COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 13, 2009

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, 2008
	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:
Common Stock, $5.00 par value
(Title of Class)

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

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, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer ü	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

Yes	No ü

Based upon the closing price of the Common Shares of the Registrant on the NASDAQ-Stock Market LLC – Global Select Market, the aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2008 was $364.2 million. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates. The number of shares outstanding of the Registrant's Common Stock as of February 28, 2009 was 15,075,738.

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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 28, 2009	Part III

PART I

Item 1. Business

Community Trust Bancorp, Inc. ("CTBI") 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. CTBI 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, 2008, CTBI owned all the capital stock of one commercial bank and one trust company, serving small and mid-sized communities in eastern, northeastern, central, and south central Kentucky and southern West Virginia. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky (the "Bank") and the trust company is Community Trust and Investment Company, Lexington, Kentucky (the "Trust Company"). At December 31, 2008, CTBI had total consolidated assets of $3.0 billion and total consolidated deposits, including repurchase agreements, of $2.5 billion, making it the largest bank holding company headquartered in the Commonwealth of Kentucky.

Through its subsidiaries, CTBI 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 our Bank include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our 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 services.

COMPETITION

CTBI's subsidiaries face substantial competition for deposit, credit, trust, and brokerage relationships in the communities we 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 our subsidiaries. Many of these providers offer services within and outside the market areas served by our subsidiaries. We strive to offer competitively priced products along with quality customer service to build customer relationships in the communities we serve.

Recently, the United States and global markets, as well as general economic conditions, have been disrupted and volatile. Some financial institutions have failed and others have been forced to seek acquisition partners. Larger financial institutions, some of whom may benefit from partial nationalization, could strengthen their competitive position as a result of ongoing consolidation within the financial services industry.

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 "GLB Act") has expanded the permissible activities of a bank holding company. The GLB 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. We have not yet elected to be treated as a financial holding company. The GLB 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 our business is seasonal. We are 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 us. See note 17 to the consolidated financial statements for additional information regarding concentrations of credit.

We do not engage in any operations in foreign countries.

EMPLOYEES

As of December 31, 2008, CTBI and subsidiaries had 986 full-time equivalent employees. Our 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

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

Our Bank is a state-chartered bank subject to state and federal banking laws and regulations and periodic examination by the Kentucky Department of Financial Institutions and the restrictions, including dividend restrictions, thereunder. Our 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. Our Trust Company is also regulated by the Kentucky Office of Financial Institutions and the Federal Reserve.

Deposits of our 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.

In response to global credit and liquidity issues involving a number of financial institutions, the United States government, particularly the United States Department of the Treasury and the FDIC, have taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the United States Treasury was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the U.S. financial markets and has proposed several programs, including the purchase by the U.S. Treasury of certain troubled assets from financial institutions (the "Troubled Asset Relief Program") and the direct purchase by the U.S. Treasury of equity of financial institutions (the "Capital Purchase Program").

CTBI announced on January 16, 2009, that it had elected not to participate in the United States Treasury Department's Capital Purchase Program. The Capital Purchase Program is a voluntary program designed to help financial institutions build capital to support the United States economy. CTBI currently maintains a capital level significantly exceeding regulatory guidelines for a well-capitalized institution and is able to meet the lending needs of our customers.

On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program, that provides unlimited deposit insurance on funds in noninterest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000, as well as a 100% guarantee of the senior debt of FDIC insured institutions and their holding companies. All eligible institutions were covered under this program during an initial 30-day period without incurring costs. After the 30-day period, participating institutions have been assessed a charge of 10 basis points per annum for the additional insured deposits and a charge of 75 basis points per annum for guaranteed senior unsecured debt. CTBI elected to participate in the unlimited deposit insurance for noninterest bearing accounts beyond the initial 30-day period and opted out of the coverage of senior unsecured debt.

On February 27, 2009, the FDIC announced a special assessment on insured institutions, implemented changes to the risk-based assessment system, and set FDIC insurance assessment rates beginning the second quarter of 2009. Under the deposit insurance restoration plan approved by the FDIC in October 2008, the Board set a rate schedule to raise the insurance reserve ratio to 1.15 percent within five years. On February 27, 2009, the FDIC announced that the restoration plan horizon has been extended to seven years in light of the current significant strains on banks and the financial system and the likelihood of a severe recession. Also, the FDIC will collect a special assessment of up to 20 basis points on September 30, 2009. The FDIC will also be permitted to impose an emergency special assessment after June 30, 2009 of up to 10 basis points if the FDIC deems that such action is necessary to maintain public confidence in federal deposit insurance. Changes to the assessment system include higher rates for institutions that rely significantly on secured liabilities. In addition, higher rates will be imposed on institutions that rely significantly on brokered deposits, but only when accompanied by rapid growth. The final rule will provide incentives in the form of a reduction in assessment rates for institutions holding long-term unsecured debt.

The operations of CTBI and our 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.

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

Item 1A. Risk Factors

Enterprise Risk Management

Risk is an inherent component of CTBI's business activities. The ability to effectively identify, assess, measure, respond, monitor, and report on risk in our business activities is critical to the achievement of CTBI's mission and strategic objectives. CTBI utilizes an enterprise wide risk management (EWRM) process designed to provide the Board and management with the capabilities needed to identify, assess, and manage the full spectrum of risks inherent to our industry. While business unit managers are primarily responsible for managing risk inherent in their areas of responsibility, CTBI has established a risk management governance structure to establish policies, monitor adherence to the policies, and manage the overall risk profile of the company. CTBI's EWRM program is not intended to replace normal risk management activities conducted by the business unit managers. The EWRM program is designed to provide a portfolio view of risks across the entire enterprise.

As an integral part of the risk management process, management has established various committees consisting of senior executives and others within CTBI. The purpose of these committees is to closely monitor risks and ensure that adequate risk management practices exist within their respective areas of authority. Some of the principal committees include the Asset/Liability Management (ALCO) Committee, the Loan Portfolio Risk Management Committee, the Senior Credit Committee, the Information Technology Steering Committee, and various compliance-related committees. Overlapping membership of these committees by senior executives and others helps provide a unified view of risk on an enterprise-wide basis. To facilitate an enterprise-wide view of CTBI's risk profile and coordinate the enterprise risk management governance process, a Chief Risk Officer has been appointed, who oversees the process and reports on CTBI's risk profile. Additionally, risk champions are assigned for various areas. The risk champions facilitate implementation of the enterprise risk management and governance process across the company. An Enterprise Risk Management Committee has been established consisting of senior executives and others within CTBI, which oversees and supports the EWRM process. The Board of Directors, through its Risk and Compliance Committee, has overall responsibility for oversight of CTBI's enterprise risk management governance process.

Economic Risk
CTBI may continue to be adversely affected by current economic and market conditions.

The national and global economic downturn has recently resulted in unprecedented levels of financial market volatility and has in general adversely impacted the market value of financial institutions, limited access to capital and had an adverse effect on the financial condition or results of operations of banking companies in general, including CTBI. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength. During this time, CTBI has experienced challenges, credit quality has deteriorated and net income and results of operations have been adversely impacted. Although CTBI operated at a profit last year, CTBI is a part of the financial system and a continuation of the systemic lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely impact CTBI's business, financial condition, and results of operations. In addition, the possible duration and severity of the adverse economic cycle is unknown and may exacerbate financial service providers', including CTBI's, exposure to credit risk. Actions by Congress, Treasury, the FDIC and other governmental agencies and regulators have been initiated to address economic stabilization, yet the efficacy of these programs in stabilizing the economy and the banking system is uncertain. There can be no assurance that these actions will not have an adverse effect on the financial position or results of operations of financial service providers including CTBI.

Economy of Our Markets
Our business may continue to be adversely affected by downturns in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky and southern West Virginia. Our profits depend on providing products and services to clients in these local regions. These regions have recently experienced an increase in unemployment and a decrease in real estate values. Further increases in unemployment, additional decreases in real estate values, or 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.

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 remain a significant 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.

We consider interest rate risk one of our 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 our net interest revenue is largely dependent upon the effective management of interest rate risk. We employ a variety of measurement techniques to identify and manage our 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.

Federal Deposit Insurance Increases
Our results of operations may be adversely impacted by increased FDIC insurance assessments.

As a result of the weakness of certain financial institutions, the FDIC has taken action that will result in increased FDIC insurance assessments for United States FDIC-insured financial institutions, including CTBI. Under the deposit insurance restoration plan approved by the FDIC in October 2008, the Board set a rate schedule to raise the insurance reserve ratio to 1.15 percent within five years. On February 27, 2009, the FDIC announced that the restoration plan horizon has been extended to seven years in light of the current significant strains on banks and the financial system and the likelihood of a severe recession. In addition, the FDIC announced a special assessment of up to 20 basis points to be collected on September 30, 2009. The FDIC may also impose an emergency special assessment after June 30, 2009 of up to 10 basis points if the FDIC deems that an additional special assessment is necessary to maintain public confidence in federal deposit insurance. The special assessment of up to 20 basis points, the increase in regular quarterly assessments, and a possible 10 basis point emergency assessment will significantly increase insurance assessments for FDIC-insured institutions in general, including CTBI.

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

The earnings of banks and bank holding companies such as ours 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 our practices, growth prospects, and earnings. In particular, there is no assurance that recent governmental actions designed to stabilize the economy and banking system will not adversely affect the financial position or results of operations of CTBI.

Proposed legislation may create an environment that will unreasonably delay the collection of past due amounts, result in restructurings and collection of less than the full amount due to CTBI and impede our ability to make new residential loans. In addition, the recently announced special FDIC deposit insurance assessment of up to 20 basis points, the increase in regular quarterly deposit insurance assessments, the possible 10 basis point emergency assessment, and possible future increases in regular quarterly deposit insurance assessments will significantly increase insurance assessments for FDIC-insured institutions in general, including CTBI.

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:

- The length and severity of downturns in the local economies in which we operate or the national economy;
- The length and severity of downturns in one or more of the business sectors in which our customers operate, particularly the automobile, hotel/motel, coal, and residential development industries; or
- A rapid increase in interest rates.

Although we do not have a subprime lending program, the current subprime lending crisis may have an adverse effect on our residential loan portfolio as proposed legislation may create an environment that will unreasonably delay the collection of past due amounts, result in restructurings and collection of less than the full amounts due to CTBI, and impede our ability to make new residential loans.

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. Competition arises from institutions located within and outside our market areas. 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. The recent economic crisis is likely to result in increased consolidation in the financial industry and larger financial institutions, some of whom may benefit from partial nationalization, may strengthen their competitive positions. 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.

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

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

Any future acquisitions or mergers by CTBI 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, the International Money Laundering Abatement and Anti-Terrorist Financing Act, the Sarbanes-Oxley Act 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 CTBI 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 CTBI, including the conversion of the acquired entity's core operating systems, data systems and products to those of CTBI 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 CTBI 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 or a security breach 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 our information systems could damage our reputation, result in the loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our financial condition and results of operation.

Market Risk

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

Our 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;
- CTBI's announcements of developments related to our 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.

Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to CTBI's performance. The recent financial crisis has resulted in a lack of investor confidence in the financial institutions sector. General market price declines or market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Technology Risk
CTBI continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Counterparty Risk
The soundness of other financial institutions could adversely affect CTBI.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional counterparties. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our businesses, financial condition, or results of operations.

Item 1B. Unresolved Staff Comments

None.

SELECTED STATISTICAL INFORMATION

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

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

	2008			2007			2006		
(in thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	$ 2,283,180	$ 150,413	6.59%	$ 2,205,431	$ 171,632	7.78%	$ 2,131,649	$ 163,526	7.67%
Loans held for sale	1,752	171	9.76	2,484	157	6.32	1,685	130	7.71
Securities:									
U.S. Treasury and agencies	249,515	10,912	4.37	275,219	12,034	4.37	312,611	13,520	4.32
Tax exempt state and political subdivisions (3)	45,146	2,875	6.37	45,514	2,946	6.47	49,173	3,175	6.46
Other securities	32,842	1,723	5.25	117,136	5,350	4.57	125,937	5,396	4.28
Federal Reserve Bank and Federal Home Loan Bank stock	28,549	1,559	5.46	28,040	1,794	6.40	27,176	1,588	5.84
Federal funds sold	53,816	1,083	2.01	82,324	4,246	5.16	66,422	3,346	5.04
Interest bearing deposits	6,397	124	1.94	2,010	88	4.38	811	38	4.69
Investment in unconsolidated subsidiaries	1,857	120	6.46	1,856	130	7.00	1,861	160	8.60
Total earning assets	2,703,054	$ 168,980	6.25%	2,760,014	$ 198,377	7.19%	2,717,325	$ 190,879	7.02 %
Allowance for loan and lease losses	(29,901)			(28,129)			(28,622)		
	2,673,153			2,731,885			2,688,703		
Nonearning assets:									
Cash and due from banks	74,264			75,667			78,069		
Premises and equipment, net	52,559			54,434			56,846		
Other assets	121,241			118,727			119,274		
Total assets	$ 2,921,217			$ 2,980,713			$ 2,942,892		

Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	$ 655,577	$ 7,885	1.20%	$ 696,329	$ 17,457	2.51%	$ 664,958	$ 15,399	2.32%
Time deposits	1,204,550	45,964	3.82	1,231,039	58,180	4.73	1,194,410	48,457	4.06
Repurchase agreements and federal funds purchased	170,231	4,424	2.60	174,697	8,429	4.82	185,098	8,620	4.66
Advances from Federal Home Loan Bank	49,001	1,701	3.47	67,452	2,402	3.56	108,355	3,648	3.37
Long-term debt	61,341	4,000	6.52	61,830	4,364	7.06	61,341	5,414	8.83
Total interest bearing liabilities	2,140,700	$ 63,974	2.99%	2,231,347	$ 90,832	4.07%	2,214,162	$ 81,538	3.68%
Noninterest bearing liabilities:									
Demand deposits	443,593			425,534			435,017		
Other liabilities	28,523			29,726			24,511		
Total liabilities	2,612,816			2,686,607			2,673,690		
Shareholders' equity	308,401			294,106			269,202		
Total liabilities and shareholders' equity	$ 2,921,217			$ 2,980,713			$ 2,942,892		
Net interest income		$ 105,006			$ 107,545			$ 109,341	
Net interest spread			3.26%			3.12%			3.34%
Benefit of interest free funding			0.62			0.78			0.68
Net interest margin			3.88%			3.90%			4.02%

(1) Interest includes fees on loans of $1,679, $1,819, and $1,500 in 2008, 2007, and 2006, respectively.
(2) Loan balances are net of unearned income and 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 2008 and 2007 and also between 2007 and 2006.

(in thousands)	Total Change 2008/2007	Change Due to Volume	Change Due to Rate	Total Change 2007/2006	Change Due to Volume	Change Due to Rate
Interest income						
Loans	$ (21,219)	$ 5,877	$ (27,096)	$ 8,106	$ 5,718	$ 2,388
Loans held for sale	14	(37)	51	27	54	(27)
U.S. Treasury and agencies	(1,122)	(1,124)	2	(1,486)	(1,601)	115
Tax exempt state and political subdivisions	(71)	(24)	(47)	(229)	(236)	7
Other securities	(3,627)	(3,375)	(252)	(46)	(365)	319
Federal Reserve Bank and Federal Home Loan Bank stock	(235)	32	(267)	206	52	154
Federal funds sold	(3,163)	(1,794)	(1,369)	900	818	82
Interest bearing deposits	36	107	(71)	50	53	(3)
Investment in unconsolidated subsidiaries	(10)	0	(10)	(30)	0	(30)
Total interest income	(29,397)	(338)	(29,059)	7,498	4,493	3,005
Interest expense						
Savings and demand deposits	(9,572)	(1,075)	(8,497)	2,058	748	1,310
Time deposits	(12,216)	(1,277)	(10,939)	9,723	1,523	8,200
Repurchase agreements and federal funds purchased	(4,005)	(221)	(3,784)	(191)	(474)	283
Advances from Federal Home Loan Bank	(701)	(672)	(29)	(1,246)	(1,308)	62
Long-term debt	(364)	(34)	(330)	(1,050)	43	(1,093)
Total interest expense	(26,858)	(3,279)	(23,579)	9,294	532	8,762
Net interest income	$ (2,539)	$ 2,941	$ (5,480)	$ (1,796)	$ 3,961	$ (5,757)

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, 2008 are as follows:

Available-for-sale

	Estimated Maturity at December 31, 2008										
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized Cost
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount

(in thousands)												
U.S. Treasury, government agencies, and government sponsored agencies	$ 10,292	5.41%	$ 158,605	4.51%	$ 37,554	4.59%	$ 760	6.05%	$ 207,211	4.58%	$ 205,720
State and municipal obligations	6,578	7.10	23,077	6.39	2,571	6.09	7,618	5.94	39,844	6.40	39,738
Other securities	1	7.75	19,780	4.22	0	0.00	540	0.00	20,321	4.11	20,541
Total	$ 16,871	6.07%	$ 201,462	4.70%	$ 40,125	4.69%	$ 8,918	5.59%	$ 267,376	4.81%	$ 265,999

Held-to-maturity

	Estimated Maturity at December 31, 2008										
	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
U.S. Treasury, government agencies, and government sponsored agencies	$ 0	0.00%	$ 24,021	3.85%	$ 0	0.00%	$ 0	0.00%	$ 24,021	3.85%	$ 23,911
State and municipal obligations	195	6.58	199	6.65	0	0.00	1,182	5.97	1,576	6.13	1,585
Total	$ 195	6.58%	$ 24,220	3.87%	$ 0	0.00%	$ 1,182	5.97%	$ 25,597	3.99%	$ 25,496
Total Securities	$ 17,066	6.08%	$ 225,682	4.61%	$ 40,125	4.69%	$ 10,100	5.63%	$ 292,973	4.74%	$ 291,495

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, government agencies, and government sponsored agencies, there were no securities of any one issuer that exceeded 10% of our shareholders' equity at December 31, 2008.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2008 and 2007 are presented in note 3 to the consolidated financial statements.

The book value of securities at December 31, 2006 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	$ 20,491	$ 0
State and political subdivisions	45,562	3,068
U.S. government sponsored agencies and mortgage-backed pass through certificates	239,590	37,440
Collateralized mortgage obligations	1	0
Other debt securities	19,557	0
Total debt securities	325,201	40,508
Marketable equity securities	100,650	0
Total securities	$ 425,851	$ 40,508

Loan Portfolio

(in thousands)	2008	2007	2006	2005	2004
Commercial:					
Construction	$ 156,425	$ 143,773	$ 133,902	$ 115,721	$ 75,078
Secured by real estate	663,663	640,574	632,881	665,911	613,059
Other	365,685	333,774	337,075	301,828	276,921
Total commercial	1,185,773	1,118,121	1,103,858	1,083,460	965,058
Real estate construction	56,298	69,021	50,588	51,232	30,456
Real estate mortgage	609,394	599,665	579,197	542,809	499,410
Consumer	484,843	435,273	422,291	414,920	395,588
Equipment lease financing	12,343	5,817	11,524	14,923	12,007
Total loans	$ 2,348,651	$ 2,227,897	$ 2,167,458	$ 2,107,344	$ 1,902,519
Percent of total year-end loans					
Commercial:					
Construction	6.65%	6.45%	6.18%	5.49%	3.95%
Secured by real estate	28.26	28.75	29.20	31.60	32.22
Other	15.57	14.98	15.55	14.32	14.56
Total commercial	50.48	50.18	50.93	51.41	50.73
Real estate construction	2.40	3.10	2.34	2.43	1.60
Real estate mortgage	25.95	26.92	26.72	25.76	26.25
Consumer	20.64	19.54	19.48	19.69	20.79
Equipment lease financing	0.53	0.26	0.53	0.71	0.63
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, 2008

(in thousands)	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	$ 270,703	$ 243,925	$ 514,720	$ 1,029,348
Commercial and real estate construction	139,631	33,136	39,956	212,723
	$ 410,334	$ 277,061	$ 554,676	$ 1,242,071
Rate sensitivity:				
Predetermined rate	$ 92,866	$ 74,713	$ 38,531	$ 206,110
Adjustable rate	317,468	202,348	516,145	1,035,961
	$ 410,334	$ 277,061	$ 554,676	$ 1,242,071

Nonperforming Assets

(in thousands)	2008	2007	2006	2005	2004
Nonaccrual loans	$ 40,945	$ 22,237	$ 9,863	$ 12,219	$ 13,808
Restructured loans	0	20	66	899	974
90 days or more past due and still accruing interest	11,245	9,622	4,294	8,284	5,319
Total nonperforming loans	52,190	31,879	14,223	21,402	20,101
Foreclosed properties	10,425	7,851	4,524	5,410	4,756
Total nonperforming assets	$ 62,615	$ 39,730	$ 18,747	$ 26,812	$ 24,857
Nonperforming assets to total loans and foreclosed properties	2.65%	1.78%	0.86%	1.27%	1.30%
Allowance to nonperforming loans	59.06%	88.00%	193.54%	137.87%	134.41%

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, 2008							
Commercial construction	$ 21,602	13.81%	$ 0	0.00%	$ 3,741	2.39%	$ 156,425
Commercial secured by real estate	10,780	1.62	0	0.00	3,319	0.50	663,663
Commercial other	4,471	1.22	0	0.00	634	0.17	365,685
Consumer real estate construction	1,255	2.23	0	0.00	55	0.10	56,298
Consumer real estate secured	2,837	0.47	0	0.00	3,008	0.49	609,394
Consumer other	0	0.00	0	0.00	488	0.10	484,843
Equipment lease financing	0	0.00	0	0.00	0	0.00	12,343

Total	$	40,945	1.74%	$	0	0.00%	$	11,245	0.48%	$ 2,348,651
December 31, 2007										
Commercial construction	$	8,682	6.04%	$	0	0.00%	$	1,733	1.21%	$ 143,773
Commercial secured by real estate		5,715	0.89		0	0.00		3,300	0.52	640,574
Commercial other		4,489	1.34		20	0.01		1,305	0.39	333,774
Consumer real estate construction		723	1.05		0	0.00		722	1.05	69,021
Consumer real estate secured		2,628	0.44		0	0.00		2,113	0.35	599,665
Consumer other		0	0.00		0	0.00		449	0.10	435,273
Equipment lease financing		0	0.00		0	0.00		0	0.00	5,817
Total	$	22,237	1.00%	$	20	0.00%	$	9,622	0.43%	$ 2,227,897

In 2008, gross interest income that would have been recorded on nonaccrual loans had the loans been current in accordance with their original terms amounted to $3.5 million. Interest income actually received and included in net income for the period was $0.7 million, leaving $2.8 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 and lease 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 we believe, 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.

Foreign Outstandings

None

Loan Concentrations

We had no concentration of loans exceeding 10% of total loans at December 31, 2008. See note 17 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2008	2007	2006	2005	2004
Allowance for loan and lease losses, beginning of year	$ 28,054	$ 27,526	$ 29,506	$ 27,017	$ 24,653
Loans charged off:					

Commercial construction	1,491	273	23	56	339
Commercial secured by real estate	914	1,106	872	826	1,135
Commercial other	2,080	2,134	3,816	4,233	2,331
Real estate construction	125	32	56	10	20
Real estate mortgage	746	547	572	746	683
Consumer	5,942	4,340	4,091	5,097	5,080
Equipment lease financing	0	0	0	0	0
Total charge-offs	11,298	8,432	9,430	10,968	9,588
Recoveries of loans previously charged off:					
Commercial construction	25	0	0	0	1
Commercial secured by real estate	177	180	132	94	301
Commercial other	534	428	689	766	382
Real estate construction	5	1	0	20	0
Real estate mortgage	60	250	210	310	244
Consumer	1,812	1,561	2,114	2,223	2,376
Equipment lease financing	0	0	0	0	0
Total recoveries	2,613	2,420	3,145	3,413	3,304
Net charge-offs:					
Commercial construction	1,466	273	23	56	338
Commercial secured by real estate	737	926	740	732	834
Commercial other	1,546	1,706	3,127	3,467	1,949
Real estate construction	120	31	56	(10)	20
Real estate mortgage	686	297	362	436	439
Consumer	4,130	2,779	1,977	2,874	2,704
Equipment lease financing	0	0	0	0	0
Total net charge-offs	8,685	6,012	6,285	7,555	6,284
Provisions charged against operations	11,452	6,540	4,305	8,285	8,648
Allowance of acquired bank	0	0	0	1,759	0
Balance, end of year	$ 30,821	$ 28,054	$ 27,526	$ 29,506	$ 27,017
Allocation of allowance, end of year:					
Commercial construction	$ 3,645	$ 3,194	$ 2,059	$ 1,799	$ 1,123
Commercial secured by real estate	11,304	9,081	7,224	10,354	8,285
Commercial other	5,782	4,817	4,335	4,693	3,745
Real estate construction	281	335	206	159	107
Real estate mortgage	3,038	2,907	2,352	1,677	1,435
Consumer	6,580	5,034	4,288	4,602	3,104
Equipment lease financing	191	76	126	232	168
Unallocated	0	2,610	6,936	5,990	9,050
Balance, end of year	$ 30,821	$ 28,054	$ 27,526	$ 29,506	$ 27,017
Average loans outstanding, net of unearned interest	$ 2,283,180	$ 2,205,431	$ 2,131,649	$ 2,024,756	$ 1,816,146
Loans outstanding at end of year, net of unearned interest	2,348,651	2,227,897	2,167,458	2,107,344	1,902,519
Net charge-offs to average loan type:					

Commercial construction	0.98%	0.19%	0.02%	0.06%	0.47%
Commercial secured by real estate	0.11	0.14	0.11	0.11	0.14
Commercial other	0.43	0.51	0.99	1.18	0.76
Real estate construction	0.19	0.05	0.11	(0.03)	0.06
Real estate mortgage	0.10	0.05	0.06	0.08	0.09
Consumer	0.91	0.64	0.48	0.71	0.70
Equipment lease financing	0.00	0.00	0.00	0.00	0.00
Total	0.38%	0.27%	0.29%	0.37%	0.35%
Other ratios:					
Allowance to net loans, end of year	1.31%	1.26%	1.27%	1.40%	1.42%
Provision for loan losses to average loans	0.50	0.30	0.20	0.41	0.48

The allowance for loan and lease losses balance is maintained 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)	2008	2007	2006
Deposits:			
Noninterest bearing deposits	$ 443,593	$ 425,534	$ 435,017
NOW accounts	19,601	18,590	18,338
Money market accounts	436,895	483,782	437,707
Savings accounts	199,081	193,957	208,914
Certificates of deposit of $100,000 or more	443,020	456,483	417,671
Certificates of deposit < $100,000 and other time deposits	761,530	774,556	776,738
Total deposits	2,303,720	2,352,902	2,294,385
Other borrowed funds:			
Repurchase agreements and federal funds purchased	170,231	174,697	185,098
Advances from Federal Home Loan Bank	49,001	67,452	108,355
Long-term debt	61,341	61,830	61,341
Total other borrowed funds	280,573	303,979	354,794
Total deposits and other borrowed funds	$ 2,584,293	$ 2,656,881	$ 2,649,179

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2008 occurred at May 31, 2008, with a month-end balance of $182.7 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2007 occurred at August 31, 2007, with a month-end balance of $203.6 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2006 occurred at May 31, 2006, with a month-end balance of $220.2 million.

Maturities and/or repricing of time deposits of $100,000 or more outstanding at December 31, 2008 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	$ 124,914	$ 8,790	$ 133,704

Over three through six months	88,825	7,913	96,738
Over six through twelve months	223,667	13,842	237,509
Over twelve through sixty months	26,567	7,283	33,850
Over sixty months	0	200	200
	$ 463,973	$ 38,028	$ 502,001

Item 2. Properties

Our 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 CTBI and its subsidiaries as of December 31, 2008:

		Location	Owned	Leased	Total
Banking locations:					
Community Trust Bank, Inc.					
*	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, Kentucky			
	Tug Valley Market (lease land to 1 owned location)		2	0	2
		1 location in Pike County, Kentucky, 1 location in Mingo County, West Virginia			
	Whitesburg Market		4	1	5
		5 locations in Letcher County, Kentucky			
	Hazard Market (lease land to 2 owned locations)		4	0	4
		4 locations in Perry County, Kentucky			
*	Lexington Market (lease land to 2 owned locations)		3	2	5
		5 locations in Fayette County, Kentucky			
	Winchester Market		1	1	2
		2 locations in Clark County, Kentucky			
	Richmond Market (lease land to 1 owned location)		3	0	3
		3 locations in Madison County, Kentucky			
	Mt. Sterling Market		2	0	2
		2 locations in Montgomery County, Kentucky			
*	Versailles Market (lease land to 2 owned locations)		3	2	5
		2 locations in Woodford County, Kentucky, 2 locations in Franklin County, Kentucky, and 1 location in Scott 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			

*	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			
	Advantage Valley Market		3	1	4
		2 locations in Lincoln County, West Virginia, 1 location in Wayne County, West Virginia, and 1 location in Cabell County, West Virginia			
	Summersville Market		1	0	1
		1 location in Nicholas County, West Virginia			
*	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			
Total banking locations			68	9	77
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			69	11	80

*Community Trust and Investment Company has leased offices in the main office locations in these markets.

See notes 8 and 14 to the consolidated financial statements included herein for the year ended December 31, 2008, for additional information relating to lease commitments and amounts invested in premises and equipment.

Item 3. Legal Proceedings

CTBI and subsidiaries, and from time to time, our officers, are named defendants in legal actions arising from ordinary business activities. Management, after consultation with legal counsel, believes any pending actions are without merit or that the ultimate liability, if any, will not materially affect our 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 2008.

Executive Officers of the Registrant

Set forth below are the executive officers of CTBI at December 31, 2008, their positions with CTBI, 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; 62	Chairman, President and CEO	1992	(2)	Chairman, President and CEO of Community Trust Bancorp, Inc.
Mark A. Gooch; 50	Executive Vice President and Secretary	1997	(3)	President and CEO of Community Trust Bank, Inc.
Tracy Little; 68	Executive Vice President	2003	(4)	President and CEO of Community Trust and Investment Company
Michael S. Wasson; 57	Executive Vice President	2000		Executive Vice President/ Central Kentucky Region President of Community Trust Bank, Inc.
James B. Draughn; 49	Executive Vice President	2001		Executive Vice President/Operations of Community Trust Bank, Inc.
Kevin J. Stumbo; 48	Executive Vice President and Treasurer	2002	(5)	Executive Vice President/ Controller of Community Trust Bank, Inc.

Ricky D. Sparkman; 46	Executive Vice President	2002		Executive Vice President/ South Central Region President of Community Trust Bank, Inc.
Richard W. Newsom; 54	Executive Vice President	2002		Executive Vice President/ Eastern Region President of Community Trust Bank, Inc.
James J. Gartner; 67	Executive Vice President	2002		Executive Vice President/ Chief Credit Officer of Community Trust Bank, Inc.
Larry W. Jones; 62	Executive Vice President	2002		Executive Vice President/ Northeast Region President of Community Trust Bank, Inc.
Steven E. Jameson; 52	Executive Vice President	2004	(6)	Executive Vice President/ Chief Internal Audit & Risk Officer

(1) The ages listed for CTBI's executive officers are as of February 28, 2009.

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

(3) Mr. Gooch was named Secretary of CTBI effective April 26, 2005.

(4) Mr. Little began employment with CTBI on August 4, 2003. Prior to joining CTBI, 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 forty years in the trust and banking business and has been the executive in charge of five different trust departments and trust companies.

(5) 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 CTBI effective April 26, 2005. Mr. Stumbo has been a Certified Public Accountant since 1985.

(6) 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 CTBI 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 Purchases of Equity Securities

Our common stock is listed on The NASDAQ-Stock Market LLC – Global Select Market under the symbol CTBI. As of February 28, 2009 there were approximately 4,627 holders of record of our outstanding common shares. 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
2008				
Net interest income	$ 25,148	$ 26,499	$ 25,682	$ 26,308
Net interest income, taxable equivalent basis	25,463	26,841	26,027	26,675
Provision for loan losses	3,560	2,875	2,648	2,369
Noninterest income	7,312	(3,969)	9,681	8,743
Noninterest expense	20,788	21,300	20,443	20,001
Net income	6,485	(577)	8,620	8,545
Per common share:				
Basic earnings per share	$ 0.43	$ (0.04)	$ 0.58	$ 0.57
Diluted earnings per share	0.43	(0.04)	0.57	0.57
Dividends declared	0.30	0.29	0.29	0.29
Common stock price:				
High	$ 37.22	$ 46.32	$ 31.96	$ 30.87
Low	23.05	15.99	26.25	23.38
Last trade	36.75	34.40	26.26	29.30
Selected ratios:				
Return on average assets, annualized	0.87%	(0.08)%	1.19%	1.18%
Return on average common equity, annualized	8.44	(0.74)	11.22	11.20
Net interest margin, annualized	3.69	3.97	3.88	4.00
2007				
Net interest income	$ 26,939	$ 26,592	$ 26,611	$ 25,890
Net interest income, taxable equivalent basis	27,303	26,971	26,989	26,282
Provision for loan losses	2,309	1,915	1,846	470
Noninterest income	9,202	9,934	8,974	8,498
Noninterest expense	20,297	19,324	20,938	22,496
Net income	9,271	10,476	8,858	8,022
Per common share:				
Basic earnings per share	$ 0.62	$ 0.69	$ 0.58	$ 0.53
Diluted earnings per share	0.61	0.68	0.57	0.52
Dividends declared	0.29	0.27	0.27	0.27
Common stock price:				

High	$ 32.50	$ 33.46	$ 37.98	$ 41.50
Low	26.09	26.47	31.40	33.87
Last trade	27.53	30.01	32.30	36.23
Selected ratios:				
Return on average assets, annualized	1.26%	1.39%	1.18%	1.09%
Return on average common equity, annualized	12.22	14.04	12.16	11.33
Net interest margin, annualized	4.02	3.86	3.86	3.84

Dividends

The annual dividend paid to our stockholders was increased from $1.10 per share to $1.17 per share during 2008. We have adopted a conservative policy of cash dividends by maintaining an average annual cash dividend ratio of less than 45%, with periodic stock dividends. The current year cash dividend ratio was 75.97%. However, the higher dividend ratio reflects the decreased net income which resulted primarily from the other-than-temporary-impairment charges of $14.5 million on Freddie Mac and Fannie Mae trust preferred pass-through auction rate securities and a $4.9 million increase in our allocation to our reserve for loan losses taken in 2008. Dividends are typically paid on a quarterly basis. Future dividends are subject to the discretion of CTBI's Board of Directors, cash needs, general business conditions, dividends from our subsidiaries, and applicable governmental regulations and policies. For information concerning restrictions on dividends from the subsidiary bank to CTBI, see note 19 to the consolidated financial statements included herein for the year ended December 31, 2008.

Stock Repurchases

CTBI repurchased 93,500 shares of its common stock during 2008, leaving 288,519 shares remaining under CTBI's current repurchase authorization. We acquired 196,500 shares of stock through the stock repurchase program during the year 2007. 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.

Common Stock Performance

The following graph shows the cumulative return experienced by CTBI's shareholders during the last five years compared to the NASDAQ Stock Market (U.S.) and the NASDAQ Bank Stock Index. The graph assumes the investment of $100 on December 31, 2003 in CTBI's common stock and in each index and the reinvestment of all dividends paid during the five-year period.

Comparison of 5 Year Cumulative Total Return
among Community Trust Bancorp, Inc., NASDAQ Stock Market (U.S.),
and NASDAQ Bank Stocks

Fiscal Year Ending December 31 ($)						
	2003	2004	2005	2006	2007	2008
Community Trust Bancorp, Inc.	100.00	121.02	118.67	164.32	113.28	156.03
NASDAQ Stock Market (U.S.)	100.00	108.84	111.16	122.11	132.42	63.80
NASDAQ Bank Stocks	100.00	114.44	111.80	125.47	99.45	72.51

Item 6. Selected Financial Data 2004-2008

(in thousands except per share amounts and # of employees)

Year Ended December 31	2008	2007	2006	2005	2004
Interest income	$ 167,611	$ 196,864	$ 189,305	$ 160,322	$ 130,561
Interest expense	63,974	90,832	81,538	57,117	37,349
Net interest income	103,637	106,032	107,767	103,205	93,212
Provision for loan losses	11,452	6,540	4,305	8,285	8,648
Noninterest income	21,767	36,608	32,559	33,467	33,917
Noninterest expense	82,532	83,055	80,407	78,569	74,595
Income before income taxes	31,420	53,045	55,614	49,818	43,886
Income taxes	8,347	16,418	16,550	15,406	12,936
Net income	$ 23,073	$ 36,627	$ 39,064	$ 34,412	$ 30,950
Per common share:					
Basic earnings per share	$ 1.54	$ 2.42	$ 2.59	$ 2.31	$ 2.09
Cash dividends declared-	$ 1.17	$ 1.10	$ 1.05	$ 0.98	$ 0.87
As a % of net income	75.97%	45.45%	40.54%	42.42%	41.63%
Book value, end of year	$ 20.46	$ 20.03	$ 18.63	$ 16.93	$ 15.91
Market price, end of year	$ 36.75	$ 27.53	$ 41.53	$ 30.75	$ 32.36
Market to book value, end of year	1.80x	1.37x	2.23x	1.82x	2.03x
Price/earnings ratio, end of year	23.86x	11.38x	16.03x	13.31x	15.48x
Cash dividend yield, end of year	3.18%	4.00%	2.53%	3.19%	2.69%
At year-end:					
Total assets	$ 2,954,531	$ 2,902,684	$ 2,969,761	$ 2,851,053	$ 2,710,935
Long-term debt	61,341	61,341	61,341	61,341	61,341
Shareholders' equity	308,206	301,355	282,375	253,945	236,169
Averages:					
Assets	$ 2,921,217	$ 2,980,713	$ 2,942,892	$ 2,817,549	$ 2,545,133
Deposits	2,303,720	2,352,902	2,294,385	2,217,735	2,078,691
Earning assets	2,703,054	2,760,014	2,717,325	2,601,304	2,339,401
Loans	2,283,180	2,205,431	2,131,649	2,024,756	1,816,146
Shareholders' equity	308,401	294,106	269,202	246,119	229,561
Profitability ratios:					
Return on average assets	0.79%	1.23%	1.33%	1.22%	1.22%
Return on average equity	7.48	12.45	14.51	13.98	13.48
Capital ratios:					
Equity to assets, end of year	10.43%	10.38%	9.51%	8.91%	8.71%
Average equity to average assets	10.56	9.87	9.15	8.74	9.02
Risk based capital ratios:					
Tier 1 capital					
(to average assets)	10.37%	10.32%	9.58%	8.94%	8.78%
Tier 1 capital					
(to risk weighted assets)	13.05	13.24	12.21	11.52	11.82
Total capital					
(to risk weighted assets)	14.30	14.49	13.43	12.76	13.07
Other significant ratios:					
Allowance to net loans, end of year	1.31%	1.26%	1.27%	1.40%	1.42%

Allowance to nonperforming loans, end of year	59.06	88.00	193.54	137.87	134.41
Nonperforming assets to loans and foreclosed properties, end of year	2.65	1.78	0.86	1.27	1.30
Net interest margin	3.88%	3.90%	4.02%	4.02%	4.06%
Other statistics:					
Average common shares outstanding	15,017	15,150	15,086	14,908	14,811
Number of full-time equivalent employees, end of year	986	1,011	1,021	1,003	954

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Community Trust Bancorp, Inc., our operations, and our present business environment. The MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes thereto contained in Item 8 of this annual report. The MD&A includes the following sections:

- Our Business
- Critical Accounting Policies and Estimates
- Results of Operations
- Liquidity and Market Risk
- Stock Repurchase Program
- Interest Rate Risk
- Capital Resources
- Recent Regulatory Developments
- Impact of Inflation, Changing Prices, and Economic Conditions
- Contractual Obligations and Commitments

Our Business

Community Trust Bancorp, Inc. ("CTBI") is a bank holding company headquartered in Pikeville, Kentucky. At December 31, 2008, CTBI owned one commercial bank and one trust company. Through its subsidiaries, CTBI has seventy-seven banking locations in eastern, northeastern, central, and south central Kentucky and southern West Virginia, and five trust offices across Kentucky. At December 31, 2008, CTBI had total consolidated assets of $3.0 billion and total consolidated deposits, including repurchase agreements, of $2.5 billion, making it the largest bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders' equity at December 31, 2008 was $308.2 million.

Through its subsidiaries, CTBI 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 our Bank include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our 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 services. For further information, see Item 1 of this annual report.

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:

Available-for-Sale Securities – Available-for-sale securities are valued using the following valuation techniques:

Securities Available-for-Sale – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Securities Available-for-Sale – Level 3 Inputs. The securities owned by CTBI that were measured using Level 3 criteria are auction rate securities issued by FNMA and FHLMC. These securities were valued using an independent third party. For these securities, the valuation methods used were (1) a discounted cash flow model valuation, where the expected cash flows of the securities are discounted to the present using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities. Using these methods, the auction rate securities are classified as Level 3.

Loans – Loans with the ability and the intent to be held until maturity and/or payoff are reported at the carrying value of unpaid principal reduced by unearned interest and an allowance for loan and lease 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.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized over the estimated life of the related loans, leases, or commitments as a yield adjustment.

Allowance for Loan and Lease Losses – We maintain an allowance for loan and lease losses (“ALLL”) at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Since arriving at an appropriate ALLL involves a high degree of management judgment, we use an ongoing quarterly analysis to develop a range of estimated losses. In accordance with accounting principles generally accepted in the United States, we use our best estimate within the range of potential credit loss to determine the appropriate ALLL. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower’s cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as SFAS 114, Accounting by Creditors for Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ALLL for these loans is measured under SFAS 5, Accounting for Contingencies. The ALLL allocation for these pools of loans is established based on the average, maximum, minimum, and median loss ratios over the previous eight quarters.

Historical loss rates for commercial and retail loans are adjusted for significant factors that, in management’s judgment, reflect the impact of any current conditions on loss recognition. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge offs, trend in loan losses, industry concentrations and their relative strengths, amount of unsecured loans and underwriting exceptions. These factors are reviewed quarterly and a weighted range developed with a “most likely” scenario determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL 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.

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. Premises and equipment are evaluated for impairment on a quarterly basis.

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 CTBI included in other assets at December 31, 2008 and 2007 was $10.4 million and $7.9 million, respectively.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon SFAS 142, Goodwill and Other Intangible Assets and SFAS 147, Acquisitions of Certain Financial Institutions, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

Amortization of core deposit intangible is estimated at approximately $0.6 million annually for year one, approximately $0.4 million in year two, and approximately $0.1 million in years three and four.

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, excluding restricted shares.

Diluted EPS adjusts the number of weighted average shares of common stock outstanding by the dilutive effect of stock options, including restricted shares, as prescribed in SFAS 123R.

Segments – Management analyzes the operation of CTBI assuming one operating segment, community banking services. CTBI, 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 – CTBI's bank owned life insurance policies are carried at their cash surrender value. We recognize tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Mortgage Servicing Rights – Mortgage servicing rights ("MSRs") are carried at fair market value with the implementation of SFAS 156 in January 2007. MSRs are valued using Level 3 inputs as defined in SFAS 157. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including 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. MSRs are a component of other assets. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

Stock Options – At December 31, 2008 and 2007, CTBI had a share-based employee compensation plan, which is described more fully in note 13. CTBI accounts for this plan under the recognition and measurement principles of SFAS 123R, Share-Based Payment.

New Accounting Standards –

Ø Determining the Fair Value of a Financial Asset When the Market For That Asset is Not Active – FASB Staff Position ("FSP") No. FAS 157-3 clarifies the application of FASB No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective October 10, 2008.

Ø Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities – This FASB Staff Position No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This FSP is effective January 1, 2009, and is not expected to have a significant impact on our consolidated financial statements.

Ø Fair Value Option for Financial Assets and Financial Liabilities – In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. CTBI has not elected the fair value option for any financial assets or liabilities.

Ø Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards – On June 14, 2007, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. This consensus was ratified by FASB on June 27, 2007. This issue states that tax benefits received on dividends paid to employees associated with their unvested stock compensation awards should be recorded in additional paid-in capital ("APIC") for awards expected to vest. Currently, such dividends are accounted for as a permanent tax deduction reducing the annual effective income tax rate. This issue is to be applied prospectively to dividends declared in fiscal years beginning after December 15, 2007. Retrospective application of this Issue is prohibited. Issue No. 06-11 did not have a material effect on our consolidated financial statements.

Ø Business Combinations (Revised 2007) – The FASB recently issued SFAS 141(R), which replaces FAS 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities, and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting, and instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. This Statement defines a bargain purchase as a business combination in which the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and it requires the acquirer to recognize that excess in earnings as a gain attributable to the acquirer. In contrast, Statement 141 required the "negative goodwill" amount to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired. SFAS 141R is expected to have a significant impact on our accounting for business combinations closing on or after January 1, 2009.

Ø Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements – EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit

Aspects of Endorsement Split Dollar Life Insurance Arrangements requires, effective January 1, 2008, the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. CTBI adopted EITF 06-4 as a change in accounting principle through a $1.8 million cumulative-effect adjustment to retained earnings based on the cost of insurance.

Results of Operations

2008 Compared to 2007

CTBI reported earnings of $23.1 million or $1.54 per basic share for the year 2008 compared to $36.6 million or $2.42 per basic share for the year 2007. Average shares outstanding decreased from 15.2 million for the year ended December 31, 2007 to 15.0 million for the year ended December 31, 2008.

During 2008, CTBI recorded other than temporary impairment charges of $14.5 million, $1.1 million of which was recorded in the fourth quarter 2008, based upon the current market value of Freddie Mac and Fannie Mae trust preferred pass-through auction rate securities. CTBI held $14.9 million of these securities on June 30, 2008. The current market value of all auction rate securities held by CTBI is $0.5 million. CTBI also recorded a $1.5 million decline in the fair value of its mortgage servicing rights during 2008, $1.1 million of which occurred in the fourth quarter 2008, and increased its provision for loan losses by $4.9 million year over year. Additionally, current economic conditions combined with the current interest rate environment continue to put pressure on CTBI's net interest margin and impact its asset quality contributing to lower earnings for the fourth quarter and year 2008.

v CTBI's basic earnings per share decreased $0.88 from prior year, primarily as a result of other than temporary impairment charges during the third and fourth quarters 2008 and a $4.9 million increase in our allocation to our reserve for losses on loans.

v Pressure continued on our net interest margin due to the current interest rate environment and economic conditions. Our net interest margin for the year ended December 31, 2008 decreased 2 basis points from prior year, and net interest income decreased $2.4 million from prior year as average earning assets decreased by $57.0 million.

v Noninterest income was impacted by $14.5 million in other than temporary impairment (OTTI) charges for auction rate securities. Core noninterest income showed slight increases from prior year with increases in gains on sales of loans, deposit service charges, and trust revenue; however these increases were offset by a decrease in the fair value of mortgage servicing rights.

v Noninterest expense controls were positive during 2008 as we experienced a decline in total noninterest expense which was driven by decreases in both personnel and occupancy and equipment expenses.

v Our efficiency ratio for the year 2008 increased 77 basis points from 2007 to 58.39%.

v Nonperforming loans increased to $52.2 million at December 31, 2008 compared to $31.9 million at prior year-end.

v Our loan portfolio increased 5.4% during the year with $120.8 million in growth.

- Our investment portfolio decreased $64.1 million year over year primarily resulting from the use of the liquidity in the portfolio to fund loan growth and manage the net interest margin and the OTTI charges for auction rate securities.

- CTBI's effective income tax rate was 26.44% for the year ended December 31, 2008, compared to 31.18% for the year ended December 31, 2007. The reduced income tax rate was driven by the increase in the ratio of tax exempt income to total income and the adjustment of a tax deferred item in the fourth quarter 2008 which had a positive impact to earnings of $0.04 per share.

- Return on average assets for the year was 0.79% compared to 1.23% for the year 2007. Return on average equity was 7.48% compared to 12.45%.

Net Interest Income:

Our net interest margin for the year ended December 31, 2008 decreased 2 basis points compared to the same period in 2007. Net interest income for the year ended December 31, 2008 decreased $2.4 million from prior year as the cost of interest bearing funds decreased 108 basis points while the yield on average earning assets decreased 94 basis points and average earning assets declined $57.0 million.

Provision for Loan Losses and Allowance for Loan and Lease Losses:

The provision for loan losses that was added to the allowance for 2008 increased $4.9 million from the year 2007. 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. Our loan loss reserve as a percentage of total loans outstanding at December 31, 2008 increased to 1.31% compared to 1.26% at December 31, 2007. The adequacy of our loan loss reserve is analyzed quarterly and adjusted as necessary.

Nonperforming loans increased during the year by $20.3 million with increases in all of our regions. CTBI's total nonperforming loans at December 31, 2008 were $52.2 million compared to $31.9 million at December 31, 2007. Our loan portfolio management processes focus on maintaining appropriate reserves for potential losses.

An increase in nonperforming loans does not necessitate a corollary increase in the amount of loan loss reserves. Nonperforming loans include loans that are 90 days, or more, past due as well as nonaccrual loans and restructured debt. A loan that is 90 days, or more, past due must be placed on nonaccrual unless it is well secured and in the process of collection. If it has not been placed on nonaccrual it has met both criteria, especially that of "well secured", and thereby would require no specific reserve. A loan is placed on nonaccrual when, by definition, the bank does not anticipate collecting all of its principal and/or interest. CTBI has several loans that are secured by real estate that we do not anticipate collecting all of the interest owed but, with current appraisals performed, do anticipate collecting all of the principal. In this instance, while the interest accrued would have been reversed, and the loan placed on nonaccrual, no additional specific reserve would be required because we anticipate collecting all of the principal.

Foreclosed properties increased during 2008 to $10.4 million from the $7.9 million at December 31, 2007. Sales of foreclosed properties during 2008 totaled $5.0 million while new foreclosed properties totaled $7.7 million. Our nonperforming loans and foreclosed properties remain concentrated in our Central Kentucky Region. The increase in the Central Kentucky Region is primarily attributable to borrowers adversely impacted by the continuing weakness in the housing market and the resulting increase in time required by the legal process for movement from foreclosure to liquidation. The Central Kentucky Region continues to experience the most stress from the current housing crisis.

Net loan charge-offs for the year increased from $6.0 million for 2007 to $8.7 million for 2008 with most losses derived from our Central Kentucky Region as we continue to work through the region's overbuilt housing market.

Noninterest Income:

The significant decline in noninterest income year over year occurred as a result of the $14.5 million other than temporary impairment charges for auction rate securities, as well as the $1.5 million decline in the fair value of mortgage servicing rights. We experienced increases year over year in the core banking noninterest income areas of gains on sales of loans, deposit service charges, and trust revenue which were partially offset by the decline in loan fees driven by the decline in the fair value of mortgage servicing rights.

Noninterest Expense:

Noninterest expense controls were positive during 2008 as we experienced a decline in total noninterest expense which was driven by decreases in both personnel and occupancy and equipment expenses. Commensurate with the U.S. Treasury placing Freddie Mac and Fannie Mae into conservatorship, noninterest expense for the year 2008 was impacted by a $0.8 million charge relative to trust activity for which CTBI had financial responsibility. The decrease in expenses would have been larger except for this $0.8 million charge.

Balance Sheet Review:

CTBI’s total assets at $3.0 billion increased 1.8% from prior year. Loans outstanding at December 31, 2008 were $2.3 billion reflecting a 5.4% growth from December 31, 2007. CTBI's investment portfolio, however, decreased 18.0% from prior year as a result of the use of the liquidity in our investment portfolio to fund loan growth and the other than temporary impairment charges for auction rate securities. Deposits, including repurchase agreements, at $2.5 billion increased 1.5% from prior year. The deposit (including repurchase agreements) to FTE (full-time equivalent) ratio increased to $2.5 million at December 31, 2008 from $2.4 million at December 31, 2007.

Shareholders’ equity at December 31, 2008 was $308.2 million compared to $301.4 at December 31, 2007. CTBI's annualized dividend yield to shareholders as of December 31, 2008 was 3.27%.

2007 Compared to 2006

Community Trust Bancorp, Inc. reported earnings for the year ended December 31, 2007 of $36.6 million or $2.42 per basic share compared to $39.1 million or $2.59 per basic share earned for the year 2006. The decrease in net income was primarily driven by a $1.7 million decrease in net interest income and a $2.2 million increase in provision for loan losses. CTBI's basic earnings per share for the year decreased 6.6% from the year ended December 31, 2006. Our average shares outstanding increased from 15.1 million shares at December 31, 2006 to 15.2 million shares at December 31, 2007.

v Core earnings for the year 2007 reflected the pressure on our net interest income as CTBI operated within an inverted yield curve through most of 2007.

v Nonperforming loans at December 31, 2007 were $31.9 million, an increase of $17.7 million from 2006.

v Our loan portfolio increased 2.8% from December 31, 2006. The market remained highly competitive and CTBI continued to focus on asset quality and loan yield.

v Our investment portfolio declined 23.4% from prior year, resulting from the payment of a $40 million FHLB advance and a decline in deposits which were funded through the sale of auction rate securities.

v Our efficiency ratio improved during the year 2007 primarily resulting from the 2007 receipt of a $1.2 million acquisition termination fee and the 2006 inclusion of a performance based employee incentive in the amount of

$3.0 million which was not paid in 2007.

- v Return on average assets for the year was 1.23% compared to 1.33% for the year 2006. Return on average equity was 12.45% compared to 14.51%.

Net Interest Income:

Our net interest margin declined 12 basis points year over year. Net interest income decreased $1.7 million from prior year. The yield on average earnings assets for the year 2007 increased 17 basis points from 2006 in comparison to the 39 basis point increase in the cost of interest bearing funds. Average earning assets increased 1.6% from prior year-end.

Provision for Loan Losses and Allowance for Loan and Lease Losses:

The provision for loan losses that was added to the allowance for 2007 increased $2.2 million from the year 2006. 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.

Nonperforming loans at December 31, 2007 were $31.9 million compared to $14.2 million at December 31, 2006. All nonperforming loans were individually reviewed with specific reserves established when appropriate. The increase in nonperforming loans was driven primarily by the increased inventory and the number of days on the market of residential real estate developments in Central Kentucky. We anticipated nonperforming loans to remain higher than recent history as the normal legal collection time period for real estate secured assets was slowed due to increased volumes in the industry. Our loan portfolio management processes focused on maintaining appropriate reserves for potential losses.

While we do not have subprime lending programs (i.e. Hybrid ARMs, Alt-A, Payment Option Loans, etc.), we do make loans that have subprime characteristics by regulatory definition; however, each loan is individually underwritten based on its creditworthiness. The industry experienced significant losses and increases in nonperforming loans in this area. Although CTBI showed an increase in residential nonperforming loans between year-end 2006 and 2007, we also showed a decrease in 30-89 day past dues, and loan losses for 2007 represented only 0.09% in the residential portfolio.

Foreclosed properties at December 31, 2007 of $7.9 million were an approximate $3.4 million increase from the $4.5 million on December 31, 2006. The year over year increase was driven by a $2.6 million increase in single family residential properties from our Central Kentucky Region where the market has softened.

Net loan charge-offs for the year ended December 31, 2007 of 0.27% of average loans annualized was a decrease from the 0.29% for 2006. Our reserve for losses on loans as a percentage of total loans outstanding at December 31, 2007 was 1.26% compared to 1.27% at December 31, 2006. The adequacy of our reserve for losses on loans is analyzed quarterly and adjusted as necessary.

Noninterest Income:

Noninterest income, after normalizing for the receipt of the $1.2 million fee associated with the termination of the Eagle Fidelity, Inc. acquisition in the third quarter, increased 8.8% from the year ended December 31, 2006, with increases in gains on sales of loans, deposit service charges, trust revenue, and loan related fees.

Noninterest Expense:

Noninterest expense increased 3.3% as a $1.2 million charge related to unamortized debt issuance costs with the redemption of trust preferred securities was offset by a decrease in personnel expense associated with the $3.0 million payment of a performance based employee incentive in 2006 which was not paid in 2007.

Balance Sheet Review:

CTBI’s total assets decreased $67.1 million or 2.3% from prior year. The year over year decrease resulted from the payoff of a $40 million FHLB advance and a decline in deposits which were funded through the sale of auction rate securities. Loans outstanding at December 31, 2007 were $2.2 billion reflecting a $60.4 million or 2.8% increase year over year. CTBI's investment portfolio decreased $109.2 million from prior year-end. Deposits, including repurchase agreements, declined $50.7 million or 2.0% during the year as CTBI focused on managing deposit growth and pricing controls due to its liquidity position. The deposit (including repurchase agreements) to FTE (full-time equivalent) ratio decreased to $2.4 million at December 31, 2007 from $2.5 million at December 31, 2006. Shareholders’ equity of $301.4 million on December 31, 2007 was an increase of 6.7% from December 31, 2006.

Liquidity and Market Risk

The objective of CTBI’s Asset/Liability management function is to maintain consistent growth in net interest income within our policy limits. This objective is accomplished through management of our 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 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, 2008, we had approximately $141.0 million in cash and cash equivalents and approximately $267.4 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, we also have a variety of other short-term and long-term funding sources available. We also rely on Federal Home Loan Bank advances for both liquidity and management of our asset/liability position. Federal Home Loan Bank advances were $60.7 million at December 31, 2008 compared to $40.9 million at December 31, 2007. As of December 31, 2008, we had a $330.7 million available borrowing position with the Federal Home Loan Bank. We generally rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for our 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, 2008, we had a $12 million revolving line of credit, all of which is currently available to meet any future cash needs. Our primary investing activities include purchases of securities and loan originations. We do not rely on any one source of liquidity and manage availability in response to changing consolidated balance sheet needs.

Stock Repurchase Program

CTBI’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. CTBI issued a press release on May 13, 2003 announcing its intention to repurchase up to 1,000,000 additional shares. During the years 2007 and 2008, we repurchased 196,500 and 93,500 shares, respectively. As of December 31, 2008, a total of 2,211,481 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 2008:

	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	
2006	0	-	0	
2007	0	31.42	196,500	
2008	0	28.08	93,500	
Total	2,500,000	17.52	2,211,481	288,519

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

Interest Rate Risk

We consider interest rate risk one of our 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 our net interest revenue is largely dependent upon the effective management of interest rate risk. We employ a variety of measurement techniques to identify and manage our 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.

CTBI’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. Our current exposure to interest rate risks is determined by measuring the anticipated change in net interest income spread evenly over the twelve-month period.

The following table shows our estimated earnings sensitivity profile as of December 31, 2008:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+300	7.12%
+200	4.54%
+100	2.21%
-25	(0.64)%

The following table shows CTBI’s estimated earnings sensitivity profile as of December 31, 2007:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+300	6.75%
+200	4.58%
+100	2.35%

-100	(2.46)%
-200	(5.05)%
-300	(7.76)%

The simulation model used the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2008 estimates that our net interest income in an up-rate environment would increase by 7.12% at a 300 basis point change, 4.54% increase at a 200 basis point change, and a 2.21% increase at a 100 basis point change. In a down-rate environment, a 25 basis point decrease in interest rates would decrease net interest income by 0.64% over one year. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, we have 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 2008 and 2007, $83.7 million and $74.6 million, respectively, was realized on the sale of fixed rate residential mortgages. We focus our efforts on consistent net interest revenue and net interest margin growth through each of the retail and wholesale business lines. We do not currently engage in trading activities.

The preceding analysis was prepared using a rate ramp analysis which attempts to spread changes evenly over a specified time period as opposed to a rate shock which measures the impact of an immediate change. Had these measurements been prepared using the rate shock method, the results would vary.

Our Static Repricing GAP as of December 31, 2008 is presented below. In the 12 month repricing GAP, rate sensitive liabilities ("RSL") exceeded rate sensitive assets ("RSA") by $100.5 million.

	1-3 Months	4-6 Months	7-9 Months	10-12 Months	2-3 Years	4-5 Years	> 5 Years
Assets	$ 1,278,426	$ 201,196	$ 153,860	$ 136,052	$ 586,295	$ 182,178	$ 416,524
Liabilities and equity	682,546	286,849	321,370	579,314	672,273	17,943	394,236
Repricing difference	595,880	(85,654)	(167,510)	(443,262)	(85,977)	164,235	22,288
Cumulative GAP	595,880	510,227	342,716	(100,546)	(186,523)	(22,288)	0
RSA/RSL	1.87x	0.70x	0.48x	0.23x	0.87x	10.15x	1.06x
Cumulative GAP to total assets	20.17%	17.27%	11.60%	(3.40)%	(6.31)%	(0.75)%	0.00%

Capital Resources

We continue to grow our shareholders' equity while also providing an average annual dividend yield during 2008 of 3.18% to shareholders. Shareholders' equity increased 3.2% from December 31, 2007 to $308.2 million at December 31, 2008. Our primary source of capital growth is the retention of earnings. Cash dividends were $1.17 per share for 2008 and $1.10 per share for 2007. We retained 24.0% of our earnings in 2008 compared to 54.5% in 2007.

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%. Our ratios as of December 31, 2008 were 10.37%, 13.05%, and 14.30%, respectively, all exceeding the threshold for meeting the definition of "well-capitalized." See note 19 to the consolidated financial statements for further information.

As of December 31, 2008 we are 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 our liquidity, capital resources, or operations, except as noted in the Recent Regulatory Developments section below.

Recent Regulatory Developments

The following is a summary of recently enacted laws and regulations that could materially impact CTBI's results of operations or financial condition. This discussion is qualified in its entirety by reference to such laws and regulation.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the "EESA") enacted by the U.S. Congress in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA, the U.S. Department of Treasury ("U.S. Treasury") has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The EESA also included a provision to increase the amount of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") to $250,000.

On October 14, 2008, the U.S Treasury announced the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"). This program would make $250 billion of capital available to U.S. financial institutions from the $700 billion authorized by the EESA in the form of preferred stock investments by the U.S. Treasury under the following general terms:

- Ø the preferred stock issued to the U.S. Treasury ("Treasury Preferred Stock") would pay 5% dividends for the first five years, and then 9% dividends thereafter;
- Ø in connection with the purchase of preferred stock, the U.S. Treasury will receive warrants entitling the U.S. Treasury to buy the participating institution's common stock with a market price equal to 15% of the Treasury Preferred Stock;
- Ø the Treasury Preferred Stock may not be redeemed for a period of three years, except with proceeds from high-quality private capital;
- Ø the consent of the U.S. Treasury will be required to increase common dividends per share or any share repurchases, with limited exceptions, during the first three years, unless the Treasury Preferred Stock has been redeemed or transferred to third parties; and
- Ø participating companies must adopt the U.S Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued under the TARP Capital Purchase Program.

CTBI announced on January 16, 2009 that it had elected not to participate in the Treasury Department's Capital Purchase Program. CTBI had received preliminary approval on December 17, 2008 from the U. S. Department of Treasury to receive $68 million by participating in the Treasury's Capital Purchase Program. The Treasury's Capital Purchase Program is a voluntary program designed to help institutions build capital to support the U. S. economy. CTBI currently maintains a capital level significantly exceeding regulatory guidelines for a well-capitalized institution and is meeting the lending needs of our customers. Considering our current capital position and the requirements the program would impose on our business, we believe that our participation in the program would not be in the best interests of our shareholders.

Also on October 14, 2008, the FDIC announced a new program – the Temporary Liquidity Guarantee Program – that provides unlimited deposit insurance on funds in non-interest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000, as well as a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies. All eligible institutions were covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions have been assessed a charge of 10 basis points per annum for the additional insured deposits and a charge of 75 basis points per annum for guaranteed senior unsecured debt.

CTBI elected to participate in the unlimited deposit insurance for noninterest bearing deposits beyond the initial 30-day period and opt out of the coverage for senior unsecured debt.

Proposed legislation may create an environment that will unreasonably delay the collection of past due amounts, result in restructurings and collection of less than the full amount due to CTBI and impede our ability to make new residential loans. In addition, as a result of the weakness of certain financial institutions, the FDIC has taken action that will result in increased FDIC insurance assessments for United States FDIC-insured financial institutions, including CTBI. Under the deposit insurance restoration plan approved by the FDIC in October 2008, the Board set a rate schedule to raise the insurance reserve ratio to 1.15 percent within five years. On February 27, 2009, the FDIC announced that the restoration plan horizon has been extended to seven years in light of the current significant strains on banks and the financial system and the likelihood of a severe recession. In addition, the FDIC announced a special assessment of up to 20 basis points to be collected on September 30, 2009. The FDIC may also impose an emergency special assessment after June 30, 2009 of up to 10 basis points if the FDIC deems that an additional special assessment in necessary to maintain public confidence in federal deposit insurance. Based on the FDIC insurance premium schedule for 2009, we anticipate our premiums, exclusive of the special assessment of up to 20 basis points, to be $2.2 million for 2009 compared to $0.3 million for 2008. The special assessment at the maximum 20 basis points based on our deposit base at December 31, 2008 would be $4.6 million.

Impact of Inflation, Changing Prices, and Economic Conditions

The majority of our assets and liabilities are monetary in nature. Therefore, CTBI differs greatly from most commercial and industrial companies that have significant investment in nonmonetary 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.

We believe one of the most significant impacts on financial and operating results is our ability to react to changes in interest rates. We seek to maintain an essentially balanced position between interest rate 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, northeastern, 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.

The national and global economic downturn has resulted in unprecedented levels of financial market volatility and has in general adversely impacted the market value of financial institutions, limited access to capital and had an adverse effect on the financial condition and results of operations of banking companies in general, including CTBI. Although CTBI operated at a profit last year, CTBI is a part of the financial system and a continuation of systemic lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely impact CTBI's business, financial condition and results of operations.

Contractual Obligations and Commitments

As disclosed in the notes to the consolidated financial statements, we have certain obligations and commitments to make future payments under contracts. At December 31, 2008, 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	$ 1,087,140	$ 1,087,140	$ 0	$ 0
Certificates of deposit and other time deposits	1,244,694	1,141,492	101,845	1,357
Repurchase agreements and other short-term borrowings	168,914	161,562	7,352	0
Advances from Federal Home Loan Bank	60,727	60,056	641	30
Interest on advances from Federal Home Loan Bank*	1,428	1,419	6	3
Long-term debt	61,341	0	0	61,341
Interest on long-term debt*	113,984	3,999	15,998	93,987
Annual rental commitments under leases	11,335	1,692	5,025	4,618
Total	$ 2,749,563	$ 2,457,360	$ 130,867	$ 161,336

*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	$ 57,493	$ 52,066	$ 5,427	$ 0
Commitments to extend credit	424,258	334,020	85,101	5,137
Total	$ 481,751	$ 386,086	$ 90,528	$ 5,137

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

CTBI currently does not engage in any hedging activity or any derivative activity which management considers material. Analysis of CTBI'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

Community Trust Bancorp, Inc.
Consolidated Balance Sheets

(dollars in thousands) December 31	2008	2007
Assets:		
Cash and due from banks	$ 95,098	$ 105,209
Federal funds sold	45,880	32,041
Cash and cash equivalents	140,978	137,250
Securities available-for-sale at fair value		
(amortized cost of $265,999 and $325,879, respectively)	267,376	324,153
Securities held-to-maturity at amortized cost		
(fair value of $25,496 and $32,350, respectively)	25,597	32,959
Loans held for sale	623	2,334
Loans	2,348,651	2,227,897
Allowance for loan losses	(30,821)	(28,054)
Net loans	2,317,830	2,199,843
Premises and equipment, net	51,590	53,391
Federal Reserve Bank and Federal Home Loan Bank stock	29,040	28,060
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of $6,222 and		
$5,588, respectively)	1,282	1,917
Bank owned life insurance	24,135	23,285
Mortgage servicing rights	2,168	3,258
Other assets	28,853	31,175
Total assets	$ 2,954,531	$ 2,902,684
Liabilities and shareholders’ equity:		
Deposits		
Noninterest bearing	$ 450,360	$ 449,861
Interest bearing	1,881,474	1,843,303
Total deposits	2,331,834	2,293,164
Repurchase agreements	157,422	158,980
Federal funds purchased and other short-term borrowings	11,492	18,364
Advances from Federal Home Loan Bank	60,727	40,906
Long-term debt	61,341	61,341
Other liabilities	23,509	28,574
Total liabilities	2,646,325	2,601,329
Shareholders’ equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, $5 par value, shares authorized 25,000,000;		
shares outstanding 2008 – 15,066,248; 2007 – 15,044,124	75,331	75,221

Capital surplus	150,037	149,005
Retained earnings	81,943	78,251
Accumulated other comprehensive income (loss), net of tax	895	(1,122)
Total shareholders' equity	308,206	301,355
Total liabilities and shareholders' equity	$ 2,954,531	$ 2,902,684

See notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands except per share data) Year Ended December 31	2008	2007	2006
Interest income:			
Interest and fees on loans, including loans held for sale	$ 150,221	$ 171,307	$ 163,194
Interest and dividends on securities			
Taxable	12,635	17,384	18,916
Tax exempt	1,869	1,915	2,064
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	1,559	1,794	1,588
Other, including interest on federal funds sold	1,327	4,464	3,543
Total interest income	167,611	196,864	189,305
Interest expense:			
Interest on deposits	53,849	75,637	63,856
Interest on repurchase agreements and other short-term borrowings	4,424	8,429	8,620
Interest on advances from Federal Home Loan Bank	1,701	2,402	3,648
Interest on long-term debt	4,000	4,364	5,414
Total interest expense	63,974	90,832	81,538
Net interest income	103,637	106,032	107,767
Provision for loan losses	11,452	6,540	4,305
Net interest income after provision for loan losses	92,185	99,492	103,462
Noninterest income:			
Service charges on deposit accounts	21,886	21,003	20,162
Gains on sales of loans, net	1,583	1,338	1,265
Trust income	4,929	4,859	3,743
Loan related fees	2,045	3,196	2,473
Bank owned life insurance	1,008	1,108	1,035
Securities losses/other than temporary impairment	(14,564)	0	0
Other	4,880	5,104	3,881
Total noninterest income	21,767	36,608	32,559
Noninterest expense:			
Salaries and employee benefits	42,223	42,298	44,145
Occupancy, net	6,787	6,713	6,420
Equipment	4,356	4,896	5,047
Data processing	5,634	4,951	3,733
Bank franchise tax	3,596	3,464	3,261
Legal and professional fees	3,066	3,178	2,816
Other	16,870	17,555	14,985
Total noninterest expense	82,532	83,055	80,407
Income before income taxes	31,420	53,045	55,614
Income taxes	8,347	16,418	16,550
Net income	$ 23,073	$ 36,627	$ 39,064

Basic earnings per share	$ 1.54	$ 2.42	$ 2.59
Diluted earnings per share	1.52	2.38	2.55

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, 2006	14,997,369	$ 74,987	$ 147,626	$ 35,667	$ (4,335)	$ 253,945
Net income				39,064		39,064
Net change in unrealized gain/loss on securities available-for-sale, net of tax of ($579)					1,075	1,075
Comprehensive income						40,139
Cash dividends declared ($1.05 per share)				(15,852)		(15,852)
Issuance of common stock	160,807	804	2,378			3,182
Stock-based compensation and related excess tax benefits			961			961
Balance, December 31, 2006	15,158,176	75,791	150,965	58,879	(3,260)	282,375
Net income				36,627		36,627
Net change in unrealized gain/loss on securities available-for-sale, net of tax of ($1,152)					2,138	2,138
Comprehensive income						38,765
Cumulative effect – application of new accounting standards (SFAS 156 and FIN 48)				(621)		(621)
Cash dividends declared ($1.10 per share)				(16,634)		(16,634)
Issuance of common stock	82,448	412	2,348			2,760
Purchase of common stock	(196,500)	(982)	(5,203)			(6,185)
Stock-based compensation and related excess tax benefits			895			895
Balance, December 31, 2007	15,044,124	75,221	149,005	78,251	(1,122)	301,355
Net income				23,073		23,073
Net change in unrealized gain/loss on securities available-for-sale, net of tax of ($1,086)					2,017	2,017
Comprehensive income						25,090
Cumulative effect – application of new accounting standards (EITF 06-4)				(1,820)		(1,820)
Cash dividends declared ($1.17 per share)				(17,561)		(17,561)
Issuance of common stock	115,624	578	2,153			2,731

Purchase of common stock	(93,500)	(468)	(2,163)			(2,631)
Stock-based compensation and related excess tax benefits			1,042			1,042
Balance, December 31, 2008	15,066,248	$ 75,331	$ 150,037	$ 81,943	$ 895	$ 308,206

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands) Year Ended December 31	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 23,073	$ 36,627	$ 39,064
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,106	5,665	5,819
Change in net deferred tax liability	(5,329)	955	4,193
Stock-based compensation	712	649	711
Excess tax benefits of stock-based compensation	330	245	250
Provision for loan and other real estate losses	11,718	6,979	4,616
Securities losses/other than temporary impairment charges	14,564	0	0
Gains on sale of mortgage loans held for sale	(1,584)	(1,338)	(1,265)
Gains (losses) on sale of assets, net	370	65	(5)
Proceeds from sale of mortgage loans held for sale	83,678	74,578	64,943
Funding of mortgage loans held for sale	(80,383)	(74,143)	(64,974)
Amortization of securities premiums, net	(156)	518	957
Change in cash surrender value of bank owned life insurance	(850)	(957)	(868)
Amortization/impairment of mortgage servicing rights	0	0	591
Fair value adjustments of mortgage servicing rights	1,503	558	0
Amortization/write-off of debt issuance costs	0	1,950	87
Changes in:			
Other liabilities	(2,471)	(504)	4,401
Other assets	4,481	(851)	(2,787)
Net cash provided by operating activities	54,762	50,996	55,733
Cash flows from investing activities:			
Securities available-for-sale:			
Proceeds from sales	30,100	130,400	128,900
Proceeds from prepayments and maturities	72,597	48,315	58,754
Purchase of securities	(57,271)	(74,177)	(218,446)
Securities held-to-maturity:			
Proceeds from prepayments and maturities	7,408	7,481	7,800
Proceeds from sale of loans	0	0	105
Change in loans, net	(136,464)	(73,690)	(68,573)
Purchase of premises, equipment, and other real estate	(3,184)	(2,757)	(3,197)
Proceeds from sale of premises and equipment	14	18	378
Additional investment in equity securities	(980)	(33)	0
Redemption of investment in unconsolidated subsidiaries	0	1,841	0
Investment in unconsolidated subsidiaries	0	(1,841)	0
Proceeds from sale of other real estate and repossessed assets	4,447	3,173	2,821
Additions in other real estate owned	(130)	(21)	(73)
Additional investment in bank owned life insurance	0	(1,391)	0
Net cash provided by (used in) investing activities	(83,463)	37,318	(91,636)
Cash flows from financing activities:			
Change in deposits, net	38,670	(48,003)	94,616

Change in repurchase agreements and other short-term borrowings, net	(8,430)	(226)	30,929
Advances from Federal Home Loan Bank	20,000	0	0
Payments on advances from Federal Home Loan Bank	(179)	(40,339)	(41,589)
Payment for redemption of junior subordinated debentures	0	(61,341)	0
Issuance of junior subordinated debentures	0	61,341	0
Issuance of common stock	2,731	2,760	3,182
Purchase of common stock	(2,631)	(6,185)	0
Excess tax benefits of stock-based compensation	(330)	(245)	(250)
Dividends paid	(17,402)	(16,364)	(15,658)
Net cash provided by (used in) financing activities	32,429	(108,602)	71,230
Net increase (decrease) in cash and cash equivalents	3,728	(20,288)	35,327
Cash and cash equivalents at beginning of year	137,250	157,538	122,211
Cash and cash equivalents at end of year	$ 140,978	$ 137,250	$ 157,538
Supplemental disclosures:			
Income taxes paid	$ 16,428	$ 10,913	$ 13,763
Interest paid	65,240	91,237	79,624
Non-cash activities			
Loans to facilitate the sale of other real estate owned and other repossessed assets	970	730	713
Common stock dividends accrued, paid in subsequent quarter	4,523	4,363	4,093
Real estate acquired in settlement of loans	7,995	7,488	2,784
Other than temporary impairment of investment securities	14,514	0	0

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. (“CTBI”) and its subsidiaries, including its principal subsidiary, Community Trust Bank, Inc. (the “Bank”). Intercompany transactions and accounts have been eliminated in consolidation.

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 our business offices and the majority of our business are located in eastern, northeastern, central, and south central Kentucky and southern West Virginia.

Use of Estimates – 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 and lease losses, fair value of securities and mortgage servicing rights, and goodwill (the excess of cost over net assets acquired).

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. We classify securities into held-to-maturity, trading, or available-for-sale categories. Held-to-maturity securities are those which we have the positive intent and ability to hold to maturity and are reported at amortized cost. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, Accounting for Certain Investments in Debt and Equity Securities, investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values shall be classified in one of the following categories and measured at fair value in the statement of financial position:

a. Trading securities. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) shall be classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.

b. Available-for-sale securities. Investments not classified as trading securities (nor as held-to-maturity securities) shall be classified as available-for-sale securities.

We do not have any securities that are classified as trading securities. 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.

Available-for-Sale Securities – Available-for-sale securities are valued using the following valuation techniques:

Securities Available-for-Sale – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Securities Available-for-Sale – Level 3 Inputs. The securities owned by CTBI that were measured using Level 3 criteria are auction rate securities issued by FNMA and FHLMC. These securities were valued using an independent third party. For these securities, the valuation methods used were (1) a discounted cash flow model valuation, where the expected cash flows of the securities are discounted to the present using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities. Using these methods, the auction rate securities are classified as Level 3.

Loans – Loans with the ability and the intent to be held until maturity and/or payoff are reported at the carrying value of unpaid principal reduced by unearned interest and an allowance for loan and lease 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.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized over the estimated life of the related loans, leases, or commitments as a yield adjustment.

Allowance for Loan and Lease Losses – We maintain an allowance for loan and lease losses (“ALLL”) at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Since arriving at an appropriate ALLL involves a high degree of management judgment, we use an ongoing quarterly analysis to develop a range of estimated losses. In accordance with accounting principles generally accepted in the United States, we use our best estimate within the range of potential credit loss to determine the appropriate ALLL. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower’s cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as SFAS 114, Accounting by Creditors for Impairment of a Loan. We evaluate the collectibility of both principal and interest when assessing the need for loss provision. Historical loss rates are applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ALLL for these loans is measured under SFAS 5, Accounting for Contingencies. The ALLL allocation for these pools of loans is established based on the average, maximum, minimum, and median loss ratios over the previous eight quarters.

Historical loss rates for commercial and retail loans are adjusted for significant factors that, in management’s judgment, reflect the impact of any current conditions on loss recognition. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge offs, trend in loan losses, industry concentrations and their relative strengths, amount of unsecured loans and underwriting exceptions. These factors are reviewed quarterly and a weighted range developed with a "most likely" scenario determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL 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.

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. Premises and equipment are evaluated for impairment on a quarterly basis.

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 CTBI included in other assets at December 31, 2008 and 2007 was $10.4 million and $7.9 million, respectively.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon SFAS 142, Goodwill and Other Intangible Assets and SFAS 147, Acquisitions of Certain Financial Institutions, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

Amortization of core deposit intangible is estimated at approximately $0.6 million annually for year one, approximately $0.4 million in year two, and approximately $0.1 million in years three and four.

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, excluding restricted shares.

Diluted EPS adjusts the number of weighted average shares of common stock outstanding by the dilutive effect of stock options, including restricted shares, as prescribed in SFAS 123R.

Segments – Management analyzes the operation of CTBI assuming one operating segment, community banking services. CTBI, 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 – CTBI's bank owned life insurance policies are carried at their cash surrender value. We recognize tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Mortgage Servicing Rights – Mortgage servicing rights (“MSRs”) are carried at fair market value with the implementation of SFAS 156 in January 2007. MSRs are valued using Level 3 inputs as defined in SFAS 157. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including 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. MSRs are a component of other assets. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

Stock Options – At December 31, 2008 and 2007, CTBI had a share-based employee compensation plan, which is described more fully in note 13. CTBI accounts for this plan under the recognition and measurement principles of SFAS 123R, Share-Based Payment.

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

New Accounting Standards –

Ø Determining the Fair Value of a Financial Asset When the Market For That Asset is Not Active – FASB Staff Position (“FSP”) No. FAS 157-3 clarifies the application of FASB No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective October 10, 2008.

Ø Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities – This FASB Staff Position No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This FSP is effective January 1, 2009, and is not expected to have a significant impact on our consolidated financial statements.

Ø Fair Value Option for Financial Assets and Financial Liabilities – In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB’s long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. CTBI has not elected the fair value option for any financial assets or liabilities.

Ø Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards – On June 14, 2007, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. This consensus was ratified by FASB on June 27, 2007. This issue states that tax benefits received on dividends paid to employees associated with their unvested stock compensation awards should be recorded in additional paid-in capital (“APIC”) for awards expected to vest. Currently, such dividends are accounted for as a permanent tax deduction reducing the annual effective income tax rate. This issue is to be applied prospectively to dividends declared in fiscal years beginning after December 15, 2007. Retrospective application of this Issue is prohibited. Issue No. 06-11 did not have a material effect on our consolidated financial statements.

Ø Business Combinations (Revised 2007) – The FASB recently issued SFAS 141(R), which replaces FAS 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities, and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting, and instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. This Statement defines a bargain purchase as a business combination in which the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and it requires the acquirer to recognize that excess in earnings as a gain attributable to the acquirer. In contrast, Statement 141 required the "negative goodwill" amount to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired. SFAS 141R is expected to have a significant impact on our accounting for business combinations closing on or after January 1, 2009.

Ø Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements – EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements requires, effective January 1, 2008, the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. CTBI adopted EITF 06-4 as a change in accounting principle through a $1.8 million cumulative-effect adjustment to retained earnings based on the cost of insurance.

2. Cash and Due from Banks

Included in cash and due from banks are 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 $41.3 million and $38.6 million at December 31, 2008 and 2007, respectively.

3. Securities

Amortized cost and fair value of securities at December 31, 2008 are as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$ 18,330	$ 576	$ 0	$ 18,906

State and political subdivisions		39,738		757		(651)		39,844
U.S. government sponsored agencies and mortgage-backed pass through certificates		187,390		1,305		(390)		188,305
Collateralized mortgage obligations		1		0		0		1
Other debt securities		20,000		0		(220)		19,780
Total debt securities		265,459		2,638		(1,261)		266,836
Marketable equity securities		540		0		0		540
	$	265,999	$	2,638	$	(1,261)	$	267,376

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value