5,414	3,074
Net income	11,869	9,304
Other comprehensive income:		
Unrealized holding gains (losses) on securities available-for-sale	(2,202)	1,027
Deferred tax expense (benefit)	(771)	359
Other comprehensive income, net of tax	(1,431)	668
Comprehensive income	\$10,438	\$9,972
Basic earnings per share	\$0.77	\$0.61
Diluted earnings per share	\$0.77	\$0.61
Weighted average shares outstanding-basic	15,407	15,294
Weighted average shares outstanding-diluted	15,456	15,324
Dividends declared per share	\$0.31	\$0.305

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31	
(in thousands)	2012	2011
Cash flows from operating activities:		
Net income	\$11,869	\$9,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,061	1,007
Deferred taxes	771	(337)
Stock-based compensation	146	154
Excess tax benefits of stock-based compensation	336	16
Provision for loan losses	1,160	4,387
Write-downs of other real estate owned and other repossessed assets	179	418
Gains on sale of mortgage loans held for sale	(617)	(381)
(Gains)/losses on sale of assets, net	(35)	37
Proceeds from sale of mortgage loans held for sale	26,731	18,181
Funding of mortgage loans held for sale	(27,220)	(18,296)
Amortization of securities premiums and discounts, net	1,287	656
Change in cash surrender value of bank owned life insurance	(344)	(332)
Mortgage servicing rights:		
Fair value adjustments	(207)	46
New servicing assets created	(151)	(136)
Changes in:		
Other assets	(392)	(2,785)
Other liabilities	10,090	(224)
Net cash provided by operating activities	24,664	11,715
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	(1,117)	3,973
Securities available-for-sale (AFS):		
Purchase of AFS securities	(123,695)	(90,186)
Proceeds from prepayments and maturities of AFS securities	33,626	18,902
Change in loans, net	8,803	8,752
Purchase of premises and equipment	(1,436)	(1,774)
Proceeds from sale of premises and equipment	73	0
Additional investment in Federal Home Loan Bank stock	(1)	(34)
Proceeds from sale of other real estate and other repossessed assets	2,089	1,169
Additional investment in other real estate and other repossessed assets	(90)	(14)
Net cash used in investing activities	(81,748)	(59,212)
Cash flows from financing activities:		
Change in deposits, net	69,194	86,118
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	15,773	11,102

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Advances from Federal Home Loan Bank	0	570
Payments on advances from Federal Home Loan Bank	(20,047)	(49)
Issuance of common stock	1,993	396
Excess tax benefits of stock-based compensation	(336)	(16)
Dividends paid	(4,753)	(4,660)
Net cash provided by financing activities	61,824	93,461
Net increase in cash and cash equivalents	4,740	45,964
Cash and cash equivalents at beginning of period	238,481	158,983
Cash and cash equivalents at end of period	\$243,221	\$204,947
Supplemental disclosures:		
Income taxes paid	\$3,800	\$3,600
Interest paid	5,290	6,808
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	952	40
Common stock dividends accrued, paid in subsequent quarter	4,783	4,695
Real estate acquired in settlement of loans	5,370	6,322

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of March 31, 2012, the results of operations for the three months ended March 31, 2012 and 2011, and the cash flows for the three months ended March 31, 2012 and 2011. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three months ended March 31, 2012 and 2011, and the cash flows for the three months ended March 31, 2012 and 2011, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2011, included in our annual report on Form 10-K.

Principles of Consolidation – The unaudited condensed consolidated financial statements include the accounts of CTBI and its separate and distinct, wholly owned subsidiaries Community Trust Bank, Inc. (the "Bank") and Community Trust and Investment Company. All significant intercompany transactions have been eliminated in consolidation.

Reclassifications – Certain reclassifications considered to be immaterial have been made in the prior year condensed consolidated financial statements to conform to current year classifications. These reclassifications had no effect on net income.

New Accounting Standards –

Ø **Reconsideration of Effective Control for Repurchase Agreements** – In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The main objective in developing this ASU was to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control were not changed by the amendments in this Update. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of ASU No. 2011-03 did not have a material impact on CTBI's consolidated financial statements.

Ø **Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs** – In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs.

The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a material effect on our financial position or results of operations.

Ø Amendments to Topic 220, Comprehensive Income – In June 2011, the FASB issued ASU No. 2011-05, Amendments to Topic 220, Comprehensive Income. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments do not require any transition disclosures. In October 2011, the FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. The adoption of ASU 2011-05 did not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. The amendments in this ASU supersede certain pending paragraphs in ASU No. 2011-05 to effectively defer only those changes that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities.

Ø Testing Goodwill for Impairment – In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The amendments in this ASU will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. CTBI will adopt this ASU by the date required and does not anticipate that it will have a material effect on our consolidated financial statements.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$19 thousand and \$24 thousand for the three months ended March 31, 2012 and 2011, respectively. Restricted stock expense for the first three months of 2012 and 2011 was \$157 thousand and \$160 thousand, respectively, including \$30 thousand in dividends paid for each quarter. As of March 31, 2012, there was a total of \$0.1 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 0.6 years and a

total of \$1.5 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 1.8 years.

There were 331 shares of restricted stock granted during the three months ended March 31, 2012, and 45,542 shares granted during the three months ended March 31, 2011. The restrictions on the restricted stock will lapse at the end of five years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the participant's restricted stock for each year since the date of award). The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were no options granted to purchase shares of CTBI common stock during the three months ended March 31, 2012 or 2011.

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity (HTM) securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale (AFS) securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at March 31, 2012 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$31,270	\$783	\$(3)	\$32,050
State and political subdivisions	77,959	3,354	(187)	81,126
U.S. government sponsored agency mortgage-backed securities	470,250	9,583	(610)	479,223
Collateralized mortgage obligations	452	12	0	464
Total debt securities	579,931	13,732	(800)	592,863
Marketable equity securities	20,582	625	(92)	21,115
Total available-for-sale securities	\$600,513	\$14,357	\$(892)	\$613,978

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$1,182	\$2	\$0	\$1,184
Other debt securities	480	0	0	480
Total held-to-maturity securities	\$1,662	\$2	\$0	\$1,664

The amortized cost and fair value of securities as of December 31, 2011 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
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		Gains	Losses	
U.S. Treasury and government agencies	\$32,077	\$1,171	\$0	\$33,248
State and political subdivisions	68,358	3,816	(30)	72,144
U.S. government sponsored agency mortgage-backed securities	390,213	10,180	(57)	400,336
Collateralized mortgage obligations	501	6	0	507
Total debt securities	491,149	15,173	(87)	506,235
Marketable equity securities	20,582	718	(137)	21,163
Total available-for-sale securities	\$511,731	\$15,891	\$(224)	\$527,398

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$1,182	\$0	\$0	\$1,182
Other debt securities	480	0	(1)	479
Total held-to-maturity securities	\$1,662	\$0	\$(1)	\$1,661

The amortized cost and fair value of securities at March 31, 2012 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$4,744	\$4,791	\$0	\$0
Due after one through five years	22,717	23,444	0	0
Due after five through ten years	44,651	46,008	1,182	1,184
Due after ten years	37,117	38,933	0	0
U.S. government sponsored agency mortgage-backed securities	470,250	479,223	0	0
Collateralized mortgage obligations	452	464	0	0
Other securities	0	0	480	480
Total debt securities	579,931	592,863	1,662	1,664
Marketable equity securities	20,582	21,115	0	0
Total securities	\$600,513	\$613,978	\$1,662	\$1,664

There were no pre-tax gains or losses as of March 31, 2012 or 2011.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$188.2 million at March 31, 2012 and \$198.6 million at December 31, 2011.

The amortized cost of securities sold under agreements to repurchase amounted to \$239.7 million at March 31, 2012 and \$217.2 million at December 31, 2011.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical costs. CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of March 31, 2012 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of March 31, 2012 was 20.2% compared to 4.8% as of December 31, 2011. The following tables provide the amortized cost, gross unrealized losses, and fair

market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of March 31, 2012 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$ 1,977	\$(3)	\$ 1,974
State and political subdivisions	11,917	(186)	11,731
U.S. government sponsored agency mortgage-backed securities	110,833	(610)	110,223
Collateralized mortgage obligations	0	0	0
Total debt securities	124,727	(799)	123,928
Marketable equity securities	0	0	0
Total <12 months temporarily impaired AFS securities	124,727	(799)	123,928
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	106	(1)	105
U.S. government sponsored agency mortgage-backed securities	0	0	0
Collateralized mortgage obligations	0	0	0
Total debt securities	106	(1)	105
Marketable equity securities	329	(92)	237
Total ≥12 months temporarily impaired AFS securities	435	(93)	342
Total			
U.S. Treasury and government agencies	1,977	(3)	1,974
State and political subdivisions	12,023	(187)	11,836
U.S. government sponsored agency mortgage-backed securities	110,833	(610)	110,223
Collateralized mortgage obligations	0	(0)	0
Total debt securities	124,833	(800)	124,033
Marketable equity securities	329	(92)	237
Total temporarily impaired AFS securities	\$ 125,162	\$(892)	\$ 124,270

As of March 31, 2012, there were no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2011 indicated that all impairment was considered temporary, market driven, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2011 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$0	\$0	\$0
State and political subdivisions	6,173	(25)	6,148

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U.S. government sponsored agency mortgage-backed securities	17,900	(57)	17,843
Total debt securities	24,073	(82)	23,991
Marketable equity securities	0	0	0
Total <12 months temporarily impaired AFS securities	24,073	(82)	23,991
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	613	(5)	608
U.S. government sponsored agency mortgage-backed securities	0	0	0
Total debt securities	613	(5)	608
Marketable equity securities	329	(137)	192
Total ≥12 months temporarily impaired AFS securities	942	(142)	800
Total			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	6,786	(30)	6,756
U.S. government sponsored agency mortgage-backed securities	17,900	(57)	17,843
Total debt securities	24,686	(87)	24,599
Marketable equity securities	329	(137)	192
Total temporarily impaired AFS securities	\$25,015	\$(224)	\$24,791

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
State and political subdivisions	\$0	\$0	\$0
Other debt securities	480	(1)	479
Total temporarily impaired HTM securities	\$480	\$(1)	\$479

Note 4 – Loans

Major classifications of loans, net of unearned income and deferred loan origination costs, are summarized as follows:

(in thousands)	March 31 2012	December 31 2011
Commercial construction	\$114,161	\$120,577
Commercial secured by real estate	806,909	798,887
Equipment lease financing	8,219	9,706
Commercial other	381,946	374,597
Real estate construction	52,558	53,534
Real estate mortgage	648,338	650,075
Home equity	83,498	84,841
Consumer direct	121,645	123,949
Consumer indirect	324,894	340,382
Total loans	\$2,542,168	\$2,556,548

CTBI has segregated and evaluates its loan portfolio through nine portfolio classes. The nine classes are commercial construction, commercial secured by real estate, equipment lease financing, commercial other, real estate construction,

real estate mortgage, home equity, consumer direct, and consumer indirect. CTBI serves customers in small and mid-sized communities in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Therefore, CTBI's exposure to credit risk is significantly affected by changes in these communities.

Commercial construction loans are for the purpose of erecting or rehabilitating buildings or other structures for commercial purposes, including any infrastructure necessary for development. Included in this category are improved property, land development, and tract development loans. The terms of these loans are generally short-term with permanent financing upon completion.

Commercial real estate loans include loans secured by nonfarm, nonresidential properties, 1-4 family/ multi-family properties, farmland, and other commercial real estate. These loans are originated based on the borrower's ability to service the debt and secondarily based on the fair value of the underlying collateral.

Equipment lease financing loans are fixed, variable, and tax exempt leases for commercial purposes.

Commercial other loans consist of commercial check loans, agricultural loans, receivable financing, floorplans, loans to financial institutions, loans for purchasing or carrying securities, and other commercial purpose loans. Commercial loans are underwritten based on the borrower's ability to service debt from the business's underlying cash flows. As a general practice, we obtain collateral such as real estate, equipment, or other assets, although such loans may be uncollateralized but guaranteed.

Real estate construction loans are typically for owner-occupied properties. The terms of these loans are generally short-term with permanent financing upon completion.

Residential real estate loans are a mixture of fixed rate and adjustable rate first and second lien residential mortgage loans. As a policy, CTBI holds adjustable rate loans and sells the majority of its fixed rate first lien mortgage loans into the secondary market. Changes in interest rates or market conditions may impact a borrower's ability to meet contractual principal and interest payments. Residential real estate loans are secured by real property.

Home equity lines are revolving adjustable rate credit lines secured by real property.

Consumer direct loans are fixed rate products comprised of unsecured loans, consumer revolving credit lines, deposit secured loans, and all other consumer purpose loans.

Consumer indirect loans are fixed rate loans secured by automobiles, trucks, vans, and recreational vehicles originated at the selling dealership underwritten and purchased by CTBI's indirect lending department. Both new and used products are financed. Only dealers who have executed dealer agreements with CTBI participate in the indirect lending program.

Not included in the loan balances above were loans held for sale in the amount of \$1.6 million at March 31, 2012 and \$0.5 million at December 31, 2011. The amount of capitalized fees and costs under ASC 310-20, included in the above loan totals were \$0.5 million and \$0.7 million at March 31, 2012 and December 31, 2011, respectively.

CTBI acquired loans through the acquisition of First National Bank of LaFollette in the fourth quarter 2010. At acquisition, the transferred loans with evidence of deterioration of credit quality since origination were not significant; therefore, none of the loans acquired were accounted for under the guidance in ASC 310-30.

Credit discounts representing principal losses expected over the life of the loans are a component of the initial fair value for purchased loans acquired that are not deemed impaired at acquisition. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Subsequent to the acquisition

date, the methods used to estimate the required allowance for credit losses for these loans is similar to originated loans; however, CTBI records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining difference between the purchase price and the unpaid principal balance at the date of acquisition is recorded in interest income over the life of the loans. Management estimated the cash flows expected to be collected at acquisition using a third party that incorporated estimates of current key assumptions, such as default rates, severity, and prepayment speeds. The carrying amounts of those loans included in the balance sheet are \$83.6 million and \$88.5 million at March 31, 2012 and December 31, 2011, respectively.

Changes in accretable yield for the three months ended March 31, 2012 and the year ended December 31, 2011 are as follows:

	March 31 2012	December 31 2011
(in thousands)		
Beginning balance	\$720	\$2,995
Additions	0	0
Accretion	(259)	(1,067)
Disposals	(35)	(1,208)
Ending balance	\$426	\$720

Refer to note 1 to the condensed consolidated financial statements for further information regarding our nonaccrual policy. Nonaccrual loans segregated by class of loans were as follows:

	March 31 2012	December 31 2011
(in thousands)		
Commercial:		
Commercial construction	\$7,246	\$7,029
Commercial secured by real estate	7,440	9,810
Commercial other	3,300	3,914
Residential:		
Real estate construction	397	607
Real estate mortgage	3,184	4,204
Home equity	202	189
Total nonaccrual loans	\$21,769	\$25,753

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of March 31, 2012 and December 31, 2011:

	March 31, 2012						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	\$825	\$0	\$9,859	\$10,684	\$103,477	\$114,161	\$2,911
Commercial secured by real estate	3,588	1,390	12,480	17,458	789,451	806,909	5,191
Equipment lease financing	0	0	0	0	8,219	8,219	0

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Commercial other	1,233	4,124	3,331	8,688	373,258	381,946	881
Residential:							
Real estate construction	460	12	480	952	51,606	52,558	84
Real estate mortgage	1,844	2,908	6,153	10,905	637,433	648,338	3,110
Home equity	459	117	588	1,164	82,334	83,498	406
Consumer:							
Consumer direct	693	129	36	858	120,787	121,645	36
Consumer indirect	1,721	495	209	2,425	322,469	324,894	209
Total	\$10,823	\$9,175	\$33,136	\$53,134	\$2,489,034	\$2,542,168	\$12,828

December 31, 2011							
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	\$362	\$33	\$10,171	\$10,566	\$110,011	\$120,577	\$3,292
Commercial secured by real estate	4,566	2,978	11,998	19,542	779,345	798,887	3,969
Equipment lease financing	0	0	0	0	9,706	9,706	0
Commercial other	2,286	688	2,504	5,478	369,119	374,597	619
Residential:							
Real estate construction	305	91	622	1,018	52,516	53,534	16
Real estate mortgage	2,067	4,974	6,547	13,588	636,487	650,075	2,719
Home equity	968	312	482	1,762	83,079	84,841	346
Consumer:							
Consumer direct	1,723	171	71	1,965	121,984	123,949	71
Consumer indirect	2,684	755	483	3,922	336,460	340,382	483
Total	\$14,961	\$10,002	\$32,878	\$57,841	\$2,498,707	\$2,556,548	\$11,515

*90+ and Accruing are also included in 90+ Days Past Due column.

Credit Quality Indicators:

CTBI categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CTBI also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). CTBI analyzes commercial loans individually by classifying the loans as to credit risk. Loans classified as loss, doubtful, substandard, or special mention are reviewed quarterly by CTBI for further deterioration or improvement to determine if appropriately classified and valued if deemed impaired. All other commercial loan reviews are completed every 12 to 18 months. In addition, during the renewal process of any loan, as well as if a loan becomes past due or if other information becomes available, CTBI will evaluate the loan grade. CTBI uses the following definitions for risk ratings:

Ø Pass grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from loans that have no chance of resulting in a loss to loans that have a limited chance of resulting in a loss. Customers

in this grade have excellent to fair credit ratings. The cash flows are adequate to meet required debt repayments.

- Ø Watch graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the watch list may be potential troubled credits or may warrant “watch” status for a reason not directly related to the asset quality of the credit. The watch grade is a management tool to identify credits which may be candidates for future classification or may temporarily warrant extra management monitoring.
- Ø Other assets especially mentioned (OAEM) reflects loans that are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of circumstances surrounding a specific asset. Loans in this grade display potential weaknesses which may, if unchecked or uncorrected, inadequately protect CTBI’s credit position at some future date. The loans may be adversely affected by economic or market conditions.
- Ø Substandard grading indicates that the loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These loans have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility that CTBI will sustain some loss if the deficiencies are not corrected.
- Ø Doubtful graded loans have the weaknesses inherent in the substandard grading with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to CTBI’s advantage or strengthen the asset(s), its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.
- Ø A loss grading applies to loans that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery value, but rather it is not practical or desirable to defer writing off the asset. Losses must be taken in the period in which they surface as uncollectible, or in the case of collateral-dependent loans, a specific reserve in the amount of the expected loss is applied to the loan until the collateral is liquidated or we have taken possession and moved it into other real estate owned.

The following tables present the credit risk profile of CTBI’s commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of March 31, 2012 and December 31, 2011:

	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Leases	Total
(in thousands)					
March 31, 2012					
Pass	\$ 81,848	\$ 659,812	\$ 322,849	\$ 8,219	\$ 1,072,728
Watch	14,948	76,821	39,855	0	131,624
OAEM	1,435	19,262	8,662	0	29,359
Substandard	8,793	43,596	7,309	0	59,698
Doubtful	7,137	7,418	3,271	0	17,826
Loss	0	0	0	0	0
Total	\$ 114,161	\$ 806,909	\$ 381,946	\$ 8,219	\$ 1,311,235
December 31, 2011					
Pass	\$ 85,886	\$ 643,312	\$ 323,471	\$ 9,706	\$ 1,062,375

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Watch	17,721	78,611	38,185	0	134,517
OAEM	1,379	21,087	1,668	0	24,134
Substandard	8,783	46,238	7,364	0	62,385
Doubtful	6,808	9,639	3,909	0	20,356
Loss	0	0	0	0	0
Total	\$ 120,577	\$ 798,887	\$ 374,597	\$ 9,706	\$ 1,303,767

The following tables present the credit risk profile of the CTBI's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of March 31, 2012 and December 31, 2011:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
March 31, 2012						
Performing	\$ 52,077	\$ 642,044	\$ 82,890	\$ 121,609	\$ 324,685	\$ 1,223,305
Nonperforming (1)	481	6,294	608	36	209	7,628
Total	\$ 52,558	\$ 648,338	\$ 83,498	\$ 121,645	\$ 324,894	\$ 1,230,933

December 31, 2011						
Performing	\$ 52,911	\$ 643,152	\$ 84,306	\$ 123,878	\$ 339,899	\$ 1,244,146
Nonperforming (1)	623	6,923	535	71	483	8,635
Total	\$ 53,534	\$ 650,075	\$ 84,841	\$ 123,949	\$ 340,382	\$ 1,252,781

(1) A loan is considered nonperforming if it is 90 days or more past due or on nonaccrual.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable CTBI will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

The following table presents impaired loans, the average investment in impaired loans, and interest income recognized on impaired loans for the periods ended March 31, 2012, December 31, 2011, and March 31, 2011:

March 31, 2012					
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$ 4,594	\$ 4,595	\$ 0	\$ 4,683	\$ 18
Commercial secured by real estate	36,312	37,778	0	36,506	332
Commercial other	6,696	7,406	0	6,785	16
Real estate construction	0	0	0	0	0
Real estate mortgage	279	279	0	280	3
Consumer direct	0	0	0	0	0
Consumer indirect	0	0	0	0	0
Loans with a specific valuation allowance:					
Commercial construction	5,912	6,764	2,180	5,809	0
Commercial secured by real estate	3,382	3,508	1,246	3,385	0

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Commercial other	2,791	5,391	1,104	2,829	0
Totals:					
Commercial	59,687	65,442	4,530	59,997	366
Residential	279	279	0	280	3
Consumer	0	0	0	0	0
Total	\$59,966	\$65,721	\$4,530	\$60,277	\$369

December 31, 2011					
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$4,778	\$4,778	\$0	\$8,992	\$252
Commercial secured by real estate	27,811	29,765	0	31,480	1,543
Commercial other	1,770	2,501	0	3,392	143
Real estate construction	27	27	0	19	1
Real estate mortgage	82	82	0	84	5
Consumer direct	93	93	0	82	9
Consumer indirect	112	112	0	99	12
Loans with a specific valuation allowance:					
Commercial construction	5,794	6,643	2,203	7,681	0
Commercial secured by real estate	3,525	3,669	1,156	4,747	23
Commercial other	3,432	6,022	1,310	5,071	22
Totals:					
Commercial	47,110	53,378	4,669	61,363	1,983
Residential	109	109	0	103	6
Consumer	205	205	0	181	21
Total	\$47,424	\$53,692	\$4,669	\$61,647	\$2,010

March 31, 2011					
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$7,537	\$8,394	\$0	\$7,540	\$71
Commercial secured by real estate	30,903	33,279	0	32,777	257
Commercial other	3,870	4,970	0	3,886	56
Real estate construction	0	0	0	0	0
Real estate mortgage	85	85	0	85	2
Consumer direct	43	43	0	43	1
Consumer indirect	89	89	0	89	2
Loans with a specific valuation allowance:					
Commercial construction	9,356	9,788	2,805	9,356	0
Commercial secured by real estate	5,189	5,379	1,622	5,219	23
Commercial other	7,247	8,645	2,913	7,963	0

Totals:					
Commercial	64,102	70,455	7,340	66,741	407
Residential	85	85	0	85	2
Consumer	132	132	0	132	3
Total	\$64,319	\$70,672	\$7,340	\$66,958	\$412

*Cash basis interest is substantially the same as interest income recognized.

Included in certain loan categories of impaired loans are certain loans and leases that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve either an increase or reduction of the interest rate, extension of the term of the loan, or deferral of principal and/or interest payments, regardless of the period of the modification. All of the loans identified as troubled debt restructuring were modified due to financial stress of the borrower. In order to determine if a borrower is experiencing financial difficulty, an evaluation is performed to