COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 15, 2006

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

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
	For the fiscal year ended December 31, 2005
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
	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 **Pikeville, Kentucky** *(address of principal executive offices)*	**41501** *(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $5.00 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes	No ü

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes	No ü

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 ü	No

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

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

Large accelerated filer	Accelerated filer ü	Non-accelerated filer

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

Yes	No ü

Based upon the closing price of the Common Shares of the Registrant on the NASDAQ National Market, the aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2005 was $487,175,475. The number of shares outstanding of the Registrant's Common Stock as of February 28, 2006 was 15,009,954. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the Form 10-K part indicated:

Document	Form 10-K
(1) Proxy statement for the annual meeting of shareholders to be held April 25, 2006	Part III

PART I

Item 1. Business

Community Trust Bancorp, Inc. (the "Corporation") is a bank holding company registered with the Board of Governors of the Federal Reserve System pursuant to Section 5(a) of the Bank Holding Company Act of 1956, as amended. The Corporation was incorporated August 12, 1980, under the laws of the Commonwealth of Kentucky for the purpose of becoming a bank holding company. At December 31, 2005, the Corporation owned all the capital stock of one commercial bank and one trust company, serving small and mid-sized communities in eastern, northeast, central, and south central Kentucky and southern West Virginia. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky (the "Bank"). The trust company, Community Trust and Investment Company, Lexington, Kentucky (the "Trust Company"), has offices in Lexington, Pikeville, Ashland, Middlesboro, and Versailles, Kentucky. At December 31, 2005, the Corporation had total consolidated assets of $2.8 billion and total consolidated deposits of $2.4 billion, making it the largest bank holding company headquartered in the Commonwealth of Kentucky.

Effective January 1, 2003, the Bank and the Trust Company converted their charters to state charters from national associations. The Bank remained a member of the Federal Reserve System following conversion. Following its conversion, the Trust Company changed its name from Trust Company of Kentucky, National Association to Community Trust and Investment Company in order to identify more closely the Trust Company with the Bank. While the conversions resulted in some reduction in expenses, they did not result in any changes in the management or operations of the Bank or the Trust Company.

On June 10, 2005, the Bank completed the acquisition of Heritage Community Bank of Danville, Kentucky. All former Heritage Community Bank offices now operate as branch offices of Community Trust Bank, Inc. The Corporation obtained loans totaling approximately $73.7 million, cash and cash equivalents of approximately $8.1 million, and deposits totaling approximately $69.8 million from this acquisition. The total cost of the acquisition, including direct acquisition costs, was $12.4 million. Goodwill and core deposit intangible of approximately $3.9 million was recorded.

Through its subsidiaries, the Corporation engages in a wide range of commercial and personal banking and trust activities, which include accepting time and demand deposits; making secured and unsecured loans to corporations, individuals and others; providing cash management services to corporate and individual customers; issuing letters of credit; renting safe deposit boxes; and providing funds transfer services. The lending activities of the Bank include making commercial, construction, mortgage, and personal loans. Also available are lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans including asset-based financing. The corporate subsidiaries act as trustees of personal trusts, as executors of estates, as trustees for employee benefit trusts, as registrars, transfer agents, and paying agents for bond and stock issues, as depositories for securities, and as providers of full service brokerage operations.

COMPETITION

The Corporation’s subsidiaries face substantial competition for deposit, credit, and trust relationships, as well as other sources of funding in the communities they serve. Competing providers include state banks, national banks, thrifts, trust companies, insurance companies, mortgage banking operations, credit unions, finance companies, brokerage companies, and other financial and non-financial companies which may offer products functionally equivalent to those offered by the Corporation’s subsidiaries. Many of these providers offer services within and outside the market areas served by the Corporation’s subsidiaries. The Corporation’s subsidiaries strive to offer competitively priced products along with quality customer service to build customer relationships in the communities they serve.

Since July 1989, banking legislation in Kentucky places no limits on the number of banks or bank holding companies that a bank holding company may acquire. Interstate acquisitions are allowed where reciprocity exists between the laws of Kentucky and the home state of the bank or bank holding company to be acquired. Bank holding companies continue to be limited to control of less than 15% of deposits held by banks in the states where they do business (exclusive of inter-bank and foreign deposits).

The Gramm-Leach-Bliley Act of 1999 (the "Gramm Act") has expanded the permissible activities of a bank holding company. The Gramm Act allows qualifying bank holding companies to elect to be treated as financial holding companies. A financial holding company may engage in activities that are financial in nature or are incidental or complementary to financial activities. The Corporation has not yet elected to be treated as a financial holding company. The Gramm Act also eliminated restrictions imposed by the Glass-Steagall Financial Services Law, adopted in the 1930s, which prevented banking, insurance, and securities firms from fully entering each other’s business. This legislation has resulted in further consolidation in the financial services industry. In addition, removal of these restrictions has increased the number of entities providing banking services and thereby created additional competition.

No material portion of the business of the Corporation is seasonal. The business of the Corporation is not dependent upon any one customer or a few customers, and the loss of any one or a few customers would not have a material adverse effect on the Corporation. See note 18 to the consolidated financial statements for additional information regarding concentrations of credit.

The Corporation engages in no operations in foreign countries.

EMPLOYEES

As of December 31, 2005, the Corporation and its subsidiaries had 1,003 full-time equivalent employees. Employees are provided with a variety of employee benefits. A retirement plan, an employee stock ownership plan, group life insurance, major medical insurance, a cafeteria plan, and annual management and employee incentive compensation plans are available to eligible personnel.

SUPERVISION AND REGULATION

The Corporation, as a registered bank holding company, is restricted to those activities permissible under the Bank Holding Company Act of 1956, as amended, and is subject to actions of the Board of Governors of the Federal Reserve System thereunder. It is required to file an annual report with the Federal Reserve Board and is subject to an annual examination by the Board.

The Bank is a state-chartered bank subject to state and federal banking laws and regulations and to periodic examination by the Kentucky Office of Financial Institutions and to the restrictions, including dividend restrictions, thereunder. The Bank is also a member of the Federal Reserve System and is subject to certain restrictions imposed by and to examination and supervision under the Federal Reserve Act. The Trust Company is also regulated by the Kentucky Office of Financial Institutions and the Federal Reserve.

Deposits of the Bank are insured by the Federal Deposit Insurance Corporation, which subjects banks to regulation and examination under the provisions of the Federal Deposit Insurance Act.

The operations of the Corporation and its subsidiaries also are affected by other banking legislation and policies and practices of various regulatory authorities. Such legislation and policies include statutory maximum rates on some loans, reserve requirements, domestic monetary and fiscal policy, and limitations on the kinds of services that may be offered.

The Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on the Corporation's website at www.ctbi.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission. The Corporation's Code of Business Conduct and Ethics is also available on the Corporation's website. Copies of the Corporation's annual report will be made available free of charge upon written request.

CAUTIONARY STATEMENT

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. The Corporation'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 or 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, of changes in laws and regulations on competition and of 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 the Corporation 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 the Corporation's results. These statements are representative only on the date hereof, and the Corporation undertakes no obligation to update any forward-looking statements made.

Item 1A. Risk Factors

Interest Rate Risk

Changes in interest rates could adversely affect our earnings and financial condition.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest-rate spreads, meaning the difference between the interest rates earned on loans and investments and the interest rates paid on deposits and borrowings, could adversely affect our earnings and financial condition. Interest rates are highly sensitive to many factors, including:

- The rate of inflation;
- The rate of economic growth;
- Employment levels;
- Monetary policies; and
- Instability in domestic and foreign financial markets.

Changes in market interest rates will also affect the level of voluntary prepayments on our loans and the receipt of payments on our mortgage-backed securities resulting in the receipt of proceeds that may be reinvested at a lower rate than the loan or mortgage-backed security being prepaid.

We originate residential loans for sale and for our portfolio. The origination of loans for sale is designed to meet client financing needs and earn fee income. The origination of loans for sale is highly dependent upon the local real estate market and the level and trend of interest rates. Increasing interest rates may reduce the origination of loans for sale and consequently the fee income we earn. While our commercial banking, construction, and income property business lines are an increasing portion of our activities, high interest rates may reduce our mortgage-banking activities and thereby our income. In contrast, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on loans sold to be lower than originally anticipated. If this happens, we may need to write down our servicing assets faster, which would accelerate our expense and lower our earnings.

Management considers interest rate risk one of the Corporation's most significant market risks. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of the Corporation's net interest revenue is largely dependent upon the effective management of interest rate risk. The Corporation employs a variety of measurement techniques to identify and manage its interest rate risk including the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain, and as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Government Policies

Our business may be adversely affected by changes in government policies.

The earnings of banks and bank holding companies such as Community Trust Bancorp, Inc. are affected by the policies of regulatory authorities, including the Federal Reserve Board, which regulates the money supply. Among the methods employed by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These methods are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial and savings banks in the past and are expected to continue to do so in the future.

The banking industry is highly regulated and changes in federal and state banking regulations as well as policies and administration guidelines may affect the Corporation's practices and growth prospects.

Credit Risk

Our earnings and reputation may be adversely affected if we fail to effectively manage our credit risk.

Originating and underwriting loans are integral to the success of our business. This business requires us to take "credit risk," which is the risk of losing principal and interest income because borrowers fail to repay loans. Collateral values and the ability of borrowers to repay their loans may be affected at any time by factors such as:

- A downturn in the local economies in which we operate or the national economy;
- A downturn in one or more of the business sectors in which our customers operate; or
- A rapid increase in interest rates.

Competition

Strong competition within our market area may reduce our ability to attract and retain deposits and originate loans.

We face competition both in originating loans and in attracting deposits. Competition in the financial services industry is intense. We compete for clients by offering excellent service and competitive rates on our loans and deposit products. The type of institutions we compete with include commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. As a result of their size and ability to achieve economies of scale, certain of our competitors offer a broader range of products and services than we offer. In addition, to stay competitive in our markets we may need to adjust the interest rates on our products to match the rates offered by our competitors, which could adversely affect our net interest margin. As a result, our profitability depends upon our continued ability to successfully compete in our market areas while achieving our investment objectives.

Economy

Our business may be adversely affected by downturns in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeast, central, and south central Kentucky and southern West Virginia. Our profits depend on providing products and services to clients in these local regions. An increase in unemployment, a decrease in real estate values, or continued increases in interest rates could weaken the local economies in which we operate. Weakness in our market area could depress our earnings and consequently our financial condition because:

- Clients may not want or need our products and services;
- Borrowers may not be able to repay their loans;
- The value of the collateral securing our loans to borrowers may decline; and
- The quality of our loan portfolio may decline.

Acquisition Risk

We may have difficulty in the future continuing to grow through acquisitions.

Due to the consolidation within the banking industry, the number of suitable acquisition targets has decreased and there is intense competition for attractive acquisitions. As a result, the Corporation may experience difficulty in making acquisitions on acceptable terms.

Any future acquisitions or mergers by the Corporation or its banking subsidiary are subject to approval by the appropriate federal and state banking regulators. The banking regulators evaluate a number of criteria in making their approval decisions, such as:

- Safety and soundness guidelines;
- Compliance with all laws including the USA Patriot Act of 2001, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated under such Act or the Exchange Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Home Mortgage Disclosure Act, and all other applicable fair lending laws and other laws relating to discriminatory business practices; and
- Anti-competitive concerns with the proposed transaction.

If the banking regulators or a commenter on our regulatory application raise concerns about any of these criteria at the time a regulatory application is filed, the banking regulators may deny, delay, or condition their approval of a proposed transaction.

We have grown, and intend to continue to grow, through acquisitions of banks and other financial institutions. After these acquisitions, we may experience adverse changes in results of operations of acquired entities, unforeseen liabilities, asset quality problems of acquired entities, loss of key personnel, loss of clients because of change of identity, difficulties in integrating data processing and operational procedures, and deterioration in local economic conditions. These various acquisition risks can be heightened in larger transactions.

Integration Risk

We may not be able to achieve the expected integration and cost savings from our ongoing bank acquisition activities.

We have a long history of acquiring financial institutions and we expect this acquisition activity to continue in the future. Difficulties may arise in the integration of the business and operations of the financial institutions that agree to merge with and into the Corporation and, as a result, we may not be able to achieve the cost savings and synergies that we expect will result from the merger activities. Achieving cost savings is dependent on consolidating certain operational and functional areas, eliminating duplicative positions and terminating certain agreements for outside services. Additional operational savings are dependent upon the integration of the banking businesses of the acquired financial institution with that of the Corporation, including the conversion of the acquired entity's core operating systems, data systems and products to those of the Corporation and the standardization of business practices. Complications or difficulties in the conversion of the core operating systems, data systems, and products of these other banks to those of the Corporation may result in the loss of clients, damage to our reputation within the financial services industry, operational problems, one-time costs currently not anticipated by us, and/or reduced cost savings resulting from the merger activities.

Operational Risk

An extended disruption of vital infrastructure could negatively impact our business, results of operations, and financial condition.

Our operations depend upon, among other things, our infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking or viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services industry as a whole and on our business, results of operations, cash flows, and financial condition in particular. Our business recovery plan may not work as intended or may not prevent significant interruption of our operations. The occurrence of any failures, interruptions, or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in the loss of customer business, subject the Corporation to additional regulatory scrutiny or expose the Corporation to civil litigation and possible financial liability, any of which could have an adverse effect on the Corporation's financial condition and results of operation.

Market Risk

Community Trust Bancorp, Inc.'s stock price is volatile.

The Corporation's stock price has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

- Actual or anticipated variations in earnings;
- Changes in analysts' recommendations or projections;
- The Corporation's announcements of developments related to its businesses;
- Operating and stock performance of other companies deemed to be peers;
- New technology used or services offered by traditional and non-traditional competitors; and
- News reports of trends, concerns, and other issues related to the financial services industry.

The Corporation's stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to the Corporation's performance. General market price declines or market volatility in the future could adversely affect the price of its common stock, and the current market price may not be indicative of future market prices.

Item 1B. Unresolved Staff Comments

None.

SELECTED STATISTICAL INFORMATION

The following tables set forth certain statistical information relating to the Corporation and its subsidiaries on a consolidated basis and should be read together with the consolidated financial statements of the Corporation.

Consolidated Average Balance Sheets and Taxable Equivalent Income/Expense and Yields/Rates

	2005			2004			2003		
(in thousands)	**Average Balances**	**Interest**	**Average Rate**	**Average Balances**	**Interest**	**Average Rate**	**Average Balances**	**Interest**	**Average Rate**
Earning assets:									
Loans, net of unearned income (1)(2)(3)	$ 2,024,756	$ 137,602	6.80%	$ 1,816,146	$ 111,417	6.13%	$ 1,658,289	$ 108,827	6.56%
Loans held for sale	1,135	131	11.54%	1,498	151	10.08%	5,456	460	8.43%
Securities:									
U.S. Treasury and agencies	391,810	15,984	4.08%	333,654	13,520	4.05%	284,980	12,378	4.34%
Tax exempt state and political subdivisions (3)	50,995	3,237	6.35%	53,179	3,391	6.38%	50,419	3,408	6.76%
Other securities	72,433	2,909	4.02%	87,251	2,889	3.31%	226,505	4,289	1.89%
Federal funds sold	57,394	1,849	3.22%	44,960	596	1.33%	66,499	746	1.12%
Interest bearing deposits	993	26	2.62%	852	11	1.29%	103	1	0.97%
Total earning assets	2,599,516	$ 161,738	6.22%	2,337,540	$ 131,975	5.65%	2,292,251	$ 130,109	5.68%
Allowance for loan losses	(29,236)			(26,380)			(23,966)		
	2,570,280			2,311,160			2,268,285		
Nonearning assets:									
Cash and due from banks	78,251			74,112			69,111		
Premises and equipment, net	55,480			50,941			49,956		
Other assets	111,677			107,059			104,934		
Total assets	$ 2,815,688			$ 2,543,272			$ 2,492,286		

Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	$ 624,908	$ 8,787	1.41%	$ 621,543	$ 5,360	0.86%	$ 631,424	$ 6,309	1.00%
Time deposits	1,169,680	34,225	2.93%	1,077,795	23,100	2.14%	1,139,419	30,901	2.71%
Repurchase agreements and federal funds purchased	118,906	3,819	3.21%	93,281	1,496	1.60%	83,270	1,108	1.33%
Other short-term borrowings	0	0	0.00%	688	72	10.47%	262	24	9.16%
Advances from Federal Home Loan Bank	152,823	4,872	3.19%	63,546	1,907	3.00%	4,123	230	5.58%
Long-term debt	59,500	5,254	8.83%	59,500	5,254	8.83%	60,304	5,323	8.83%
Total interest bearing liabilities	2,125,817	$ 56,957	2.68%	1,916,353	$ 37,189	1.94%	1,918,802	$ 43,895	2.29%
Noninterest bearing liabilities:									
Demand deposits	423,147			379,353			338,909		
Other liabilities	20,605			18,005			19,489		
Total liabilities	2,569,569			2,313,711			2,277,200		
Shareholders' equity	246,119			229,561			215,086		
Total liabilities and shareholders' equity	$ 2,815,688			$ 2,543,272			$ 2,492,286		
Net interest income		$ 104,781			$ 94,786			$ 86,214	
Net interest spread			3.54%			3.71%			3.39%
Benefit of interest free			0.49%			0.34%			0.37%

funding			
Net interest margin	4.03%	4.05%	3.76%

(1) Interest includes fees on loans of $2,841, $2,646, and $3,267 in 2005, 2004, and 2003, respectively.
(2) Loan balances include principal balances on nonaccrual loans.
(3) Tax exempt income on securities and loans is reported on a fully taxable equivalent basis using a 35% rate.

Net Interest Differential

The following table illustrates the approximate effect of volume and rate changes on net interest differentials between 2005 and 2004 and also between 2004 and 2003.

	Total Change	Change Due to		Total Change	Change Due to	
(in thousands)	**2005/2004**	**Volume**	**Rate**	**2004/2003**	**Volume**	**Rate**
Interest income						
Loans	$ 26,185	$ 13,509	$ 12,676	$ 2,590	$ 9,959	$ (7,369)
Loans held for sale	(20)	(33)	13	(309)	(282)	(27)
U.S. Treasury and federal agencies	2,464	2,372	92	1,142	2,012	(870)
Tax exempt state and political subdivisions	(154)	(140)	(14)	(17)	181	(198)
Other securities	20	(444)	464	(1,400)	(1,747)	347
Federal funds sold	1,253	203	1,050	(150)	(214)	64
Interest bearing deposits	15	2	13	10	10	0
Total interest income	29,763	15,469	14,294	1,866	9,919	(8,053)
Interest expense						
Savings and demand deposits	3,427	29	3,398	(949)	(100)	(849)
Time deposits	11,125	2,105	9,020	(7,801)	(1,743)	(6,058)
Repurchase agreements and federal funds purchased	2,323	500	1,823	388	143	245
Other short-term borrowings	(72)	0	(72)	48	44	4
Advances from Federal Home Loan Bank	2,965	2,839	126	1,677	1,831	(154)
Long-term debt	0	0	0	(69)	(71)	2
Total interest expense	19,768	5,473	14,295	(6,706)	104	(6,810)
Net interest income	$ 9,995	$ 9,996	$ (1)	$ 8,572	$ 9,815	$ (1,243)

For purposes of the above table, changes which are due to both rate and volume are allocated based on a percentage basis, using the absolute values of rate and volume variance as a basis for percentages. Income is stated at a fully taxable equivalent basis, assuming a 35% tax rate.

Investment Portfolio

The maturity distribution and weighted average interest rates of securities at December 31, 2005 are as follows:

	Estimated Maturity at December 31, 2005										
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized Cost
(in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**
Available-for-sale and other											
U.S. Treasury and government agencies	$ 3,087	2.24%	$ 247,743	4.41%	$ 38,317	4.76%	$ 1,490	5.62%	$ 290,637	4.44%	$ 297,827
State and municipal obligations	1,564	6.94%	26,886	6.72%	18,481	6.32%	0	0.00%	46,931	6.57%	45,911
Other securities	21,012	3.64%	16,991	3.88%	0	0.00%	46,682	4.70%	84,685	4.27%	85,185
Total	$ 25,663	3.68%	$ 291,620	4.59%	$ 56,798	5.27%	$ 48,172	4.73%	$ 422,253	4.64%	$ 428,923

	Estimated Maturity at December 31, 2005										
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
(in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**
Held-to-maturity											
U.S. Treasury and government agencies	$ 0	0.00%	$ 45,311	3.71%	$ 0	0.00%	$ 0	0.00%	$ 45,311	3.71%	$ 43,547
State and municipal obligations	0	0.00%	1,390	6.65%	199	6.64%	1,544	5.96%	3,133	6.31%	2,981
Total	$ 0	0.00%	$ 46,701	3.80%	$ 199	6.64%	$ 1,544	5.96%	$ 48,444	3.88%	$ 46,528
Total securities	$ 25,663	3.68%	$ 338,321	4.48%	$ 56,997	5.27%	$ 49,716	4.77%	$ 470,697	4.57%	

The calculations of the weighted average interest rates for each maturity category are based upon yield weighted by the respective costs of the securities. The weighted average rates on state and political subdivisions are computed on a taxable equivalent basis using a 35% tax rate. For purposes of the above presentation, maturities of mortgage-backed pass through certificates and collateralized mortgage obligations are based on estimated maturities.

Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. Government, there were no securities of any one issuer that exceeded 10% of the shareholders' equity of the Corporation at December 31, 2005.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2005 and 2004 are presented in note 4 to the consolidated financial statements.

The book value of securities at December 31, 2003 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	$ 34,314	$ 9,499
State and political subdivisions	92,072	3,726
U.S. agency and mortgage-backed pass through certificates	183,740	74,272
Collateralized mortgage obligations	4,375	0
Other debt securities	31,149	0
Total debt securities	345,650	87,497
Marketable equity securities	24,241	0
Federal Reserve and Federal Home Loan Bank stock	51,964	0
Total securities	$ 421,855	$ 87,497

Loan Portfolio

(in thousands)	2005	2004	2003	2002	2001
Commercial:					
Construction	$ 115,721	$ 75,078	$ 67,147	$ 66,797	$ 78,508
Secured by real estate	665,911	613,059	583,924	509,856	496,790
Other	301,828	276,921	256,837	280,492	293,502
Total commercial	1,083,460	965,058	907,908	857,145	868,800
Real estate construction	51,232	30,456	32,495	23,311	19,932
Real estate mortgage	542,809	499,410	413,939	377,109	423,953
Consumer	414,920	395,588	368,578	366,493	390,311
Equipment lease financing	14,923	12,007	13,340	10,549	6,830
Total loans	$ 2,107,344	$ 1,902,519	$ 1,736,260	$ 1,634,607	$ 1,709,826
Percent of total year-end loans					
Commercial:					
Construction	5.49%	3.95%	3.87%	4.08%	4.59%
Secured by real estate	31.60	32.22	33.63	31.19	29.06
Other	14.32	14.56	14.79	17.16	17.17
Total commercial	51.41	50.73	52.29	52.43	50.82
Real estate construction	2.43	1.60	1.87	1.43	1.16
Real estate mortgage	25.76	26.25	23.84	23.07	24.80
Consumer	19.69	20.79	21.23	22.42	22.82
Equipment lease financing	0.71	0.63	0.77	0.65	0.40
Total loans	100.00%	100.00%	100.00%	100.00%	100.00%

The total loans above are net of unearned income.

The following table shows the amounts of loans (excluding residential mortgages of 1-4 family residences, consumer loans, and lease financing) which, based on the remaining scheduled repayments of principal are due in the periods indicated. Also, the amounts are classified according to sensitivity to changes in interest rates (fixed, variable).

	Maturity at December 31, 2005			
(in thousands)	Within One Year	After One but Within Five Years	After Five Years	Total

Commercial secured by real estate and commercial other	$ 210,627	$ 347,476	$ 409,636	$ 967,739
Commercial and real estate construction	110,520	24,189	32,244	166,953
	$ 321,147	$ 371,665	$ 441,880	$ 1,134,692
Rate sensitivity:				
Predetermined rate	$ 66,252	$ 84,405	$ 21,500	$ 172,157
Adjustable rate	254,895	287,260	420,380	962,535
	$ 321,147	$ 371,665	$ 441,880	$ 1,134,692

Nonperforming Assets

(in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Nonaccrual loans	$ 12,219	$ 13,808	$ 9,705	$ 19,649	$ 30,496
Restructured loans	899	974	1,726	276	518
90 days or more past due and still accruing interest	8,284	5,319	5,463	2,814	2,640
Total nonperforming loans	21,402	20,101	16,894	22,739	33,654
Foreclosed properties	5,410	4,756	6,566	2,761	1,982
Total nonperforming assets	$ 26,812	$ 24,857	$ 23,460	$ 25,500	$ 35,636
Nonperforming assets to total loans and foreclosed properties	1.27%	1.30%	1.35%	1.56%	2.08%
Allowance to nonperforming loans	137.87%	134.41%	145.93%	102.34%	70.27%

Nonaccrual, Past Due, and Restructured Loans

(in thousands)	**Nonaccrual loans**	**As a % of Loan Balances by Category**	**Restructured Loans**	**As a % of Loan Balances by Category**	**Accruing Loans Past Due 90 Days or More**	**As a % of Loan Balances by Category**	**Balances**
December 31, 2005							
Commercial construction	$ 0	0.00%	$ 0	0.00%	$ 0	0.00%	$ 115,721
Commercial secured by real estate	4,150	0.62	0	0.00	4,706	0.71	665,911
Commercial other	3,918	1.30	80	0.03	858	0.28	301,828
Consumer real estate construction	112	0.22	819	1.60	172	0.34	51,232
Consumer real estate secured	4,032	0.74	0	0.00	1,970	0.36	542,809
Consumer other	7	0.00	0	0.00	578	0.14	414,920
Equipment lease financing	0	0.00	0	0.00	0	0.00	14,923
Total	$ 12,219	0.58%	$ 899	0.04%	$ 8,284	0.39%	$ 2,107,344

December 31, 2004								
Commercial construction	$	271	0.36%	$ 0	0.00%	$ 650	0.87%	$ 75,078
Commercial secured by real estate		5,093	0.83	858	0.14	2,603	0.42	613,059
Commercial other		3,473	1.25	116	0.04	569	0.21	276,921
Consumer real estate construction		114	0.37	0	0.00	0	0.00	30,456
Consumer real estate secured		4,828	0.97	0	0.00	1,131	0.23	499,410
Consumer other		29	0.01	0	0.00	366	0.09	395,588
Equipment lease financing		0	0.00	0	0.00	0	0.00	12,007
Total	$	13,808	0.73%	$ 974	0.05%	$ 5,319	0.28%	$ 1,902,519

In 2005, gross interest income that would have been recorded on nonaccrual loans had the loans been current in accordance with their original terms amounted to $1.3 million. Interest income actually received and included in net income for the period was $0.1 million, leaving $1.3 million of interest income not recognized during the period.

Discussion of the Nonaccrual Policy

The accrual of interest income on loans is discontinued when the collection of interest and principal in full is not expected. When interest accruals are discontinued, interest income accrued in the current period is reversed and interest income accrued in prior periods is charged to the allowance for loan losses. Any loans past due 90 days or more must be well secured and in the process of collection to continue accruing interest.

Potential Problem Loans

Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower’s financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest.

Foreign Outstandings

None

Loan Concentrations

The Corporation had no concentration of loans exceeding 10% of total loans at December 31, 2005. See note 18 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan Losses

(in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Allowance for loan losses, beginning of year	$ 27,017	$ 24,653	$ 23,271	$ 23,648	$ 25,886
Loans charged off:					
Commercial construction	56	339	164	662	275

Commercial secured by real estate	826	1,135	773	2,386	3,252
Commercial other	4,233	2,331	4,085	3,393	2,406
Real estate construction	10	20	0	0	0
Real estate mortgage	746	683	957	1,098	1,061
Consumer	5,097	5,080	5,725	6,598	8,452
Equipment lease financing	0	0	0	0	0
Total charge-offs	10,968	9,588	11,704	14,137	15,446
Recoveries of loans previously charged off:					
Commercial construction	0	1	32	0	25
Commercial secured by real estate	94	301	243	156	105
Commercial other	766	382	450	207	224
Real estate construction	20	0	0	0	0
Real estate mortgage	310	244	159	107	76
Consumer	2,223	2,376	2,870	3,204	3,593
Equipment lease financing	0	0	0	0	0
Total recoveries	3,413	3,304	3,754	3,674	4,023
Net charge-offs:					
Commercial construction	56	338	132	662	250
Commercial secured by real estate	732	834	530	2,230	3,147
Commercial other	3,467	1,949	3,635	3,186	2,182
Real estate construction	(10)	20	0	0	0
Real estate mortgage	436	439	798	991	985
Consumer	2,874	2,704	2,855	3,394	4,859
Equipment lease financing	0	0	0	0	0
Total net charge-offs	7,555	6,284	7,950	10,463	11,423
Provisions charged against operations	8,285	8,648	9,332	10,086	9,185
Allowance of acquired bank	1,759	0	0	0	0
Balance, end of year	$ 29,506	$ 27,017	$ 24,653	$ 23,271	$ 23,648
Allocation of allowance, end of year:					
Commercial construction	$ 1,799	$ 1,123	$ 2,623	$ 615	$ 853
Commercial secured by real estate	10,354	8,285	7,010	4,109	5,994
Commercial other	4,693	3,745	1,392	2,088	3,077
Real estate construction	159	107	1,034	124	146
Real estate mortgage	1,677	1,435	741	1,592	2,247
Consumer	4,602	3,104	3,341	3,987	8,382
Equipment lease financing	232	168	160	88	95
Unallocated	5,990	9,050	8,352	10,668	2,854
Balance, end of year	$ 29,506	$ 27,017	$ 24,653	$ 23,271	$ 23,648
Average loans outstanding, net of unearned interest	$ 2,024,756	$ 1,816,146	$ 1,658,289	$ 1,660,912	$ 1,748,241
Loans outstanding at end of year, net of unearned interest	$ 2,107,344	$ 1,902,519	$ 1,736,260	$ 1,634,607	$ 1,709,826
Net charge-offs to average loan type:					
Commercial construction	0.06%	0.47%	0.19%	0.94%	0.32%

Commercial secured by real estate	0.11	0.14	0.10	0.44	0.63
Commercial other	1.18	0.76	1.29	1.12	0.70
Real estate construction	(0.03)	0.06	0.00	0.00	0.00
Real estate mortgage	0.08	0.09	0.20	0.25	0.22
Consumer	0.71	0.70	0.79	0.90	1.22
Equipment lease financing	0.00	0.00	0.00	0.00	0.00
Total	0.37%	0.35%	0.48%	0.63%	0.65%
Other ratios:					
Allowance to net loans, end of year	1.40%	1.42%	1.42%	1.42%	1.38%
Provision for loan losses to average loans	0.41%	0.48%	0.56%	0.61%	0.53%

The allowance for loan losses balance is maintained by management at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. See note 1 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	**2005**	**2004**	**2003**
Deposits:			
Noninterest bearing deposits	$ 423,147	$ 379,353	$ 338,909
NOW accounts	16,486	15,374	15,852
Money market accounts	383,900	382,147	403,314
Savings accounts	224,522	224,022	212,258
Certificates of deposit of $100,000 or more	409,866	357,994	361,037
Certificates of deposit < $100,000 and other time deposits	759,814	719,801	778,382
Total deposits	2,217,735	2,078,691	2,109,752
Other borrowed funds:			
Repurchase agreements and federal funds purchased	118,906	93,281	83,270
Other short-term borrowings	0	688	262
Advances from Federal Home Loan Bank	152,823	63,546	4,123
Long-term debt	59,500	59,500	60,304
Total other borrowed funds	331,229	217,015	147,959
Total deposits and other borrowed funds	$ 2,548,964	$ 2,295,706	$ 2,257,711

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2005 occurred at December 31, 2005, with a month-end balance of $146.6 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2004 occurred at February 29, 2004, with a month-end balance of $117.1 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2003 occurred at November 30, 2003, with a month-end balance of $112.7 million.

Maturities and/or repricing of time deposits of $100,000 or more outstanding at December 31, 2005 are summarized as follows:

(in thousands)	**Certificates of Deposit**	**Other Time Deposits**	**Total**
Three months or less	$ 152,282	$ 4,811	$ 157,093

Over three through six months	54,654	3,461	58,115
Over six through twelve months	160,407	6,957	167,364
Over twelve through sixty months	44,305	7,348	51,653
Over sixty months	101	0	101
	$ 411,749	$ 22,577	$ 434,326

Item 2. Properties

The Corporation's main office, which is owned by the Bank, is located at 346 North Mayo Trail, Pikeville, Kentucky 41501. Following is a schedule of properties owned and leased by the Corporation and its subsidiaries as of December 31, 2005:

		Location	Owned	Leased	Total
Banking locations:					
Community Trust Bancorp, Inc.					
*	Tug Valley Market		1	0	1
		1 location in Mingo County, West Virginia			
*	Advantage Valley Market		3	0	3
		2 locations in Lincoln County, West Virginia and 1 location in Wayne County, West Virginia			
*	Summersville Market		1	0	1
		1 location in Nicholas County, West Virginia			
Community Trust Bank, Inc.					
l	Pikeville Market (lease land to 3 owned locations)		9	1	10
		10 locations in Pike County, Kentucky			
	Floyd/Knott/Johnson Market (lease land to 1 owned location)		3	1	4
		2 locations in Floyd County, Kentucky, 1 location in Knott County, Kentucky, and 1 location in Johnson County			
	Tug Valley Market		0	1	1
		1 location in Pike County, Kentucky			
	Whitesburg Market		4	1	5
		5 locations in Letcher County, Kentucky			
l	Lexington Market (lease land to 1 owned location)		2	4	6
		6 locations in Fayette County, Kentucky			
	Winchester Market		1	2	3
		3 locations in Clark County, Kentucky			
	Richmond Market (lease land to 1 owned location)		3	1	4
		4 locations in Madison County, Kentucky			
	Mt. Sterling Market		2	0	2
		2 locations in Montgomery County, Kentucky			
l	Versailles Market (lease land to 1 owned location)		2	3	5
		2 locations in Woodford County, Kentucky, 2 locations in Franklin County, Kentucky, and 1 location in			

		Scott County, Kentucky			
l	Ashland Market (lease land to 1 owned location)		5	0	5
		4 locations in Boyd County, Kentucky and 1 location in Greenup County, Kentucky			
	Flemingsburg Market		4	0	4
		4 locations in Fleming County, Kentucky			
l	Middlesboro Market (lease land to 1 owned location)		3	0	3
		3 locations in Bell County, Kentucky			
	Williamsburg Market		5	0	5
		2 locations in Whitley County, Kentucky and 3 locations in Laurel County, Kentucky			
	Campbellsville Market (lease land to 2 owned locations)		8	0	8
		2 locations in Taylor County, Kentucky, 2 locations in Pulaski County, Kentucky, 1 location in Adair County, Kentucky, 1 location in Green County, Kentucky, 1 location in Russell County, Kentucky, and 1 location in Marion County, Kentucky			
	Mt. Vernon Market		2	0	2
		2 locations in Rockcastle County, Kentucky			
	Hazard Market (lease land to 4 owned locations)		6	0	6
		6 locations in Perry County, Kentucky			
	Danville Market (lease land to 1 owned location)		3	0	3
		2 locations in Boyle County, Kentucky and 1 location in Mercer County, Kentucky			
Total banking locations			67	14	81
Loan production offices:					
Community Trust Bank, Inc.					
	Louisville (Jefferson County, Kentucky)		0	1	1
	Florence (Boone County, Kentucky)		0	1	1
Total loan production offices			0	2	2
Operational locations:					
Community Trust Bank, Inc.					
	Pikeville (Pike County, Kentucky) (lease land to 1 location)		1	0	1
	Lexington (Fayette County, Kentucky)		0	1	1
Total operational locations			1	1	2
Other:					
Community Trust Bank, Inc.					
	Ashland (Boyd County, Kentucky)		0	1	1
Total other locations			0	1	1
Total locations			68	18	86

*Community Trust Bank, Inc. leases these branch locations.
lCommunity Trust and Investment Company has leased offices in the main office locations in these markets.

See notes 9 and 15 to the consolidated financial statements included herein for the year ended December 31, 2005, for additional information relating to lease commitments and amounts invested in premises and equipment.

Item 3. Legal Proceedings

The Corporation and its subsidiaries, and from time to time, its officers, are named defendants in legal actions arising from ordinary business activities. Management, after consultation with legal counsel, believes these actions are without merit or that the ultimate liability, if any, will not materially affect the Corporation's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders, through solicitation of proxies or otherwise, during the fourth quarter of 2005.

Executive Officers of the Registrant

Set forth below are the executive officers of the Corporation at December 31, 2005, their positions with the Corporation, and the year in which they first became an executive officer or director.

Name and Age (1)	**Positions and Offices Currently Held**	**Date First Became Director or Executive Officer**		**Principal Occupation**
Jean R. Hale; 59	Chairman, President and CEO	1992	(2)	Chairman, President and CEO of Community Trust Bancorp, Inc.
Mark A. Gooch; 47	Executive Vice President and Secretary	1997	(3)	President and CEO of Community Trust Bank, Inc.
Tracy Little; 65	Executive Vice President	2003	(4)	President and CEO of Community Trust and Investment Company
Michael S. Wasson; 54	Executive Vice President	2000	(5)	Executive Vice President/ Central Kentucky Region President of Community Trust Bank, Inc.
James B. Draughn; 46	Executive Vice President	2001	(6)	Executive Vice President/Operations of Community Trust Bank, Inc.
Kevin J. Stumbo; 45	Executive Vice President and Treasurer	2002	(7)	Executive Vice President/ Controller of Community Trust Bank, Inc.

Ricky D. Sparkman; 43	Executive Vice President	2002	(8)	Executive Vice President/ South Central Region President of Community Trust Bank, Inc.
Richard W. Newsom; 51	Executive Vice President	2002	(9)	Executive Vice President/ Eastern Region President of Community Trust Bank, Inc.
James J. Gartner; 64	Executive Vice President	2002	(10)	Executive Vice President/ Chief Credit Officer of Community Trust Bank, Inc.
Larry W. Jones; 59	Executive Vice President	2002	(11)	Executive Vice President/ Northeast Region President of Community Trust Bank, Inc.
Steven E. Jameson; 49	Executive Vice President	2004	(12)	Executive Vice President/ Chief Internal Audit & Risk Officer

(1) The ages listed for the Corporation's executive officers are as of February 28, 2006.

(2) Ms. Hale assumed the position of Chairman of the Board effective December 31, 2004.

(3) Mr. Gooch was named Secretary of the Corporation effective April 26, 2005, upon the resignation of William Hickman III.

(4) Mr. Little began employment with the Corporation on August 4, 2003. Prior to joining the Corporation, Mr. Little served for three years in Sarasota, Florida as Vice President of Fisher Investments, Inc., a $10 billion private investment firm headquartered in Woodside, California. For the two years prior, he served as Senior Vice President and Executive Officer in charge of the private client group of Provident Bank of Florida. Mr. Little has thirty-seven years in the trust and banking business and has been the executive in charge of five different trust departments and trust companies.

(5) Mr. Wasson was employed by Mercantile Bancorporation for 16 years prior to joining the Corporation in 2000. Mr. Wasson served as President of Mercantile Bank of Western Missouri, President of Mercantile Bank of Southern Illinois, and most recently as Chief Operating Officer of Mercantile Bank Midwest.

(6) Mr. Draughn served as Technology Manager for the Bank for seven years, most recently as Senior Vice President/Technology, prior to being promoted to Executive Vice President/Operations.

(7) Mr. Stumbo served as Senior Vice President/Controller for the Bank for five years prior to being promoted to Executive Vice President/Controller. Mr. Stumbo was named Treasurer of the Corporation effective April 26, 2005.

(8)

Mr. Sparkman served as Vice President/Commercial Lending prior to being promoted to Market President in January 2000. In 2002, Mr. Sparkman was promoted to Executive Vice President and South Central Region President.

(9) Mr. Newsom served as Senior Vice President of Consumer Lending for five years prior to being promoted to Executive Vice President and Eastern Region President of Community Trust Bank, Inc.

(10) Mr. Gartner was employed for two years as Executive Vice President/Risk Management by Hamilton Bank, N.A., Miami, Florida, with assets of $1.2 billion prior to joining the Corporation. Prior to accepting his position at Hamilton Bank, Mr. Gartner was employed as Executive Vice President/Risk Manager, Chief Credit Officer, and Director at First National Bank of Nevada Holding Company. For two months in 1998, Mr. Gartner served as Executive Vice President/Merger Liaison Officer at Norwest Bank Arizona which purchased the Bank of Arizona and The Bank of New Mexico where Mr. Gartner served as Executive Vice President/Risk Management, Chief Credit Officer, and Director of the Bank of Arizona for the two years prior.

(11) Mr. Jones was employed by AmSouth Bancorp, a $35 billion financial services corporation, as District/City President for three years prior to joining the Corporation. Mr. Jones was employed by First American National Bank as Division Manager for north Mississippi for one year prior to its merger with AmSouth in 1999. For the thirty years prior, Mr. Jones was employed by Deposit Guaranty National Bank, formerly Security State Bank, prior to its merger with First American National Bank most recently as President/Community Bank.

(12) Mr. Jameson is a non-voting member of the Executive Committee. Mr. Jameson served as Lead Auditing Specialist for The World Bank Group in Washington, D.C. for one year prior to joining the Corporation in April 2004. For the four years prior, Mr. Jameson was employed by The Institute of Internal Auditors, Inc. in Altamonte Springs, Florida as Assistant Vice President of the Professional Practices Group. Mr. Jameson's certifications include Certified Public Accountant, Certified Internal Auditor, Certified Bank Auditor, Certified Fraud Examiner, Certified Financial Services Auditor, and Certification in Control Self-Assessment.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Shareholder Matters, and Issuer Repurchases of Equity Securities

The Corporation’s common stock is listed on The NASDAQ-Stock Market’s National Market under the symbol CTBI. Additional information required by this item is included in the Quarterly Financial Data below:

Quarterly Financial Data
(Unaudited)

(in thousands except per share amounts)

Three Months Ended	December 31	September 30	June 30	March 31
2005				
Net interest income	$ 26,990	$ 26,747	$ 25,089	$ 24,379
Net interest income, taxable equivalent basis	27,384	27,139	25,482	24,776
Provision for loan losses	2,748	2,470	1,700	1,367
Noninterest income	8,556	8,668	8,538	7,705
Noninterest expense	19,888	19,790	19,684	19,207
Net income	8,890	9,083	8,478	7,961

Per common share:								
Basic earnings per share	$	0.59	$	0.61	$	0.57	$	0.54
Diluted earnings per share		0.58		0.60		0.56		0.53
Dividends declared		0.26		0.24		0.24		0.24
Common stock price:								
High	$	34.69	$	35.01	$	33.78	$	32.90
Low		30.12		30.77		27.94		28.00
Last trade		30.75		32.18		32.72		28.81
Selected ratios:								
Return on average assets, annualized		1.23%		1.26%		1.21%		1.18%
Return on average common equity, annualized		13.94%		14.50%		13.96%		13.50%
Net interest margin, annualized		4.12%		4.08%		3.95%		3.97%
2004								
Net interest income	$	24,392	$	23,485	$	22,654	$	22,681
Net interest income, taxable equivalent basis		24,794		23,883		23,039		23,070
Provision for loan losses		2,685		2,045		1,785		2,133
Noninterest income		8,207		8,575		9,120		8,015
Noninterest expense		18,712		18,917		18,772		18,194
Net income		7,900		8,014		7,756		7,280
Per common share:								
Basic earnings per share	$	0.53	$	0.54	$	0.53	$	0.49
Diluted earnings per share		0.52		0.53		0.52		0.48
Dividends declared		0.24		0.21		0.21		0.21
Common stock price:								
High	$	34.48	$	29.55	$	31.18	$	30.00
Low		28.18		26.56		25.84		25.16
Last trade		32.36		28.26		27.73		30.00
Selected ratios:								
Return on average assets, annualized		1.17%		1.26%		1.26%		1.18%
Return on average common equity, annualized		13.31%		13.83%		13.81%		12.97%
Net interest margin, annualized		3.97%		4.08%		4.09%		4.09%

There were approximately 4,065 holders of record of the Corporation's outstanding common shares at February 28, 2006.

Dividends

The annual dividend was increased from $0.87 per share to $0.98 per share during 2005. The Corporation has adopted a conservative policy of cash dividends, by maintaining an average annual cash dividend ratio of less than 45%, with periodic stock dividends. Dividends are typically paid on a quarterly basis. Future dividends are subject to the discretion of the Corporation’s Board of Directors, cash needs, general business conditions, dividends from the subsidiaries, and applicable governmental regulations and policies. For information concerning restrictions on dividends from the subsidiary bank to the Corporation, see note 20 to the consolidated financial statements included herein for the year ended December 31, 2005.

Stock Repurchases

The Corporation did not acquire any shares of stock through the stock repurchase program during the year 2005. The maximum number of shares that may yet be purchased under the program is 578,519. For further information, see the Liquidity and Market Risk section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 6. Selected Financial Data 2001-2005

(in thousands except per share amounts)

Year Ended December 31	**2005**	**2004**	**2003**	**2002**	**2001**
Interest income	$ 160,162	$ 130,401	$ 128,514	$ 146,550	$ 176,835
Interest expense	56,957	37,189	43,895	57,293	93,717
Net interest income	103,205	93,212	84,619	89,257	83,118
Provision for loan losses	8,285	8,648	9,332	10,086	9,185
Noninterest income	33,467	33,917	36,372	27,928	23,774
Noninterest expense	78,569	74,595	70,735	67,341	64,938
Income before income taxes	49,818	43,886	40,924	39,758	32,769
Income taxes	15,406	12,936	12,033	12,158	10,497
Net income	$ 34,412	$ 30,950	$ 28,891	$ 27,600	$ 22,272
Per common share:					
Basic earnings per share	$ 2.31	$ 2.09	$ 1.95	$ 1.83	$ 1.45
Cash dividends declared-	$ 0.98	$ 0.87	$ 0.75	$ 0.65	$ 0.61
as a % of net income	42.42%	41.63%	38.46%	35.52%	42.07%
Book value, end of year	$ 16.93	$ 15.91	$ 14.95	$ 14.02	$ 12.60
Market price, end of year	$ 30.75	$ 32.36	$ 27.46	$ 20.78	$ 17.85
Market value to book value, end of year	1.82x	2.03x	1.84x	1.48x	1.42x
Price/earnings ratio, end of year	13.31x	15.48x	14.08x	11.36x	12.31x
Cash dividend yield, end of year	3.19%	2.69%	2.73%	3.13%	3.42%
At year-end:					
Total assets	$ 2,849,213	$ 2,709,094	$ 2,474,039	$ 2,487,911	$ 2,503,905
Long-term debt	59,500	59,500	59,500	60,604	47,944
Shareholders' equity	253,945	236,169	221,393	209,419	191,606
Averages:					
Assets	$ 2,815,688	$ 2,543,272	$ 2,492,286	$ 2,467,469	$ 2,444,695
Deposits	2,217,735	2,078,691	2,109,752	2,110,714	2,094,296
Earning assets	2,599,516	2,337,540	2,292,251	2,268,579	2,256,341
Loans	2,024,756	1,816,146	1,658,289	1,660,912	1,748,241
Shareholders' equity	246,119	229,561	215,086	202,562	187,899
Profitability ratios:					
Return on average assets	1.22%	1.22%	1.16%	1.12%	0.91%
Return on average equity	13.98	13.48	13.43	13.63	11.85
Capital ratios:					

Equity to assets, end of year	8.91%	8.72%	8.95%	8.42%	7.65%
Average equity to average assets	8.74	9.03	8.63	8.21	7.69
Risk based capital ratios:					
Tier 1 capital (to average assets)	8.94%	8.78%	8.73%	8.23%	6.44%
Tier 1 capital (to risk weighted assets)	11.52	11.82	11.35	10.98	9.11
Total capital (to risk weighted assets)	12.76	13.07	12.60	12.22	10.32
Other significant ratios:					
Allowance to net loans, end of year	1.40%	1.42%	1.42%	1.42%	1.38%
Allowance to nonperforming loans, end of year	137.87	134.41	145.93	102.34	70.27
Nonperforming assets to loans and foreclosed properties, end of year	1.27	1.30	1.35	1.56	2.08
Net interest margin	4.03	4.05	3.76	4.02	3.77
Other statistics:					
Average common shares outstanding	14,908	14,811	14,821	15,095	15,329
Number of full-time equivalent employees, end of year	1,003	954	901	874	883

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

Overview

Community Trust Bancorp, Inc. reported record earnings of $34.4 million for 2005 compared to $31.0 million for 2004 and $28.9 million for 2003. Basic earnings per share for 2005 were $2.31 compared to $2.09 per share for 2004 and $1.95 per share for 2003. Basic earnings per share for the year 2005 reflects the Corporation’s seventh consecutive year of increased earnings per share.

Return on average assets for 2005 was 1.22% compared to 1.22% and 1.16% in 2004 and 2003, respectively. Return on average equity for 2005 was 13.98% compared to 13.48% and 13.43% in 2004 and 2003, respectively.

The Corporation's assets grew 5.2%, or $140.1 million, during the year 2005. Asset growth obtained through the Danville acquisition which occurred in June 2005 totaled $88.9 million. The loan portfolio grew $204.8 million during the year with growth occurring in all three major loan categories—commercial, residential real estate, and consumer loans. Loans obtained in the Danville acquisition totaled $73.7 million. The investment portfolio decreased $74.3 million during the year as maturing investments were used to partially fund the increased loan portfolio. Total deposits and repurchase agreements of $2.4 billion at December 31, 2005 reflected growth of 6.6%, or $146.9 million, over prior year-end. Deposits obtained in the Danville acquisition totaled $69.8 million.

Acquisitions

On June 10, 2005, Community Trust Bank, Inc., the bank subsidiary of Community Trust Bancorp, Inc., completed the acquisition of Heritage Community Bank of Danville, Kentucky. All former Heritage Community Bank offices now operate as branch offices of Community Trust Bank, Inc. The Corporation obtained loans totaling approximately $73.7 million, cash and cash equivalents of approximately $8.1 million, and deposits totaling approximately $69.8 million from this acquisition. The total cost of the acquisition, including direct acquisition costs, was $12.4 million. Goodwill and core deposit intangible of approximately $3.9 million was recorded.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the consolidated financial statements.

We believe the application of accounting policies and the estimates required therein are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in note 1 to the consolidated financial statements. We have identified the following critical accounting policies:

Loans - Loans are reported at the carrying value of unpaid principal reduced by unearned interest and an allowance for loan losses. Income is recorded on the level yield basis. Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower’s financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments are brought current and future payments appear reasonably certain.

Allowance for Loan Losses - The adequacy of the allowance is reviewed quarterly by management using a methodology that includes several key factors. The Corporation utilizes an internal risk grading system for commercial credits, and those larger commercial credits identified through this grading system as having weaknesses are individually reviewed for the customer's ability and potential to repay their loans. The customer’s cash flow, adequacy of collateral held for the loan, and other options available to the Corporation including legal avenues are all evaluated. Based upon this individual credit evaluation, a specific allocation to the allowance may be made for the loan.

For other commercial loans that are not individually evaluated, an allowance allocation is determined by applying an eight-quarter moving average historical loss rate for this group of loans. Consumer installment and residential mortgage loans are not individually risk graded. Allowance allocations are provided for these pools of loans based upon an eight-quarter moving average historical loss rate for each of these categories of loans.

An unallocated portion of the allowance is also determined in recognition of the inherent inability to precisely determine the loss potential in any particular loan or pool of loans. The factors considered by management in determining this amount of inherent risk include delinquency trends, current economic conditions and trends, strength of the supervision and administration of the loan portfolio, level of nonperforming loans, trend in loan losses, recovery rates associated with previously charged-off loans, concentrations within commercial credits, problem loan identification strengths and weaknesses, collateral evaluation strengths and weaknesses, and the level of financial statement exceptions. These factors are reviewed quarterly and weighted as deemed appropriate by management. The total of these weighted factors is then applied against the total loan portfolio and the allowance is adjusted accordingly.

Investments - Management determines the classification of securities at purchase. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Corporation classifies securities into held-to-maturity or available-for-sale categories. Held-to-maturity securities are those which the Corporation has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities are those the Corporation 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 and losses included as a separate component of shareholders' equity, net of tax. If declines in fair value are not temporary, the carrying value of the securities is written down to fair value as a realized loss.

Gains or losses on disposition of securities are computed by specific identification for all securities except for shares in mutual funds, which are computed by average cost. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Goodwill - The Corporation evaluates total goodwill for impairment, based upon SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 147, *Acquisitions of Certain Financial Institutions*, using fair value techniques including multiples of price/equity. Goodwill is evaluated for impairment on an annual basis.

Segments - Management analyzes the operation of the Corporation assuming one operating segment, community banking services. The Corporation, through its operating subsidiaries, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) annuity and life insurance products; (viii) Individual Retirement Accounts and Keogh plans; (ix) commercial loans; (x) trust services; and (xi) commercial demand deposit accounts.

New Accounting Standards

Ø **Accounting for Certain Loans and Debt Securities Acquired in a Transfer** - In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans and Debt Securities Acquired in a Transfer*. SOP 03-3 addresses the accounting for certain acquired loans that show evidence of credit deterioration since their origination (i.e. impaired loans) and for which a loss is deemed probable of occurring. SOP 03-3 prohibits the carryover of an allowance for loan loss on certain acquired loans within its scope. SOP 03-3 is effective for loans that are acquired in fiscal years beginning after December 15, 2004. The adoption of this Statement had no material effect on the Corporation's consolidated financial statements.

Ø **Stock-Based Employee Compensation** - The Corporation currently maintains two incentive stock option plans covering key employees; however, only one plan is active. The 1998 Stock Option Plan ("1998 Plan") was approved by the Board of Directors and the Shareholders in 1998. The 1998 Plan had 1,046,831 shares authorized, 252,981 of which were available at December 31, 2005 for future grants. All options granted have a maximum term of ten years. Options granted as management retention options vest after five years; all other options vest ratably over four years.

Had compensation cost for the Corporation’s stock options granted in 2005, 2004, and 2003 been determined under the fair value approach described in SFAS No. 123, *Accounting for Stock-Based Compensation*, the Corporation’s net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share amounts)				
Years ended December 31		**2005**	**2004**	**2003**
Net income as reported		$ 34,412	$ 30,950	$ 28,891
Stock-based compensation expense		(994)	(558)	(614)
Tax effect		141	142	110
Net income pro forma		$ 33,559	$ 30,534	$ 28,387
Basic net income per share	As reported	$ 2.31	$ 2.09	$ 1.95
	Pro forma	2.25	2.06	1.92
Diluted net income per share	As reported	$ 2.27	$ 2.05	$ 1.93
	Pro forma	2.22	2.02	1.89

The fair value of the options presented above was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2005, 2004, and 2003, respectively: risk-free interest rates of 3.92%, 3.70%, and 2.69%, dividend yields of 3.11%, 3.02%, and 3.29%, volatility factors of the expected market price of the Corporation’s common stock of 0.960, 0.756, and 0.593, and a weighted average expected option life of 6.5, 6.8, and 4.0 years.

In December 2004, SFAS No. 123R, *Share-Based Payment*, was issued. SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25. Among other items, SFAS No. 123R eliminates the use of APB Opinion No. 25 and the intrinsic value method of accounting and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS No. 123R for the Corporation is January 1, 2006.

SFAS No. 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, the compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but this method also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. The Corporation currently utilizes a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS No. 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Corporation has not yet determined which model it will use to measure the fair value of employee stock options upon the adoption of SFAS No. 123R. SFAS No. 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated, because they depend on, among other things, when employees exercise stock options. However, the amount of operating cash flows recognized in prior periods for such excess tax deductions, as shown in the Corporation's Consolidated Statements of Cash Flows, were $0.7 million, $0.3 million, and $0.2 million, respectively for 2005, 2004, and 2003. The Corporation has not yet determined which of the aforementioned adoption methods it will use.

Ø **Accounting for Conditional Asset Retirement Obligations -** In March 2005, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), to clarify the term "conditional asset retirement" as used in SFAS 143, *Accounting for Asset Retirement Obligations*. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Accordingly, the Corporation will adopt FIN 47 no later than the fourth fiscal quarter in 2006. Management is currently assessing the impact FIN 47 may have on the Corporation's consolidated balance sheet; however, the adoption of FIN 47 is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

Results of Operations

2005 Compared to 2004

Net income for 2005 was $34.4 million compared to $31.0 million in 2004. The increase in net income was primarily driven by a 10.7% increase in net interest income. See the Net Interest Income section below for further information. Basic earnings per share for 2005 were $2.31 compared to $2.09 per share for 2004. The average shares outstanding in 2005 and 2004 were 14.9 million and 14.8 million, respectively.

Net interest income for 2005 was $103.2 million compared to $93.2 million in 2004. Noninterest income was $33.5 million compared to $33.9 million in 2004 and noninterest expense was $78.6 million compared to $74.6 million in 2004. See the Noninterest Income and Noninterest Expense sections below for further information.

Return on average assets was 1.22% for 2005 and 2004, and return on average equity increased 50 basis points from 13.48% for 2004 to 13.98% for 2005.

Net Interest Income:

The Corporation's net interest margin for the year 2005 decreased 2 basis points from 4.05% to 4.03%. However, the net interest margin for the quarter ended December 31, 2005 of 4.12% was a 15 basis point increase from the quarter ended December 31, 2004 and an increase of 4 basis points from prior quarter. The increase in the net interest margin for the quarter was primarily the result of the increased yield on average earning assets attributable to the reallocation of earning assets from the investment portfolio to the higher yielding loan portfolio. The yield on average earning assets for the fourth quarter 2005 increased 87 basis points from the fourth quarter 2004 and 30 basis points from the third quarter 2005. For further information, see the table titled "Consolidated Average Balance Sheets and Taxable Equivalent Income/Expense and Yields/Rates" in the Selected Statistical Information.

Average earning assets were $2.6 billion for the year 2005 compared to $2.3 billion for 2004. Average interest bearing liabilities were $2.1 billion for the year 2005 compared to $1.9 billion for 2004. Average interest bearing liabilities as a percentage of average earning assets were 81.8% for the year ended December 31, 2005 compared to 82.0% for the year ended December 31, 2004.

The taxable equivalent yield on average earning assets was 6.22% for 2005 compared to 5.65% in 2004. The cost of average interest bearing liabilities was 2.68% for 2005 compared to 1.94% for 2004. Although the increase in cost of average interest bearing liabilities surpassed the increase in yield on average earning assets by 17 basis points, the net interest margin only decreased 2 basis points because average interest bearing deposits including repurchase agreements increased 7.0% during 2005 while average noninterest bearing deposits increased 11.5%. The yield on interest bearing assets has been impacted by the change in the earning asset mix between the loan portfolio and the investment portfolio as well as by the change in market rates. Average loans accounted for 77.9% of average earning assets in 2005 and 77.7% of average earning assets in 2004. Average loans accounted for 71.9% of total average assets for the year ended December 31, 2005 compared to 71.4% for the year ended December 31, 2004. Total loans as a percentage of total assets as of December 31, 2005 and 2004 were 74.0% and 70.2%, respectively.

Provision for Loan Losses and Allowance for Loan Losses:

The provision for loan losses that was added to the allowance was $8.3 million for the year ended December 31, 2005 compared to $8.6 million for 2004. This provision represents a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section. Loan losses, net of recoveries, as a percentage of average loans outstanding were 0.37% in 2005 compared to 0.35% in 2004 as net loan losses were $7.6 million for 2005 compared to $6.3 million for 2004.

Our reserve for losses on loans as a percentage of total loans outstanding decreased from 1.42% as of December 31, 2004 to 1.40% as of December 31, 2005.

Nonperforming loans at December 31, 2005 were $21.4 million, or 1.0% of total loans, compared to $20.1 million, or 1.1% of total loans at December 31, 2004. Foreclosed properties at December 31, 2005 were $5.4 million compared to $4.8 million on December 31, 2004.

Noninterest Income:

Noninterest income for the year ended December 31, 2005 decreased 1.3% from prior year. The following table displays the annual activity in the various significant noninterest income accounts.

Noninterest Income Summary

(in thousands)		**Year Ended 2005**		**Year Ended 2004**
Deposit related fees	$	18,050	$	17,658
Loan related fees		5,331		5,203
Mortgage servicing rights		307		46
Trust revenue		3,067		2,456
Gains on sales of loans		1,481		1,619
Securities gains		3		639
Other revenue		5,228		6,296
Total noninterest income	$	33,467	$	33,917

The increase in recurring revenue sources from the year ended 2004 to the year ended 2005 including deposit related fees, loan related fees, and trust revenue was offset by the decline in nonrecurring other revenue items and a decline in gains on sales of loans due to the rising interest rate environment.

Noninterest Expense:

Noninterest expense for the year ended December 31, 2005 increased 5.3% to $78.6 million from the $74.6 million for the year ended December 31, 2004. The increase in noninterest expense from prior year was primarily attributable to an increase of $3.0 million in personnel expense due to normal salary increases, the filling of budgeted key positions, the Danville bank acquisition, and new branch openings. Occupancy and equipment expense increased $1.3 million from 2004 to 2005 also as a result of the Danville bank acquisition and new branch openings during the year.

The efficiency ratio for the year ended December 31, 2005 improved to 56.83% from the 58.25% for the year ended December 31, 2004. The deposit (including repurchase agreements) to FTE (full-time equivalent) ratio increased to $2.4 million at December 31, 2005 from $2.3 million at December 31, 2004.

2004 Compared to 2003

Net income for 2004 was $31.0 million compared to $28.9 million for 2003. The increase in net income was primarily driven by a 10.2% increase in net interest income, as interest income increased 1.5% and interest expense decreased 15.3%. See the Net Interest Income section below for further information. Basic earnings per share for 2004 were $2.09 compared to $1.95 per share for 2003. The average shares outstanding in 2004 and 2003 were 14.8 million.

Net interest income for 2004 was $93.2 million compared to $84.6 million in 2003. Noninterest income was $33.9 million compared to $36.4 million in 2003 and noninterest expense was $74.6 million compared to $70.7 million in 2003. See the Noninterest Income and Noninterest Expense sections below for further information.

Return on average assets was 1.22% for 2004 compared to 1.16% in 2003, and return on average equity for 2004 was 13.48% compared to 13.43% in 2003.

Net Interest Income:

The Corporation's net interest margin of 4.05% was a 29 basis point increase from the 3.76% for the year ended December 31, 2003. For further information, see the table titled "Consolidated Average Balance Sheets and Taxable Equivalent Income/Expense and Yields/Rates" in the Selected Statistical Information.

Average earning assets were $2.3 billion at December 31, 2004 and at December 31, 2003. Average interest bearing liabilities were $1.9 billion at December 31, 2004 and at December 31, 2003. Average interest bearing liabilities as a percentage of average earning assets were 82.0% at December 31, 2004 compared to 83.7% in 2003.

The taxable equivalent yield on average earning assets was 5.65% for 2004 compared to 5.68% in 2003. The cost of average interest bearing liabilities was 1.94% for 2004 compared to 2.29% for 2003. The yield on interest bearing assets was impacted by the change in the earning asset mix between the loan portfolio and the investment portfolio as well as by the change in market rates. Average loans accounted for 72.3% of average earning assets in 2003 while average loans accounted for 77.7% of average earning assets in 2004. Average loans accounted for 66.5% of total average assets for the year ended December 31, 2003 compared to 71.4% for the year ended December 31, 2004. Total loans as a percentage of total assets as of December 31, 2004 and 2003 were 70.2%.

Provision for Loan Losses and Allowance for Loan Losses:

The provision for loan losses that was added to the allowance was $8.6 million for the year ended December 31, 2004 compared to $9.3 million for 2003. This provision represented a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section. Loan losses, net of recoveries, as a percentage of average loans outstanding were 0.35% in 2004 compared to 0.48% in 2003 as net loan losses were $6.3 million for 2004 compared to $8.0 million for 2003.

Our reserve for losses on loans as a percentage of total loans outstanding remained flat at 1.42% as of December 31, 2004 and December 31, 2003.

Nonperforming loans at December 31, 2004 of $20.1 million, or 1.1% of total loans, increased from the $16.9 million, or 1.0% of total loans, at December 31, 2003. The Corporation's continued focus on liquidation of foreclosed properties has resulted in the decrease of foreclosed properties to $4.8 million on December 31, 2004 from the $6.6

million reported at December 31, 2003. Foreclosed properties consist primarily of 1-4 family residential real estate. Nonperforming assets at December 31, 2004 were $24.9 million compared to $23.5 million at December 31, 2003.

Noninterest Income:

Noninterest income for the year ended December 31, 2004 decreased 6.7% from prior year. The following table displays the annual activity in the various significant noninterest income accounts.

Noninterest Income Summary

(in thousands)		**Year Ended 2004**		**Year Ended 2003**
Deposit related fees	$	17,658	$	17,057
Loan related fees		5,203		4,644
Mortgage servicing rights		46		(1,269)
Trust revenue		2,456		2,457
Gains on sales of loans		1,619		5,693
Securities gains		639		3,042
Other revenue		6,296		4,748
Total noninterest income	$	33,917	$	36,372

Noninterest Expense:

Noninterest expense for the year ended December 31, 2004 of $74.6 million was a 5.5% increase from the $70.7 million for the year ended December 31, 2003. The increase in noninterest expense from prior year was primarily attributable to increased personnel expense due to the filling of budgeted key positions and the accrual of a performance-based incentive in the amount of $2.3 million. No incentive accrual was booked in 2003. The Corporation's performance incentive plan requires a performance incentive payment to eligible employees if the Corporation reaches goals established by the Board of Directors. These goals were not met in 2003; however, they were met for the year 2004.

The efficiency ratio for the year ended December 31, 2004 improved almost 100 basis points to 58.25% from the 59.17% for the year ended December 31, 2003. The deposit to FTE (full-time equivalent) ratio decreased to $2.2 million at December 31, 2004 from $2.3 million at December 31, 2003.

Liquidity and Market Risk

The objective of the Corporation's Asset/Liability management function is to maintain consistent growth in net interest income within the Corporation's policy limits. This objective is accomplished through management of the Corporation's consolidated balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates, and customer preferences. The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or unexpected deposit withdrawals. This is accomplished by maintaining liquid assets in the form of cash and cash equivalents and investment securities, maintaining sufficient unused borrowing capacity, and growth in core deposits. As of December 31, 2005, the Corporation had approximately $122.2 million in cash and cash equivalents and approximately $395.6 million in securities valued at estimated fair value designated as available-for-sale and available to meet liquidity needs on a continuing basis. Additional asset-driven liquidity is provided by the remainder of the securities portfolio and the repayment of loans. In addition to core deposit funding, the Corporation also accesses a variety of other short-term and long-term funding sources. The Corporation also relies on Federal Home Loan Bank advances for both liquidity and management of its asset/liability position. Federal Home Loan Bank advances were $122.8 million at December 31, 2005 compared to $162.4 million at December 31, 2004. As of December 31, 2005, the Corporation had a $261.0 million available borrowing position with the Federal Home Loan Bank. The Corporation generally relies upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for its investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering, use of short-term borrowing facilities such as repurchase agreements and federal funds purchased, and issuance of long-term debt. At December 31, 2005, the Corporation had a $12 million revolving line of credit, all of which is currently available to meet any future cash needs. The Corporation's primary investing activities include purchases of securities and loan originations. Management does not rely on any one source of liquidity and manages availability in response to changing consolidated balance sheet needs.

The Corporation's stock repurchase program began in December 1998 with the authorization to acquire up to 500,000 shares and was increased by an additional 1,000,000 shares in July 2000. The Corporation issued a press release on May 13, 2003 announcing its intention to repurchase up to 1,000,000 additional shares. During the year 2005, the Corporation did not acquire shares of the Corporation's stock. As of December 31, 2005, a total of 1,921,481 shares have been repurchased through this program. The following table shows Board authorizations and repurchases made through the stock repurchase program for the years 1998 through 2005:

	Board	Repurchases*		Shares Available
	Authorizations	Average Price ($)	# of Shares	for Repurchase
1998	500,000	-	0	
1999	0	15.89	131,517	
2000	1,000,000	11.27	694,064	
2001	0	14.69	444,945	
2002	0	19.48	360,287	
2003	1,000,000	21.58	235,668	
2004	0	25.45	55,000	
2005	0	-	0	
Total	2,500,000	15.59	1,921,481	578,519

*Repurchased shares and average prices have been restated to reflect stock dividends that have occurred; however, board authorized shares have not been adjusted.

Management considers interest rate risk one of the Corporation's most significant market risks. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of the Corporation's net interest revenue is largely dependent upon the effective management of interest rate risk. The Corporation employs a variety of measurement techniques to identify and manage its interest rate risk including the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain, and as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Corporation's Asset/Liability Management Committee (ALCO), which includes executive and senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk within Board-approved policy limits. The Corporation's current exposure to interest rate risks is determined by measuring the anticipated change in net interest income over a twelve-month period assuming a 200 basis point increase or decrease in rates, spread evenly over the twelve-month period. The following table shows the Corporation's estimated earnings sensitivity profile as of December 31, 2005:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+200	5.11%
-200	(5.32)%

The following table shows the Corporation’s estimated earnings sensitivity profile as of December 31, 2004:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+200	5.26%
-200	(5.42)%

The simulation model used a 200 basis point increase in the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2005 estimates that net interest income for the Corporation would increase by 5.11% over one year. A 200 basis point immediate and sustained decrease in interest rates would decrease net interest income by 5.32% over one year. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Corporation has developed sale procedures for several types of interest-sensitive assets. Virtually all long-term, fixed rate single family residential mortgage loans underwritten according to Federal Home Loan Mortgage Corporation guidelines are sold for cash upon origination. Periodically, additional assets such as commercial loans are also sold. In 2005 and 2004, $66.9 million and $68.6 million, respectively, was realized on the sale of fixed rate residential mortgages. Management focuses its efforts on consistent net interest revenue and net interest margin growth through each of the retail and wholesale business lines. The Corporation does not currently engage in trading activities.

Capital Resources

The Corporation continues to grow its shareholders’ equity while also providing an average annual dividend yield during 2005 of 3.19% to shareholders. Shareholders’ equity of $253.9 million on December 31, 2005 was a 7.5% increase from the $236.2 million on December 31, 2004. The primary source of capital growth for the Corporation is retained earnings. Cash dividends were $0.98 per share for 2005 and $0.87 per share for 2004. The Corporation retained 57.6% of its earnings in 2005 compared to 58.4% in 2004.

Regulatory guidelines require bank holding companies, commercial banks, and savings banks to maintain certain minimum capital ratios and define companies as "well-capitalized" that sufficiently exceed the minimum ratios. The banking regulators may alter minimum capital requirements as a result of revising their internal policies and their ratings of individual institutions. To be "well-capitalized" banks and bank holding companies must maintain a Tier 1 leverage ratio of no less than 5.0%, a Tier 1 risk based ratio of no less than 6.0%, and a total risk based ratio of no less than 10.0%. The Corporation’s ratios as of December 31, 2005 were 8.94%, 11.52%, and 12.76%, respectively. Community Trust Bancorp, Inc. and it subsidiaries met the criteria for "well-capitalized" at December 31, 2005. See note 20 to the consolidated financial statements for further information.

Upon the early adoption of FIN 46 effective July 1, 2003, the Corporation deconsolidated CTBI Preferred Capital Trust and CTBI Preferred Capital Trust II, resulting in a recharacterization of the underlying consolidated debt obligations from the previous trust preferred securities obligations to junior subordinated debenture obligations. Under the current Federal Reserve Board’s regulatory framework, the junior subordinated debenture obligations both qualify as total capital for regulatory capital purposes. The Federal Reserve Board is currently evaluating whether these capital securities should continue to qualify as Tier 1 capital as a result of deconsolidating the related trust preferred securities in accordance with generally accepted accounting principals. If the Federal Reserve Board disallows the capital securities as Tier 1 regulatory capital, the effect of such a change could have a material impact on the Corporation’s regulatory ratios.

As of December 31, 2005, management is not aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have, or are reasonably likely to have, a material adverse impact on the Corporation's liquidity, capital resources, or operations.

Impact of Inflation, Changing Prices, and Local Economic Conditions

The majority of the Corporation's assets and liabilities are monetary in nature. Therefore, the Corporation differs greatly from most commercial and industrial companies that have significant investments in non-monetary assets, such as fixed assets and inventories. However, inflation does have an important impact on the growth of assets in the banking industry and on the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation also affects other expenses, which tend to rise during periods of general inflation.

Management believes the most significant impact on financial and operating results is the Corporation's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities in order to protect against the effects of wide interest rate fluctuations.

Our success is dependent on the general economic conditions of the communities we serve. Unlike larger banks that are more geographically diversified, we provide financial and banking services primarily to eastern, northeast, central, and south central Kentucky and southern West Virginia. The economic conditions in these areas have a significant impact on loan demand, the ability of borrowers to repay loans, and the value of the collateral securing loans. A significant decline in general economic conditions will affect these local economic conditions and will negatively affect the financial results of our banking operations. Factors influencing general conditions include inflation, recession, unemployment, and other factors beyond our control.

Contractual Obligations and Commitments

As disclosed in the notes to the consolidated financial statements, the Corporation has certain obligations and commitments to make future payments under contracts. At December 31, 2005, the aggregate contractual obligations and commitments are:

Contractual Obligations:	**Payments Due by Period**			
(in thousands)	**Total**	**1 Year**	**2-5 Years**	**After 5 Years**
Deposits without stated maturity	$ 1,063,751	$ 1,063,751	$ 0	$ 0
Certificates of deposit	1,182,800	1,044,048	137,840	912
Repurchase agreements and other short-term borrowings	146,641	128,756	17,885	0
Advances from Federal Home Loan Bank	122,835	40,590	81,190	1,055
Interest on advances from Federal Home Loan Bank*	7,585	4,020	3,517	48
Long-term debt	59,500	0	0	59,500
Interest on long-term debt*	123,839	5,327	21,310	97,202
Annual rental commitments under leases	11,975	1,335	2,990	7,650
Total	$ 2,718,926	$ 2,287,827	$ 264,732	$ 166,367

*The amounts provided as interest on advances from Federal Home Loan Bank and interest on long-term debt assume the liabilities will not be prepaid and interest is calculated to their individual maturities.

Other Commitments:	Amount of Commitment - Expiration by Period			
(in thousands)	Total	1 Year	2-5 Years	After 5 Years
Standby letters of credit	$ 54,948	$ 49,237	$ 5,711	$ 0
Commitments to extend credit	380,904	267,836	103,835	9,233
Total	$ 435,852	$ 317,073	$ 109,546	$ 9,233

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Corporation currently does not engage in any hedging activity. The only derivative activity in which the Corporation engages is an interest-only strip in the amount of $185 thousand and loans held for sale in the amount of $135 thousand as of December 31, 2005. Analysis of the Corporation's interest rate sensitivity can be found in the Liquidity and Market Risk section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets

(dollars in thousands) **December 31**	**2005**	**2004**
Assets:		
Cash and due from banks	$ 91,066	$ 78,725
Federal funds sold	31,145	50,855
Securities available-for-sale and other at fair value		
(amortized cost of $428,923 and $480,671, respectively)	422,253	482,280
Securities held-to-maturity at amortized cost		
(fair value of $46,528 and $61,947, respectively)	48,444	62,671
Loans held for sale	135	0
Loans	2,107,344	1,902,519
Allowance for loan losses	(29,506)	(27,017)
Net loans	2,077,838	1,875,502
Premises and equipment, net	57,966	53,111
Goodwill	63,523	60,122
Core deposit intangible (net of accumulated amortization of $4,319 and		
$3,711, respectively)	3,186	3,249
Other assets	53,657	42,579
Total assets	$ 2,849,213	$ 2,709,094
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	$ 445,929	$ 403,792
Interest bearing	1,800,622	1,736,626
Total deposits	2,246,551	2,140,418
Repurchase agreements	129,156	88,404

Federal funds purchased and other short-term borrowings		17,485		4,240
Advances from Federal Home Loan Bank		122,835		162,391
Long-term debt		59,500		59,500
Other liabilities		19,741		17,972
Total liabilities		2,595,268		2,472,925
Shareholders' equity:				
Preferred stock, 300,000 shares authorized and unissued				
Common stock, $5 par value, shares authorized 25,000,000;				
shares outstanding 2005 - 14,997,369; 2004 - 14,845,217		74,987		74,226
Capital surplus		147,626		145,023
Retained earnings		35,667		15,874
Accumulated other comprehensive income (loss), net of tax		(4,335)		1,046
Total shareholders' equity		253,945		236,169
Total liabilities and shareholders' equity	$	2,849,213	$	2,709,094

See notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands except per share data) **Year Ended December 31**		**2005**		**2004**		**2003**
Interest income:						
Interest and fees on loans, including loans held for sale	$	137,291	$	111,181	$	108,885
Interest and dividends on securities						
Taxable		18,892		16,409		16,667
Tax exempt		2,104		2,204		2,215
Other, including interest on federal funds sold		1,875		607		747
Total interest income		160,162		130,401		128,514
Interest expense:						
Interest on deposits		43,011		28,460		37,210
Interest on repurchase agreements and other short-term borrowings		3,819		1,568		1,132
Interest on advances from Federal Home Loan Bank		4,872		1,907		230
Interest on long-term debt		5,255		5,254		5,323
Total interest expense		56,957		37,189		43,895
Net interest income		103,205		93,212		84,619
Provision for loan losses		8,285		8,648		9,332
Net interest income after provision for loan losses		94,920		84,564		75,287
Noninterest income:						
Service charges on deposit accounts		18,050		17,658		17,057
Gains on sales of loans, net		1,481		1,619		5,693
Trust income		3,067		2,456		2,457
Securities gains, net		3		639		3,042
Other		10,866		11,545		8,123
Total noninterest income		33,467		33,917		36,372
Noninterest expense:						
Salaries and employee benefits		42,535		39,501		34,593
Occupancy, net		6,387		5,629		5,819
Equipment		4,352		3,855		3,688
Data processing		4,479		4,166		3,841
Stationery, printing, and office supplies		1,525		1,461		1,407
Taxes other than payroll, property, and income		3,103		3,197		2,772
FDIC insurance		289		301		319
Legal and professional fees		2,855		3,187		3,937
Other		13,044		13,298		14,359
Total noninterest expense		78,569		74,595		70,735
Income before income taxes		49,818		43,886		40,924
Income taxes		15,406		12,936		12,033
Net income	$	34,412	$	30,950	$	28,891
Basic earnings per share	$	2.31	$	2.09	$	1.95

Diluted earnings per share	2.27	2.05	1.93

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands except per share and share amounts)	**Common Shares**	**Common Stock**	**Capital Surplus**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss), Net of Tax**	**Total**
Balance, January 1, 2003	12,348,177	$ 61,741	$ 73,723	$ 66,540	$ 7,415	$ 209,419
Net income				28,891		28,891
Net change in unrealized depreciation on securities available-for-sale, net of tax of $1,385					(2,572)	(2,572)
Comprehensive income						26,319
Cash dividends declared ($0.75 per share)				(11,055)		(11,055)
To record 10% common stock dividend	1,222,853	6,114	34,599	(40,713)		0
Issuance of common stock	86,289	431	1,389			1,820
Purchase of common stock	(195,719)	(978)	(4,132)			(5,110)
Balance, December 31, 2003	13,461,600	67,308	105,579	43,663	4,843	221,393
Net income				30,950		30,950
Net change in unrealized depreciation on securities available-for-sale, net of tax of $2,044					(3,797)	(3,797)
Comprehensive income						27,153
Cash dividends declared ($0.87 per share)				(12,854)		(12,854)
To record 10% common stock dividend	1,349,146	6,746	39,139	(45,885)		0
Issuance of common stock	84,471	422	1,409			1,831
Purchase of common stock	(50,000)	(250)	(1,150)			(1,400)
Other			46			46
Balance, December 31, 2004	14,845,217	74,226	145,023	15,874	1,046	236,169
Net income				34,412		34,412
Net change in unrealized depreciation on securities available-for-sale, net of tax of $2,898					(5,381)	(5,381)
Comprehensive income						29,031
Cash dividends declared ($0.98 per share)				(14,619)		(14,619)
Issuance of common stock	152,152	761	2,603			3,364
Balance, December 31, 2005	14,997,369	$ 74,987	$ 147,626	$ 35,667	$ (4,335)	$ 253,945

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands) **Year Ended December 31**	**2005**	**2004**	**2003**
Cash flows from operating activities:			
Net income	$ 34,412	$ 30,950	$ 28,891
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,141	4,469	4,418
Change in net deferred tax asset	745	1,886	561
Provision for loan and other real estate losses	8,410	8,934	9,541
Securities gains	(3)	(796)	(3,404)
Securities losses	0	157	362
Gains on sale of mortgage loans held for sale	(1,493)	(1,619)	(5,378)
Gains (losses) on sale of other loans	13	0	(315)
Gains (losses) on sale of assets, net	(28)	(238)	90
Proceeds from sale of mortgage loans held for sale	66,883	68,573	195,794
Funding of loans held for sale	(65,525)	(66,639)	(188,452)
Amortization of securities premiums, net	1,682	1,252	1,435
Changes in:			
Other liabilities	3,003	1,153	2,306
Other assets	(7,688)	4,938	(8,549)
Net cash provided by operating activities	45,552	53,020	37,300
Cash flows from investing activities:			
Securities available-for-sale:			
Proceeds from sales	53,850	141,801	189,628
Proceeds from prepayments and maturities	106,721	95,166	138,504
Purchase of securities	(108,082)	(303,485)	(224,837)
Securities held-to-maturity:			
Proceeds from prepayments and maturities	13,966	26,027	44,646
Purchase of securities	0	(1,562)	(81,060)
Proceeds from sale of loans	105	0	7,315
Change in loans, net	(142,112)	(174,166)	(124,712)
Purchase of premises, equipment, and other real estate	(5,321)	(7,039)	(3,065)
Proceeds from sale of premises and equipment	32	35	15
Proceeds from sale of other real estate and other repossessed assets	3,557	3,846	4,134
Additions in other real estate owned	(327)	0	0
Net cash paid in acquisition	(4,313)	0	0
Net cash used in investing activities	(81,924)	(219,377)	(49,432)
Cash flows from financing activities:			
Change in deposits, net	36,317	72,803	(60,101)
Change in repurchase agreements and other short-term borrowings, net	53,997	(12,649)	36,862
Advances from Federal Home Loan Bank	0	200,000	0
Payments on advances from Federal Home Loan Bank	(50,056)	(40,801)	(2,425)
Payments on long-term debt	0	0	(1,104)
Issuance of common stock	3,364	1,831	1,820

Purchase of common stock	0	(1,400)	(5,110)
Other equity adjustments	0	46	0
Dividends paid	(14,619)	(12,854)	(11,055)
Net cash provided by (used in) financing activities	29,003	206,976	(41,113)
Net increase (decrease) in cash and cash equivalents	(7,369)	40,619	(53,245)
Cash and cash equivalents at beginning of year	129,580	88,961	142,206
Cash and cash equivalents at end of year	$ 122,211	$ 129,580	$ 88,961

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies

Basis of Presentation - The consolidated financial statements include Community Trust Bancorp, Inc. (the "Corporation") and its subsidiaries, including its principal subsidiary, Community Trust Bank, Inc. (the "Bank"). Intercompany transactions and accounts have been eliminated in consolidation. In preparing the consolidated financial statements, management must make certain estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues, and expenses, as well as affecting the disclosures provided. Future results could differ from the current estimates. Such estimates include, but are not limited to, the allowance for loan losses, fair value of securities and mortgage servicing rights, and goodwill (the excess of cost over net assets acquired).

Nature of Operations - Substantially all assets, liabilities, revenues, and expenses are related to banking operations, including lending, investing of funds, obtaining of deposits, trust operations, full service brokerage operations, and other financing activities. All of the Corporation's business offices and the majority of its business are located in eastern, northeast, central, and south central Kentucky and southern West Virginia.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other financial institutions, and federal funds sold. Generally, federal funds are sold for one-day periods.

Investments - Management determines the classification of securities at purchase. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Corporation classifies securities into held-to-maturity or available-for-sale categories. Held-to-maturity securities are those which the Corporation has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities are those the Corporation 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 and losses included as a separate component of shareholders' equity, net of tax. If declines in fair value are not temporary, the carrying value of the securities is written down to fair value as a realized loss.

Gains or losses on disposition of securities are computed by specific identification for all securities except for shares in mutual funds, which are computed by average cost. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

Loans - Loans are reported at the carrying value of unpaid principal reduced by unearned interest and an allowance for loan losses. Income is recorded on the level yield basis. Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments are brought current and future payments appear reasonably certain.

Allowance for Loan Losses - The adequacy of the allowance is reviewed quarterly by management using a methodology that includes several key factors. The Corporation utilizes an internal risk grading system for commercial credits, and those larger commercial credits identified through this grading system as having weaknesses are individually reviewed for the customer's ability and potential to repay their loans. The borrower's cash flow, adequacy of collateral held for the loan, and other options available to the Corporation including legal avenues are all evaluated. Based upon this individual credit evaluation, a specific allocation to the allowance may be made for the loan.

For other commercial loans that are not individually evaluated, an allowance allocation is determined by applying an eight-quarter moving average historical loss rate for this group of loans. Consumer installment and residential mortgage loans are not individually risk graded. Allowance allocations are provided for these pools of loans based upon an eight-quarter moving average historical loss rate for each of these categories of loans.

An unallocated portion of the allowance is also determined in recognition of the inherent inability to precisely determine the loss potential in any particular loan or pool of loans. The factors considered by management in determining this amount of inherent risk include delinquency trends, current economic conditions and trends, strength of the supervision and administration of the loan portfolio, level of nonperforming loans, trend in loan losses, recovery rates associated with previously charged-off loans, concentrations within commercial credits, problem loan identification strengths and weaknesses, collateral evaluation strengths and weaknesses, and the level of financial statement exceptions. These factors are reviewed quarterly and weighted as deemed appropriate by management. The total of these weighted factors is then applied against the total loan portfolio and the allowance is adjusted accordingly.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Valuation of Servicing Rights - When the Corporation sells loans through individual loan sales in accordance with its investment policies, it often retains servicing rights. Servicing rights resulting from loan sales are amortized in proportion to and over the period of estimated net servicing revenues. Servicing rights are assessed for impairment quarterly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speeds of the underlying loans, the weighted average life of the loan, the discount rate, the weighted average coupon, and the weighted average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly prepayment speeds and interest rate volatility.

The Corporation monitors risk and adjusts its valuation allowance as necessary to adequately reserve for any probable impairment in the portfolio. For purposes of measuring impairment, the servicing rights are stratified based on the financial asset type and interest rates. The Corporation obtains an independent third-party valuation of mortgage servicing rights on a quarterly basis. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in noninterest income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 2 to 10 years for furniture, fixtures, and equipment, and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases.

Other Real Estate - Real estate acquired by foreclosure is carried at the lower of the investment in the property or its fair value. Other real estate owned by the Corporation included in other assets at December 31, 2005 and 2004 was

$5.4 million and $4.8 million, respectively.

Goodwill - The Corporation evaluates total goodwill for impairment, based upon SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 147, *Acquisitions of Certain Financial Institutions*, using fair value techniques including multiples of price/equity. Goodwill is evaluated for impairment on an annual basis.

Income Taxes - Income tax expense is based on the taxes due on the consolidated tax return plus deferred taxes based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

Earnings Per Share ("EPS") - Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding.

Diluted EPS adjusts the number of weighted average shares of common stock outstanding under the treasury stock method, which includes the dilutive effect of stock options.

Segments - Management analyzes the operation of the Corporation assuming one operating segment, community banking services. The Corporation, through its operating subsidiaries, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) annuity and life insurance products; (viii) Individual Retirement Accounts and Keogh plans; (ix) commercial loans; (x) trust services; and (xi) commercial demand deposit accounts.

Bank Owned Life Insurance - The Corporation's bank owned life insurance policies are carried at their cash surrender value. The Corporation recognizes tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

News Accounting Standards -

Ø **Accounting for Certain Loans and Debt Securities Acquired in a Transfer** - In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans and Debt Securities Acquired in a Transfer*. SOP 03-3 addresses the accounting for certain acquired loans that show evidence of credit deterioration since their origination (i.e. impaired loans) and for which a loss is deemed probable of occurring. SOP 03-3 prohibits the carryover of an allowance for loan loss on certain acquired loans within its scope. SOP 03-3 is effective for loans that are acquired in fiscal years beginning after December 15, 2004. The adoption of this Statement had no material effect on the Corporation’s consolidated financial statements.

Ø **Stock-Based Employee Compensation** - The Corporation currently maintains two incentive stock option plans covering key employees; however, only one plan is active. The 1998 Stock Option Plan ("1998 Plan") was approved by the Board of Directors and the Shareholders in 1998. The 1998 Plan had 1,046,831 shares authorized, 252,981 of which were available at December 31, 2005 for future grants. All options granted have a maximum term of ten years. Options granted as management retention options vest after five years; all other options vest ratably over four years.

Had compensation cost for the Corporation’s stock options granted in 2005, 2004, and 2003 been determined under the fair value approach described in SFAS No. 123, *Accounting for Stock-Based Compensation*, the Corporation’s net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share amounts)			
Years ended December 31	**2005**	**2004**	**2003**

Net income as reported		$	34,412	$	30,950	$	28,891
Stock-based compensation expense			(994)		(558)		(614)
Tax effect			141		142		110
Net income pro forma		$	33,559	$	30,534	$	28,387
Basic net income per share	As reported	$	2.31	$	2.09	$	1.95
	Pro forma		2.25		2.06		1.92
Diluted net income per share	As reported	$	2.27	$	2.05	$	1.93
	Pro Forma		2.22		2.02		1.89

The fair value of the options presented above was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2005, 2004, and 2003, respectively: risk-free interest rates of 3.92%, 3.70%, and 2.69%, dividend yields of 3.11%, 3.02%, and 3.29%, volatility factors of the expected market price of the Corporation’s common stock of 0.960, 0.756, and 0.593, and a weighted average expected option life of 6.5, 6.8, and 4.0 years.

In December 2004, SFAS No. 123R, *Share-Based Payment*, was issued. SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25. Among other items, SFAS No. 123R eliminates the use of APB Opinion No. 25 and the intrinsic value method of accounting and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS No. 123R for the Corporation is January 1, 2006.

SFAS No. 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, the compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but this method also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. The Corporation currently utilizes a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS No. 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Corporation has not yet determined which model it will use to measure the fair value of employee stock options upon the adoption of SFAS No. 123R. SFAS No. 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated, because they depend on, among other things, when employees exercise stock options. However, the amount of operating cash flows recognized in prior periods for such excess tax deductions, as shown in the Corporation's Consolidated Statements of Cash Flows, were $0.7 million, $0.3 million, and $0.2 million, respectively for 2005, 2004, and 2003. The Corporation has not yet determined which of the aforementioned adoption methods it will use.

Ø **Accounting for Conditional Asset Retirement Obligations -** In March 2005, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), to clarify the term "conditional asset retirement" as used in SFAS 143, *Accounting for Asset Retirement Obligations*. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005.

Accordingly, the Corporation will adopt FIN 47 no later than the fourth fiscal quarter in 2006. Management is currently assessing the impact FIN 47 may have on the Corporation's consolidated balance sheet; however, the adoption of FIN 47 is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

Reclassification - Certain reclassifications have been made in the prior year consolidated financial statements to conform to current year classifications.

2. Business Combinations

On June 10, 2005, Community Trust Bank, Inc., the bank subsidiary of Community Trust Bancorp, Inc., completed the acquisition of Heritage Community Bank of Danville, Kentucky. All former Heritage Community Bank offices now operate as branch offices of Community Trust Bank, Inc. The Corporation obtained loans totaling approximately $73.7 million, cash and cash equivalents of approximately $8.1 million, and deposits totaling approximately $69.8 million from this acquisition. The total cost of the acquisition, including direct acquisition costs, was $12.4 million. Goodwill and core deposit intangible of approximately $3.9 million was recorded.

3. Cash and Due from Banks

Included in cash and due from banks is noninterest bearing deposits that are required to be held at the Federal Reserve or maintained in vault cash in accordance with regulatory reserve requirements. The balance requirements were $40.0 million and $36.8 million at December 31, 2005 and 2004, respectively. Cash paid during the years ended 2005, 2004, and 2003 for interest was $55.1 million, $36.4 million, and $45.4 million, respectively. Cash paid during the same periods for income taxes was $13.1 million, $11.5 million and $9.3 million, respectively.

4. Securities

Amortized cost and fair value of securities at December 31, 2005 are as follows:

Available-for-Sale and Other

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$ 2,005	$ 0	$ 0	$ 2,005
State and political subdivisions	45,911	1,058	(37)	46,932
U.S. agency mortgage-backed pass through certificates	295,822	773	(7,964)	288,631
Collateralized mortgage obligations	1,003	9	0	1,012
Other debt securities	17,500	0	(509)	16,991
Total debt securities	362,241	1,840	(8,510)	355,571
Marketable equity securities	40,000	0	0	40,000
Federal Reserve and Federal Home Loan Bank stock	26,682	0	0	26,682
	$ 428,923	$ 1,840	$ (8,510)	$ 422,253

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 3,134	$ 39	$ (191)	$ 2,982
	45,310	0	(1,764)	43,546

U.S. agency mortgage-backed pass through certificates								
	$	48,444	$	39	$	(1,955)	$	46,528

Amortized cost and fair value of securities at December 31, 2004 are as follows:

Available-for-Sale and Other

(in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
U.S. Treasury and government agencies	$	1,006	$	0	$	(2)	$	1,004
State and political subdivisions		47,048		2,387		0		49,435
U.S. agency mortgage-backed pass through certificates		379,503		2,323		(2,992)		378,834
Collateralized mortgage obligations		2,336		58		0		2,394
Other debt securities		10,000		0		(165)		9,835
Total debt securities		439,893		4,768		(3,159)		441,502
Marketable equity securities		15,700		0		0		15,700
Federal Reserve and Federal Home Loan Bank stock		25,078		0		0		25,078
	$	480,671	$	4,768	$	(3,159)	$	482,280

Held-to-Maturity

(in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
U.S. Treasury and government agencies	$	500	$	0	$	0	$	500
State and political subdivisions		3,285		92		(42)		3,335
U.S. agency mortgage-backed pass through certificates		58,886		0		(774)		58,112
	$	62,671	$	92	$	(816)	$	61,947

The amortized cost and fair value of securities at December 31, 2005 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale and Other				Held-to-Maturity			
(in thousands)		Amortized Cost		Fair Value		Amortized Cost		Fair Value
Due in one year or less	$	3,561	$	3,569	$	0	$	0
Due after one through five years		26,191		26,886		1,390		1,421
Due after five through ten years		18,164		18,481		199		206
Due after ten years		0		0		1,544		1,354
Mortgage-backed securities and collateralized mortgage obligations		296,825		289,644		45,311		43,547
Other securities		17,500		16,991		0		0
Total debt securities		362,241		355,571		48,444		46,528
Marketable equity securities		40,000		40,000		0		0
Federal Reserve and Federal Home Loan Bank stock		26,682		26,682		0		0
	$	428,923	$	422,253	$	48,444	$	46,528

There were no significant pre-tax gains or losses realized on sales and calls in 2005. Pre-tax gains of $0.8 million and losses of $0.2 million were realized on sales and calls in 2004, and pre-tax gains of $3.4 million and losses of $0.4 million were realized on sales and calls in 2003.

Securities in the amount of $350 million and $370 million at December 31, 2005 and 2004, respectively, were pledged to secure public deposits, trust funds, repurchase agreements, and advances from the Federal Home Loan Bank.

The Corporation evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of December 31, 2005 indicates that all impairment is considered temporary, due primarily to fluctuations in interest rates, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2005.

Available-for-Sale

(in thousands)	**Amortized Cost**	**Gross Unrealized Losses**	**Fair Value**
Less Than 12 Months			
States and political subdivision	$ 4,701	$ (37)	$ 4,664
U.S. agency mortgage-backed pass through certificates	22,669	(723)	21,946
Other debt securities	7,500	(218)	7,282
	34,870	(978)	33,892
12 Months or More			
U.S. agency mortgage-backed pass through certificates	244,899	(7,242)	237,657
Other debt securities	10,000	(291)	9,709
	254,899	(7,533)	247,366
Total			
States and political subdivision	4,701	(37)	4,664
U.S. agency mortgage-backed pass through certificates	267,568	(7,965)	259,603
Other debt securities	17,500	(509)	16,991
	$ 289,769	$ (8,511)	$ 281,258

Held-to-Maturity

(in thousands)	**Amortized Cost**	**Gross Unrealized Losses**	**Fair Value**
Less Than 12 Months			
States and political subdivision	$ 1,545	$ (191)	$ 1,354
12 Months or More			
U.S. agency mortgage-backed pass through certificates	45,311	(1,764)	43,547
Total			
States and political subdivision	1,545	(191)	1,354
U.S. agency mortgage-backed pass through certificates	45,311	(1,764)	43,547
	$ 46,856	$ (1,955)	$ 44,901

The analysis performed as of December 31, 2004 indicated that all impairment was considered temporary, due primarily to fluctuations in interest rates, 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 had been in a continuous unrealized loss position as of December 31, 2004.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$ 1,006	$ (2)	$ 1,004
U.S. agency mortgage-backed pass through certificates	282,272	(2,264)	280,008
Other debt securities	10,000	(165)	9,835
	293,278	(2,431)	290,847
12 Months or More			
U.S. agency mortgage-backed pass through certificates	30,070	(728)	29,342
Total			
U.S. Treasury and government agencies	1,006	(2)	1,004
U.S. agency mortgage-backed pass through certificates	312,342	(2,992)	309,350
Other debt securities	10,000	(165)	9,835
	$ 323,348	$ (3,159)	$ 320,189

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
State and political subdivisions	$ 1,562	$ (42)	$ 1,520
U.S. agency mortgage-backed pass through certificates	58,886	(774)	58,112
	$ 60,448	$ (816)	$ 59,632

No held-to-maturity securities had been impaired for 12 months or more.

5. Loans

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

(in thousands) **December 31**	**2005**	**2004**
Commercial construction	$ 115,721	$ 75,078
Commercial secured by real estate	665,911	613,059
Commercial other	301,828	276,921
Real estate construction	51,232	30,456
Real estate mortgage	542,809	499,410
Consumer	414,920	395,588
Equipment lease financing	14,923	12,007
	$ 2,107,344	$ 1,902,519

Not included in the loan balances above are loans held for sale in the amount of $0.1 million at December 31, 2005.

The amount of loans on a non-accruing income status was $12.2 million, $13.8 million, and $9.7 million at December 31, 2005, December 31, 2004, and December 31, 2003, respectively. The total of loans on nonaccrual that are in homogeneous pools and not evaluated individually for impairment were $4.1 million, $5.0 million, and $3.2 million at December 31, 2005, December 31, 2004, and December 31, 2003, respectively. Additional interest which would have been recorded during 2005, 2004, and 2003 if such loans had been accruing interest was approximately $1.3 million, $0.9 million, and $0.9 million, respectively.

At December 31, 2005, 2004, and 2003, the recorded investment in impaired loans was $8.1 million, $8.8 million, and $6.5 million, respectively. Included in these amounts at December 31, 2005, 2004, and 2003, respectively, were $5.1 million, $6.8 million, and $3.1 million of impaired loans for which specific reserves for loan losses are carried in the amounts of $2.3 million, $3.1 million, and $1.1 million. The average investment in impaired loans for 2005, 2004, and 2003 was $9.0 million, $8.9 million, and $6.6 million, respectively, while interest income of $0.1 million, $0.1 million, and $0.1 million was recognized on cash payments of $1.6 million, $0.4 million, and $0.4 million.

6. Mortgage Banking Activities

Mortgage banking activities primarily include residential mortgage originations and servicing. The following table presents the components of mortgage banking noninterest income.

(in thousands) **Year Ended December 31**		**2005**		**2004**		**2003**
Net gain on sale of loans held for sale	$	1,480	$	1,619	$	5,693
Net loan servicing income (expense)		559		385		(1,019)
Mortgage banking income	$	2,039	$	2,004	$	4,674

At December 31, 2005, 2004, and 2003, loans serviced for the benefit of others (primarily FHLMC) totaled $372 million, $377 million, and $383 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. Net loan servicing income (expense) reflected in the above table includes amortization of servicing rights noted below and loan servicing income of $0.9 million for each of the years ended December 31, 2005, 2004, and 2003.

Activity for capitalized mortgage servicing rights is as follows:

(in thousands)		**2005**		**2004**		**2003**
Balance, beginning of year	$	4,225	$	6,054	$	3,456
Additions		381		480		2,148
Amortized to expense		(638)		(595)		(656)
Valuation adjustments		(308)		(1,714)		1,106
Balance, end of year	$	3,660	$	4,225	$	6,054
Valuation allowance (included in above)	$	0	$	(615)	$	(2,375)

The fair value of capitalized mortgage servicing rights was $3.7 million, $3.6 million, and $3.7 million at December 31, 2005, 2004, and 2003, respectively. Fair value for the year ended December 31, 2005 was determined by a third party valuation using a discount rate of 9.14%, prepayment speeds ranging from 130% to 327%, depending on the stratification of the specific right, and a weighted average default rate of 1.1%.

Amortization expense for the next five years is estimated at approximately $0.6 million annually; however, actual amortization expense will be impacted by serviced loan payoffs that occur during each year.

7. Related Party Transactions

In the ordinary course of business, the Corporation's banking subsidiary has made loans at prevailing interest rates and terms to directors and executive officers of the Corporation or its subsidiaries, including their associates (as defined by the Securities and Exchange Commission). Management believes such loans were made on substantially the same terms, including interest rate and collateral, as those prevailing at the same time for comparable transactions with other persons. The aggregate amount of these loans at January 1, 2005 was $31.7 million. During 2005, activity with respect to these loans included new loans of $5.6 million, repayment of $3.4 million, and a net decrease of $1.1 million resulting from the change in status of executive officers and directors. As a result of these activities, the aggregate balance of these loans was $32.8 million at December 31, 2005.

8. Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

(in thousands)		**2005**		**2004**		**2003**
Balance, beginning of year	$	27,017	$	24,653	$	23,271
Provision charged to operations		8,285		8,648		9,332
Recoveries		3,413		3,304		3,754
Charge-offs		(10,968)		(9,588)		(11,704)
Allowance of acquired bank		1,759		0		0
Balance, end of year	$	29,506	$	27,017	$	24,653

9. Premises and Equipment

Premises and equipment are summarized as follows:

(in thousands) **December 31**		**2005**		**2004**
Land and buildings	$	63,401	$	58,875
Leasehold improvements		5,749		5,333
Furniture, fixtures, and equipment		37,010		33,523
Construction in progress		1,553		765
		107,713		98,496
Less accumulated depreciation and amortization		(49,747)		(45,385)
	$	57,966	$	53,111

Depreciation and amortization of premises and equipment for 2005, 2004, and 2003 was $4.5 million, $3.9 million, and $3.8 million, respectively.

10. Deposits

Major classifications of deposits are categorized as follows:

(in thousands) **December 31**		**2005**		**2004**
Noninterest bearing deposits	$	445,929	$	403,792
NOW accounts		19,542		15,101
Money market deposits		383,070		378,531
Savings		215,210		223,953

Certificates of deposit of $100,000 or more	411,749	389,011
Certificates of deposit less than $100,000 and other time deposits	771,051	730,030
	$ 2,246,551	$ 2,140,418

Interest expense on deposits is categorized as follows: