

COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 14, 2013

UNITED STATES

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

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, 2012

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	41501 (Zip Code)
(address of principal executive offices)	

(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

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

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

Yes

No

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

Yes

No

Indicate by check mark 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 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

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, 2012 was \$493.3 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, 2013 was 15,640,590.

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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 23, 2013	Part III

CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS

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

PART I

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. Currently, CTBI owns 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, southern West Virginia, and northeastern Tennessee. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky and the trust company is Community Trust and Investment Company, Lexington, Kentucky.

At December 31, 2012, CTBI had total consolidated assets of \$3.6 billion and total consolidated deposits, including repurchase agreements, of \$3.1 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 and wealth management 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, wealth management, 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.

The United States and global markets, as well as general economic conditions, have been disruptive and volatile. Some financial institutions have failed and others have been forced to seek acquisition partners. Larger financial institutions 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 18 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, 2012, CTBI and subsidiaries had 1,035 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 management and employee incentive compensation plans are available to all eligible personnel.

SUPERVISION AND REGULATION

General

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.

Community Trust Bank, Inc. ("CTB") 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. Community Trust and Investment Company is also regulated by the Kentucky Department of Financial Institutions and the Federal Reserve.

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

The operations of CTBI and our subsidiaries are also 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This law has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act has required various federal agencies to adopt a broad range of implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown.

Certain provisions of the Dodd-Frank Act that are relevant to us:

- Broadened the base for FDIC insurance assessments, eliminated the ceiling and increased the size of the floor of the Deposit Insurance Fund, and offset the impact of the minimum floor on institutions with less than \$10 billion in assets. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution.
- Removed the federal prohibition on payment of interest on demand deposits, thereby permitting businesses to have interest bearing checking accounts.
- Require capital regulations which call for higher levels of capital. The same leverage and risk based capital requirements that apply to depository institutions now apply to holding companies. New issuances of trust preferred securities are no longer eligible to qualify as Tier 1 capital. However, CTBI's currently outstanding trust preferred securities are grandfathered and are still considered in Tier 1 capital under the regulations. Under Dodd-Frank, and previously under Federal Reserve policy, we are required to act as a source of financial strength for our bank subsidiary and to commit sufficient resources to support it.

- Created an agency, the Consumer Financial Protection Bureau (Bureau), responsible for the implementation of federal consumer protection laws. The Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The term “abusive” is relatively new and untested, and we cannot predict how it will be interpreted and enforced. Although insured depository institutions with assets of \$10 billion or less (such as CTB) will continue to be supervised and examined by their primary federal regulators, rather than the Bureau, with respect to compliance with federal consumer protection laws, any change in regulatory environment may have a negative impact on all financial institutions. In February 2012, the Bureau announced that it was launching an inquiry into industry checking account overdraft programs to determine how these practices are impacting consumers. The full reach and the impact of the Bureau’s inquiries and rulemaking powers on the operations of financial institutions are currently unknown.
- Permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, with noninterest bearing transaction accounts and IOLTA accounts having unlimited deposit insurance through December 31, 2012. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but will be FDIC-insured up to the legal maximum of \$250,000 for each ownership category.
- Increased the authority of the Federal Reserve Board to examine CTBI and its non-bank subsidiaries and gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction.
- Restrict proprietary trading by banks, bank holding companies and others, and their acquisition and retention of ownership interests in and sponsorship of hedge funds and private equity funds, subject to an exception allowing a bank to organize and offer hedge funds and private equity funds to customers if certain conditions are met, including, among others, a requirement that the bank limit its ownership interest in any single fund to 3%, and its aggregate investment in all funds to 3%, of Tier 1 capital, with no director or employee of the bank holding an ownership interest in the fund unless he or she provides services directly to the funds.
- Require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments in mergers and acquisitions. The legislation also directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.
- Imposed restrictions related to mortgage lending, such as minimum underwriting standards, requiring certain loan provision qualifications, limitations on mortgage terms, and additional disclosures to mortgage borrowers and prohibits certain yield-spread compensation to mortgage originators. Proposed new rules under this requirement have been issued for comment.
- Permits banks to establish de novo interstate branches at a location where a bank based in that state could establish a branch, and requires banks and bank holding companies to be well-capitalized and well-managed in order to acquire banks outside their home state.

With the appointment of a director for the Consumer Financial Protection Bureau (“CFPB”) in January 2012, the CFPB began to exercise its full authority under the Dodd-Frank Act. For example, the CFPB completed its first public enforcement actions regarding unfair, deceptive, or abusive practices in connection with marketing, sales, and operations of certain add-on products offered in connection with credit cards. Furthermore, in 2012 the CFPB issued its first major regulation, which covers remittance transfers (international wire transfers) by consumers, which should

take effect later in 2013.

In mid-January 2013, the CFPB issued eight final regulations governing consumer mortgage lending. The first of these rules was issued on January 10, 2013, and included the ability to repay and qualified mortgage rule. This rule will impose additional requirements, including rules designed to require lenders to ensure borrowers' ability to repay their mortgage. The same day, the CFPB also finalized a rule on escrow accounts for high-cost mortgages and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. On January 17, 2013, the CFPB issued its final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing, which will take effect on January 10, 2014. On January 18, 2013, the CFPB issued a final appraisal rule under the Equal Credit Opportunity Act and six agencies including the CFPB, the Federal Reserve Board, the Office of the Comptroller of the Currency, the FDIC, the National Credit Union Administration, and the Federal Housing Finance Agency issued an interagency rule on appraisals for higher-priced mortgage loans. A final rule on loan originator compensation was released on January 20, 2013, and the industry expects a final rule on integrated mortgage disclosures within the next year. Management does not expect these new rules to have a material impact on CTBI.

Basel III Proposal

In the summer of 2012, our primary federal regulators published two notices of proposed rulemaking (the "2012 Capital Proposals") that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including CTBI and CTB, compared to the current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision (the "Basel Committee") which are generally referred to as "Basel I."

One of the 2012 Capital Proposals (the "Basel III Proposal") addresses the components of capital and other issues affecting the numerator in banking institutions' regulatory capital ratios, and would implement the Basel Committee's December 2010 framework, known as "Basel III," for strengthening international capital standards. The other proposal (the "Standardized Approach Proposal") addresses risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios, and would replace the existing Basel I-derived risk weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. Although the Basel III Proposal was proposed to come into effect on January 1, 2013, the federal banking agencies jointly announced on November 9, 2012 that they do not expect any of the proposed rules to become effective on that date. As proposed, the Standardized Approach Proposal would come into effect on January 1, 2015.

The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

It is management's belief that, as of December 31, 2012, CTBI and CTB would meet all capital adequacy requirements under the Basel III and Standardized Approach Proposals on a fully phased-in basis if such requirements were currently effective. The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by our regulators.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk

factors. See also, “Cautionary Statement Regarding Forward-Looking Statements.” If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Economic Risk

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

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 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. From early 2008 to the middle of 2010, we experienced significant challenges, credit quality deteriorated, and net income and results of operations were adversely impacted. While there has been some improvement in economic conditions in our markets starting in the second half of 2010 and continuing through 2012, we believe that we will continue to experience a challenging environment in 2013. We are part of the financial system and a lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely impact our 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 implemented and continue to be developed and implemented to address economic stabilization, yet the efficacy of these programs in stabilizing the economy and the banking system is still 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 ongoing weaknesses in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Our profits depend on providing products and services to clients in these local regions. Although some of these regions have experienced decreases in unemployment and improved real estate values, unemployment rates remain high and real estate values remain depressed. Recent economic conditions in the coal and natural gas industry are resulting in increased unemployment in the markets where coal is a major contributor to the economy. Further increases in unemployment, decreases in real estate values, or increases in interest rates could weaken the local economies in which we operate. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. A continuation of high levels of unemployment and depressed real estate asset values in the markets we serve would likely prolong the economic recovery period in our market area. Weakness in our market area could depress our earnings and consequently our financial condition because:

- Clients may not want, need, or qualify for 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 financial 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.

Liquidity Risk

CTBI is subject to liquidity risk.

CTBI requires liquidity to meet its deposit and debt obligations as they come due and to fund loan demands. CTBI's access to funding sources in amounts adequate to finance its activities or on terms that are acceptable to it could be impaired by factors that affect it specifically or the financial services industry or economy in general. Factors that could reduce its access to liquidity sources include a downturn in the market, difficult credit markets, or adverse regulatory actions against CTBI. CTBI's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of CTBI's liabilities are demand, savings, interest checking, and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. Although CTBI historically has been able to replace maturing deposits and advances as necessary, it might not be able to replace such funds in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could have a material adverse effect on our financial condition and results of operations.

Banking Reform

Our business may be adversely affected by “banking reform” legislation.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This law has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act has required various federal agencies to adopt a broad range of implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown. This legislation includes, among other things: (i) changes in the manner in which the FDIC deposit insurance assessments are computed and an increase in the minimum designated reserve ratio for the Deposit Insurance Fund; (ii) authorization of interest-bearing demand deposits; (iii) requirements for capital regulations applicable to banks and bank holding companies which call for higher levels of capital; (iv) creation of the Consumer Financial Protection Bureau, responsible for implementation of federal consumer protection laws which affect banks and bank holding companies; (v) a permanent increase in the maximum amount of deposit insurance for banks; (vi) a prohibition of certain proprietary trading and equity investment activities by banks; (vii) restrictions related to mortgage lending; (viii) allowance of de novo interstate branching; and (ix) additional corporate governance provisions relating to non-binding shareholder votes on executive compensation and rules prohibiting incentive compensation that encourages inappropriate risks.

Many aspects of the Dodd-Frank Act are subject to rulemaking and take effect over several years, making it difficult to anticipate the overall financial impact on CTBI. However, compliance with this law and its implementing regulations will result in additional operating costs that could have a material adverse effect on our financial condition and results of operations.

In the summer of 2012, our primary federal regulators published two notices of proposed rulemaking that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including CTBI and CTB, compared to the current U.S. risk-based capital rules. One of the proposals addresses the components of capital and other issues affecting the numerator in banking institutions’ regulatory capital ratios, and the other addresses risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios, and would replace the existing approach with a more risk-sensitive approach. The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

In November 2012, the federal banking agencies announced that they did not expect any of the proposed rules to become effective on January 1, 2013 as originally proposed. The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by our regulators.

Government Policies and Oversight

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

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.

Many states and municipalities are experiencing financial stress due to the economy. As a result, various levels of government have sought to increase their tax revenues through increased tax levies, which could have an adverse impact on our results of operations.

Federal banking regulators are increasing regulatory scrutiny, and additional limitations (including those contained in the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. 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.

We are involved from time to time in examinations, reviews, and investigations (both formal and informal) by governmental and regulatory authorities regarding our business. These matters could result in adverse judgments, settlements, fines, penalties, injunctions, and other relief.

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.

Our loan portfolio includes loans with a higher risk of loss.

We originate commercial real estate loans, construction and development loans, consumer loans, and residential mortgage loans, primarily within our market area. Commercial real estate, commercial, and construction and development loans tend to involve larger loan balances to a single borrower or groups of related borrowers and are most susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had a greater credit risk than other loans for the following reasons:

- **Commercial Real Estate Loans.** Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. As of December 31, 2012, commercial real estate loans, including multi-family loans, comprised approximately 36% of our total loan portfolio.
- **Other Commercial Loans.** Repayment is generally dependent upon the successful operation of the borrower’s business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2012, other commercial loans comprised approximately 15% of our total loan portfolio.
- **Construction and Development Loans.** The risk of loss is largely dependent on our initial estimate of whether the property’s value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2012, construction and development loans comprised approximately 7% of our total loan portfolio.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans, particularly when the consumer loan is unsecured. Repayment of a consumer loan typically depends on the borrower's financial stability, and it is more likely to be affected adversely by job loss, illness, or personal bankruptcy. Economic conditions in the coal and natural gas industry are resulting in increases in unemployment in many of our market areas, which is likely to impact the repayment risk associated with our consumer loans. In addition, federal and state bankruptcy, insolvency, and other laws may limit the amount we can recover when a consumer client defaults. As of December 31, 2012, consumer loans comprised approximately 16% of our total loan portfolio.

A significant part of our lending business is focused on small to medium-sized business which may be impacted more severely during periods of economic weakness.

A significant portion of our commercial loan portfolio is tied to small to medium-sized businesses in our markets. During periods of economic weakness, small to medium-sized businesses may be impacted more severely than larger businesses. As a result, the ability of smaller businesses to repay their loans may deteriorate, particularly if economic challenges persist over a period of time, and such deterioration would adversely impact our results of operations and financial condition.

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Continued weakness in the real estate market or other segments of our loan portfolio would lead to additional losses, which could have a material adverse effect on our business, financial condition, and results of operations.

As of December 31, 2012, approximately 69% of our loan portfolio is secured by real estate, 36% of which is commercial real estate. High levels of commercial and consumer delinquencies or further declines in real estate market values could require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition, and results of operations and prospects.

While we have seen a decline in our level of other real estate owned, it still remains above our historical norm, primarily as a result of foreclosures. To the extent that we continue to hold a higher level of real estate owned, related real estate expense would likely increase.

During the recent economic downturn, we experienced an increase in nonperforming real estate loans. As a result, we have experienced, and we continue to experience, an increase in the level of foreclosed properties. Foreclosed real estate expense consists of maintenance costs, taxes, valuation adjustments to appraisal values, and gains or losses on disposition. The amount that we may realize after a default is dependent upon factors outside of our control, including but not limited to: (i) general and local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations, and fiscal policies; (x) potential vandalism; and (xi) acts of God. Expenditures associated with the ownership of real estate, such as real estate taxes, insurance, and maintenance costs, may adversely affect income from the real estate. The cost of operating real property may exceed the income earned from the property, and we may need to advance funds in order to protect our investment in the property, or we may be required to dispose of the property at a loss. If our levels of other real estate owned increase or are sustained and local real estate values decline, our foreclosed real estate expense will increase, which would adversely impact our results of operations.

Environmental Liability Risk

We are subject to environmental liability risk associated with lending activity.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial

expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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 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.

We may experience difficulty in making acquisitions on acceptable terms due to the decreasing number of suitable acquisition targets, competition for attractive acquisitions, and certain limitations on interstate acquisitions.

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;
- News reports of trends, concerns, and other issues related to the financial services industry; and
- Additional governmental policies and enforcement of current laws.

Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to CTBI's performance. The financial crisis has impacted 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

(in thousands)	2012			2011			2010		
	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	\$2,549,459	\$138,172	5.42 %	\$2,580,351	\$145,178	5.63 %	\$2,461,225	\$142,519	5.79 %
Loans held for sale	1,434	198	13.81	749	112	14.95	1,040	111	10.67
Securities:									
U.S. Treasury and agencies	480,562	10,292	2.14	350,612	8,992	2.56	249,835	7,983	3.20
Tax exempt state and political subdivisions									
(3)	69,773	3,191	4.57	51,565	2,634	5.11	43,128	2,456	5.69
Other securities	54,664	1,717	3.14	30,492	1,141	3.74	36,927	951	2.58
Federal Reserve Bank and Federal Home Loan Bank stock	30,557	1,433	4.69	30,412	1,374	4.52	29,183	1,351	4.63
Federal funds sold	3,372	11	0.33	31,000	84	0.27	89,598	234	0.26
Interest bearing deposits	155,233	379	0.24	132,269	315	0.24	37,989	85	0.22
Other investments	10,229	91	0.89	12,342	87	0.70	11,190	77	0.69
Investment in unconsolidated subsidiaries	1,851	72	3.89	1,856	120	6.47	1,856	120	6.47
Total earning assets	3,357,134	\$155,556	4.63 %	3,221,648	\$160,037	4.97 %	2,961,971	\$155,887	5.26 %
Allowance for loan and lease losses	(33,781)			(35,808)			(35,741)		
	3,323,353			3,185,840			2,926,230		
Nonearning assets:									
Cash and due from banks	62,807			70,239			66,740		
Premises and equipment, net	54,962			55,445			49,468		

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Other assets	200,538	194,379	177,649
Total assets	\$3,641,660	\$3,505,903	\$3,220,087

	2012			2011			2010		
(in thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	\$ 878,825	\$ 2,894	0.33 %	\$ 777,639	\$ 2,824	0.36 %	\$ 668,255	\$ 3,074	0.46 %
Time deposits	1,445,018	15,017	1.04	1,460,627	18,458	1.26	1,392,510	26,078	1.87
Repurchase agreements and federal funds purchased	222,872	1,240	0.56	219,040	1,625	0.74	198,880	2,027	1.02
Advances from Federal Home Loan Bank	2,439	34	1.39	21,670	99	0.46	20,286	79	0.39
Long-term debt	61,341	2,403	3.92	61,341	3,999	6.52	61,341	3,999	6.52
Total interest bearing liabilities	2,610,495	\$ 21,588	0.83 %	2,540,317	\$ 27,005	1.06 %	2,341,272	\$ 35,257	1.51 %
Noninterest bearing liabilities:									
Demand deposits	604,736			573,067			514,196		
Other liabilities	37,052			36,746			30,974		
Total liabilities	3,252,283			3,150,130			2,886,442		
Shareholders' equity	389,377			355,773			333,645		
Total liabilities and shareholders' equity	\$ 3,641,660			\$ 3,505,903			\$ 3,220,087		
Net interest income, tax equivalent		\$ 133,968			\$ 133,032			\$ 120,630	

Less tax equivalent interest income	1,834	1,577	1,376
Net interest income	\$ 132,134	\$ 131,455	\$ 119,254
Net interest spread	3.80 %	3.91 %	3.75 %
Benefit of interest free funding	0.19	0.22	0.32
Net interest margin	3.99 %	4.13 %	4.07 %

(1) Interest includes fees on loans of \$1,954, \$1,889, and \$1,766 in 2012, 2011, and 2010, respectively.

(2) Loan balances include deferred loan origination costs and 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 2012 and 2011 and also between 2011 and 2010.

(in thousands)	Total Change 2012/2011	Change Due to		Total Change 2011/2010	Change Due to	
		Volume	Rate		Volume	Rate
Interest income:						
Loans	\$(7,006)	\$(1,754)	\$(5,252)	\$2,659	\$6,775	\$(4,116)
Loans held for sale	86	95	(9)	1	(26)	27
U.S. Treasury and agencies	1,300	2,952	(1,652)	1,009	2,793	(1,784)
Tax exempt state and political subdivisions						
Other securities	557	855	(298)	178	448	(270)
Federal Reserve Bank and Federal Home Loan Bank stock	59	7	52	23	56	(33)
Federal funds sold	(73)	(62)	(11)	(150)	(148)	(2)
Interest bearing deposits	64	56	8	230	224	6
Other investments	4	(13)	17	10	8	2
Investment in unconsolidated subsidiaries						
Total interest income	(4,481)	2,920	(7,401)	4,150	9,985	(5,835)
Interest expense:						
Savings and demand deposits	70	348	(278)	(250)	457	(707)
Time deposits	(3,441)	(199)	(3,242)	(7,620)	1,221	(8,841)
Repurchase agreements and federal funds purchased						
Advances from Federal Home Loan Bank	(385)	28	(413)	(402)	190	(592)
Long-term debt	(65)	(33)	(32)	20	6	14
Total interest expense	(1,596)	0	(1,596)	0	0	0
Total interest expense	(5,417)	144	(5,561)	(8,252)	1,874	(10,126)
Net interest income	\$936	\$2,776	\$(1,840)	\$12,402	\$8,111	\$4,291

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, 2012 are as follows:

Available-for-sale

Estimated Maturity at December 31, 2012						Amortized Cost
Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total Fair Value		

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(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$517	0.99%	\$22,504	2.71%	\$97,933	2.14%	\$323,542	2.39%	\$444,496	2.35%	\$430,871
State and political subdivisions	5,968	5.17	15,501	3.53	53,826	4.03	37,926	4.52	113,221	4.18	107,987
Other securities	0	0.00	45,626	3.38	0	0.00	0	0.00	45,626	3.38	45,000
Total	\$6,485	4.84%	\$83,631	3.23%	\$151,759	2.81%	\$361,468	2.61%	\$603,343	2.77%	\$583,858

Held-to-maturity

Estimated Maturity at December 31, 2012											
(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$0	0.00 %	\$0	0.00 %	\$0	0.00 %	\$480	2.48 %	\$480	2.48 %	\$476
State and political subdivisions	0	0.00	0	0.00	1,182	4.30	0	0.00	1,182	4.30	1,183
Total	\$0	0.00 %	\$0	0.00 %	\$1,182	4.30 %	\$480	2.48 %	\$1,662	3.78 %	\$1,659

Total Securities

Estimated Maturity at December 31, 2012											
(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Book Value		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Total	\$6,485	4.84%	\$83,631	3.23%	\$152,941	2.82%	\$361,948	2.61%	\$605,005	2.77%	\$605,002

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.

Excluding those holdings of the investment portfolio in U.S. Treasury securities, government agencies, and government sponsored agency mortgage-backed securities, there were no securities of any one issuer that exceeded 10% of our shareholders' equity at December 31, 2012.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2012 and 2011 are presented in note 3 to the consolidated financial statements.

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The book value of securities at December 31, 2010 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	\$ 29,154	\$ 480
State and political subdivisions	52,017	1,182
U.S. government sponsored agency mortgage-backed securities	230,905	0
Total debt securities	312,076	1,662
Marketable equity securities	20,582	0
Total securities	\$ 332,658	\$ 1,662

Loan Portfolio

(in thousands)	2012	2011	2010	2009	2008
Commercial:					
Construction	\$ 119,447	\$ 120,577	\$ 135,091	\$ 141,440	\$ 156,425
Secured by real estate	807,213	798,887	807,049	707,500	663,663
Equipment lease financing	9,246	9,706	14,151	20,048	12,343
Commercial other	376,348	374,597	388,746	373,829	365,685
Total commercial	1,312,254	1,303,767	1,345,037	1,242,817	1,198,116
Residential:					
Real estate construction	55,041	53,534	56,910	51,311	56,298
Real estate mortgage	696,928	650,075	623,851	528,592	524,827
Home equity	82,292	84,841	85,103	82,135	84,567
Total residential	834,261	788,450	765,864	662,038	665,692
Consumer:					
Consumer direct	122,581	123,949	126,046	115,555	117,186
Consumer indirect	281,477	340,382	368,233	415,350	367,657
Total consumer	404,058	464,331	494,279	530,905	484,843
Total loans	\$2,550,573	\$2,556,548	\$2,605,180	\$2,435,760	\$2,348,651

Percent of total year-end loans

Commercial:										
Construction	4.68	%	4.72	%	5.19	%	5.80	%	6.65	%
Secured by real estate	31.65		31.25		30.98		29.05		28.26	
Equipment lease financing	0.36		0.38		0.54		0.82		0.53	
Commercial other	14.76		14.65		14.92		15.35		15.57	
Total commercial	51.45		51.00		51.63		51.02		51.01	
Residential:										
Real estate construction	2.16		2.09		2.18		2.11		2.40	
Real estate mortgage	27.32		25.43		23.95		21.70		22.35	
Home equity	3.23		3.32		3.27		3.37		3.60	
Total residential	32.71		30.84		29.40		27.18		28.35	
Consumer:										
Consumer direct	4.80		4.85		4.84		4.74		4.99	
Consumer indirect	11.04		13.31		14.13		17.06		15.65	
Total consumer	15.84		18.16		18.97		21.80		20.64	

Total loans	100.00	%	100.00	%	100.00	%	100.00	%	100.00	%
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The total loans above are net of deferred loan fees and costs.

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).

(in thousands)	Maturity at December 31, 2012			
	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	\$236,194	\$232,935	\$714,432	\$1,183,561
Commercial and real estate construction	92,995	22,136	59,357	174,488
	\$329,189	\$255,071	\$773,789	\$1,358,049
Rate sensitivity:				
Fixed rate	\$69,997	\$49,044	\$103,689	\$222,730
Adjustable rate	259,192	206,027	670,100	1,135,319
	\$329,189	\$255,071	\$773,789	\$1,358,049

Nonperforming Assets

(in thousands)	2012	2011	2010	2009	2008
Nonaccrual loans	\$16,791	\$25,753	\$45,021	\$32,247	\$40,945
90 days or more past due and still accruing interest	19,215	11,515	17,014	9,067	11,245
Total nonperforming loans	36,006	37,268	62,035	41,314	52,190
Other repossessed assets	5	58	129	276	239
Foreclosed properties	46,986	56,545	42,935	37,333	10,425
Total nonperforming assets	\$82,997	\$93,871	\$105,099	\$78,923	\$62,854

Nonperforming assets to total loans and foreclosed properties	3.20	%	3.59	%	3.97	%	3.19	%	2.66	%
Allowance to nonperforming loans	92.33	%	89.01	%	56.10	%	79.01	%	59.06	%

Nonaccrual and Past Due Loans

(in thousands)	Nonaccrual 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, 2012					
Commercial construction	\$ 5,955	4.99 %	\$ 3,778	3.16 %	\$ 119,447
Commercial secured by real estate	5,572	0.69	5,943	0.74	807,213
Equipment lease financing	0	0.00	0	0.00	9,246
Commercial other	1,655	0.44	3,867	1.03	376,348

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Real estate construction	315	0.57	196	0.36	55,041
Real estate mortgage	3,153	0.45	4,511	0.65	696,928
Home equity	141	0.17	441	0.54	82,292
Consumer direct	0	0.00	98	0.08	122,581
Consumer indirect	0	0.00	381	0.14	281,477
Total	\$ 16,791	0.66	% \$ 19,215	0.75	% \$ 2,550,573

December 31, 2011

Commercial construction	\$ 7,029	5.83	% \$ 3,292	2.73	% \$ 120,577
Commercial secured by real estate	9,810	1.23	3,969	0.50	798,887
Equipment lease financing	0	0.00	0	0.00	9,706
Commercial other	3,914	1.04	619	0.17	374,597
Real estate construction	607	1.13	16	0.03	53,534
Real estate mortgage	4,204	0.65	2,719	0.42	650,075
Home equity	189	0.22	346	0.41	84,841
Consumer direct	0	0.00	71	0.06	123,949
Consumer indirect	0	0.00	483	0.14	340,382
Total	\$ 25,753	1.01	% \$ 11,515	0.45	% \$ 2,556,548

Discussion of the Nonaccrual Policy

The accrual of interest income on loans 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 the collection of interest is doubtful. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Any loans greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. See note 1 for further discussion on our nonaccrual policy.

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, 2012. See note 18 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2012	2011	2010	2009	2008
Allowance for loan and lease losses, beginning of year	\$33,171	\$34,805	\$32,643	\$30,821	\$28,054
Loans charged off:					
Commercial construction	1,034	2,510	1,695	3,435	1,491
Commercial secured by real estate	2,035	4,018	3,826	3,192	914
Commercial other	3,233	4,092	5,184	4,342	2,080

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Real estate construction	189	319	22	330	125
Real estate mortgage	1,123	1,589	684	858	458
Home equity	248	171	358	223	288
Consumer direct	1,245	961	1,256	1,892	1,891
Consumer indirect	3,483	3,874	4,611	4,587	4,051
Total charge-offs	12,590	17,534	17,636	18,859	11,298

Recoveries of loans previously charged off:

Commercial construction	35	30	6	204	25
Commercial secured by real estate	303	140	163	415	177
Commercial other	764	441	688	350	534
Real estate construction	28	26	19	7	5
Real estate mortgage	151	82	99	132	50
Home equity	11	16	23	18	10
Consumer direct	538	452	635	792	654
Consumer indirect	1,384	1,451	1,681	1,295	1,158
Total recoveries	3,214	2,638	3,314	3,213	2,613

Net charge-offs:

Commercial construction	999	2,480	1,689	3,231	1,466
Commercial secured by real estate	1,732	3,878	3,663	2,777	737
Commercial other	2,469	3,651	4,496	3,992	1,546
Real estate construction	161	293	3	323	120
Real estate mortgage	972	1,507	585	726	408
Home equity	237	155	335	205	278
Consumer direct	707	509	621	1,100	1,237
Consumer indirect	2,099	2,423	2,930	3,292	2,893
Total net charge-offs	9,376	14,896	14,322	15,646	8,685

Provisions charged against operations	9,450	13,262	16,484	17,468	11,452
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Balance, end of year	\$33,245	\$33,171	\$34,805	\$32,643	\$30,821
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Allocation of allowance, end of year:

Commercial construction	\$4,033	\$4,023	\$4,332	\$3,381	\$3,645
Commercial secured by real estate	13,541	11,753	12,327	10,961	11,304
Equipment lease financing	126	112	148	221	191
Commercial other	5,469	5,608	7,392	7,472	5,782
Real estate construction	376	354	271	291	281
Real estate mortgage	4,767	4,302	2,982	3,041	2,616
Home equity	563	562	407	455	422
Consumer direct	1,102	917	1,169	1,258	1,590
Consumer indirect	3,268	5,540	5,777	5,563	4,990
Balance, end of year	\$33,245	\$33,171	\$34,805	\$32,643	\$30,821

(in thousands)	2012	2011	2010	2009	2008
Average loans outstanding, net of deferred loan costs and fees	\$ 2,549,459	\$ 2,580,351	\$ 2,461,225	\$ 2,383,875	\$ 2,283,180
Loans outstanding at end of year, net of deferred loan costs and fees	\$ 2,550,573	\$ 2,556,548	\$ 2,605,180	\$ 2,435,760	\$ 2,348,651
Net charge-offs to average loan type:					
Commercial construction	0.86	% 1.93	% 1.20	% 2.22	% 0.98
Commercial secured by real estate	0.21	0.48	0.48	0.40	0.11
Commercial other	0.64	0.95	1.24	1.07	0.43
Real estate construction	0.30	0.58	0.01	0.64	0.19
Real estate mortgage	0.15	0.24	0.11	0.14	0.08
Home equity	0.28	0.18	0.40	0.25	0.33
Consumer direct	0.57	0.41	0.53	0.95	1.04
Consumer indirect	0.67	0.68	0.75	0.84	0.87
Total	0.37	% 0.58	% 0.58	% 0.66	% 0.38
Other ratios:					
Allowance to net loans, end of year	1.30	% 1.30	% 1.34	% 1.34	% 1.31
Provision for loan losses to average loans	0.37	% 0.51	% 0.67	% 0.73	% 0.50

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 notes 1, 4, and 7 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	2012	2011	2010
Deposits:			
Noninterest bearing deposits	\$604,736	\$573,067	\$514,196
NOW accounts	23,678	21,622	20,919
Money market accounts	568,217	500,179	422,329
Savings accounts	286,930	255,838	225,007
Certificates of deposit of \$100,000 or more	648,035	632,961	576,382
Certificates of deposit < \$100,000 and other time deposits	796,983	827,666	816,128
Total deposits	2,928,579	2,811,333	2,574,961
Other borrowed funds:			
Repurchase agreements and federal funds purchased	222,872	219,040	198,880
Advances from Federal Home Loan Bank	2,439	21,670	20,286

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Long-term debt	61,341	61,341	61,341
Total other borrowed funds	286,652	302,051	280,507
Total deposits and other borrowed funds	\$3,215,231	\$3,113,384	\$2,855,468

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2012 occurred at March 31, 2012, with a month-end balance of \$246.1 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2011 occurred at September 30, 2011, with a month-end balance of \$245.3 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2010 occurred at November 30, 2010, with a month-end balance of \$210.7 million.

Maturities and/or repricing of time deposits of \$100,000 or more outstanding at December 31, 2012 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	\$ 146,910	\$ 10,026	\$ 156,936
Over three through six months	110,335	8,524	118,859
Over six through twelve months	306,877	17,033	323,910
Over twelve through sixty months	79,507	13,455	92,962
Over sixty months	0	0	0
	\$643,629	\$49,038	\$692,667

Item 2. Properties

Our main office, which is owned by Community Trust Bank, Inc., 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, 2012:

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

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	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			
*	LaFollette Market	3	1	4
	3 locations in Campbell County, Tennessee and 1 location in Anderson County, Tennessee			
	Total banking locations	71	10	81
	Operational locations:			
	Community Trust Bank, Inc.			
	Pikeville (Pike County, Kentucky) (lease land to 1 owned location)	1	0	1
	Lexington (Fayette County, Kentucky)	0	1	1
	Total operational locations	1	1	2
	Total locations	72	11	83

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

See notes 8 and 15 to the consolidated financial statements included herein for the year ended December 31, 2012, 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. Mine Safety Disclosures

Not applicable.

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, 2013, there were approximately 6,900 holders of record of our outstanding common shares.

Dividends

The annual dividend paid to our stockholders was increased from \$1.23 per share to \$1.25 per share during 2012. 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 43.1%. 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 20 to the consolidated financial statements included herein for the year ended December 31, 2012.

Stock Repurchases

CTBI did not acquire any shares of common stock through the stock repurchase program during the years 2012 and 2011. There are 288,519 shares remaining under CTBI's current repurchase authorization. For further information, see the Stock Repurchase Program 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, 2007 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 (\$)	2007	2008	2009	2010	2011	2012
Community Trust Bancorp, Inc.	100.00	137.74	96.14	118.63	125.55	145.22
NASDAQ Stock Market (U.S.)	100.00	61.17	87.93	104.13	104.69	123.85
NASDAQ Bank Stocks	100.00	72.91	60.66	72.13	64.51	77.18

Item 6. Selected Financial Data 2008-2012

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

Year Ended December 31	2012		2011		2010		2009		2008	
Interest income	\$153,722		\$158,460		\$154,511		\$153,050		\$167,611	
Interest expense	21,588		27,005		35,257		47,540		63,974	
Net interest income	132,134		131,455		119,254		105,510		103,637	
Provision for loan losses	9,450		13,262		16,484		17,468		11,452	
Noninterest income	45,957		43,832		40,926		41,420		21,767	
Noninterest expense	103,554		106,387		96,050		93,801		82,532	
Income before income taxes	65,087		55,638		47,646		35,661		31,420	
Income taxes	20,225		16,811		14,612		10,602		8,347	
Net income	\$44,862		\$38,827		\$33,034		\$25,059		\$23,073	
Per common share:										
Basic earnings per share	\$2.90		\$2.54		\$2.17		\$1.66		\$1.54	
Diluted earnings per share	\$2.89		\$2.53		\$2.16		\$1.65		\$1.52	
Cash dividends declared-	\$1.25		\$1.23		\$1.21		\$1.20		\$1.17	
as a % of net income	43.10	%	48.43	%	55.76	%	72.29	%	75.97	%
Book value, end of year	\$25.64		\$23.78		\$22.08		\$21.15		\$20.44	
Market price, end of year	\$32.78		\$29.42		\$28.96		\$24.45		\$36.75	
Market to book value, end of year	1.28	x	1.24	x	1.31	x	1.16	x	1.80	x
Price/earnings ratio, end of year	11.30	x	11.58	x	13.35	x	14.73	x	23.86	x
Cash dividend yield, end of year	3.81	%	4.18	%	4.18	%	4.91	%	3.18	%
At year-end:										
Total assets	\$3,635,664		\$3,591,179		\$3,355,872		\$3,086,659		\$2,954,531	
Long-term debt	61,341		61,341		61,341		61,341		61,341	
Shareholders' equity	400,344		366,866		338,638		321,457		308,206	
Averages:										
Assets	\$3,641,660		\$3,505,903		\$3,220,087		\$3,047,100		\$2,921,217	
Deposits	2,928,579		2,811,333		2,574,961		2,409,848		2,303,720	
Earning assets	3,357,134		3,221,648		2,961,971		2,830,701		2,703,054	
Loans	2,549,459		2,580,351		2,461,225		2,383,875		2,283,180	
Shareholders' equity	389,377		355,773		333,645		317,711		308,401	
Profitability ratios:										
Return on average assets	1.23	%	1.11	%	1.03	%	0.82	%	0.79	%
Return on average equity	11.52		10.91		9.90		7.89		7.48	
Capital ratios:										
Equity to assets, end of year	11.01	%	10.22	%	10.09	%	10.41	%	10.43	%
Average equity to average assets	10.69		10.15		10.36		10.43		10.56	
Risk based capital ratios:										
Tier 1 capital (to average assets)	10.65	%	9.89	%	10.16	%	10.38	%	10.37	%

Tier 1 capital (to risk weighted assets)	15.23	13.88	12.90	12.90	13.05
Total capital (to risk weighted assets)	16.49	15.14	14.10	14.15	14.30
Other significant ratios:					
Allowance to net loans, end of year	1.30	% 1.30	% 1.34	% 1.34	% 1.31
Allowance to nonperforming loans, end of year	92.33	89.01	56.10	79.01	59.06
Nonperforming assets to loans and foreclosed properties, end of year	3.20	3.59	3.97	3.19	2.66
Net interest margin	3.99	4.13	4.07	3.77	3.88
Efficiency ratio	57.93	60.23	59.45	63.56	58.39
Other statistics:					
Average common shares outstanding	15,466	15,313	15,234	15,129	15,017
Number of full-time equivalent employees, end of year	1,035	1,015	1,041	982	986

Quarterly Financial Data
(Unaudited)

(in thousands except ratios and per share amounts)

Three Months Ended	December 31	September 30	June 30	March 31
2012				
Net interest income	\$33,763	\$33,046	\$32,319	\$33,006
Net interest income, taxable equivalent basis	34,221	33,518	32,785	33,444
Provision for loan losses	2,946	2,919	2,425	1,160
Noninterest income	11,943	10,838	11,989	11,187
Noninterest expense	27,843	25,813	24,148	25,750
Net income	10,552	10,209	12,232	11,869
Per common share:				
Basic earnings per share	\$0.68	\$0.66	\$0.79	\$0.77
Diluted earnings per share	0.68	0.66	0.79	0.77
Dividends declared	0.315	0.315	0.31	0.31
Common stock price:				
High	\$36.40	\$36.92	\$33.68	\$32.67
Low	29.60	33.15	30.25	29.13
Last trade	32.78	35.53	33.49	32.07
Selected ratios:				
Return on average assets, annualized	1.15	% 1.11	% 1.35	% 1.32
Return on average common equity, annualized	10.47	10.26	12.77	12.72
Net interest margin, annualized	4.03	3.96	3.93	4.05

Three Months Ended	December 31	September 30	June 30	March 31
2011				
Net interest income	\$32,908	\$33,095	\$32,878	\$32,574
Net interest income, taxable equivalent basis	33,325	33,509	33,258	32,940
Provision for loan losses	3,040	2,515	3,320	4,387
Noninterest income	11,559	10,942	10,593	10,738
Noninterest expense	26,867	25,827	27,146	26,547
Net income	9,888	10,665	8,970	9,304
Per common share:				
Basic earnings per share	\$0.64	\$0.70	\$0.59	\$0.61
Diluted earnings per share	0.64	0.70	0.58	0.61
Dividends declared	0.31	0.31	0.305	0.305
Common stock price:				
High	\$29.99	\$28.82	\$28.74	\$30.35
Low	22.28	22.64	26.00	27.03
Last trade	29.42	23.29	27.72	27.67

Selected ratios:

Return on average assets, annualized	1.09	%	1.20	%	1.03	%	1.11	%
Return on average common equity, annualized	10.71		11.75		10.23		10.96	
Net interest margin, annualized	3.98		4.11		4.17		4.27	

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:

- v Our Business
 - v Financial Goals and Performance
- v Results of Operations and Financial Condition
 - v Contractual Obligations and Commitments
 - v Liquidity and Market Risk
 - v Interest Rate Risk
 - v Capital Resources
- v Impact of Inflation, Changing Prices, and Economic Conditions
 - v Stock Repurchase Program
- v Critical Accounting Policies and Estimates

Our Business

Community Trust Bancorp, Inc. ("CTBI") is a bank holding company headquartered in Pikeville, Kentucky. Currently, we own one commercial bank and one trust company. Through our subsidiaries, we have eighty-one banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee, four trust offices across Kentucky, and one trust office in northeastern Tennessee. At December 31, 2012, we had total consolidated assets of \$3.6 billion and total consolidated deposits, including repurchase agreements, of \$3.1 billion, making us the largest bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders' equity at December 31, 2012 was \$400.3 million.

Through our subsidiaries, we engage in a wide range of commercial and personal banking and trust and wealth management 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.

Financial Goals and Performance

The following table shows the primary measurements used by management to assess annual performance. The goals in the table below should not be viewed as a forecast of our performance for 2013. Rather, the goals represent a range of target performance for 2013. There is no assurance that any or all of these goals will be achieved. See “Cautionary Statement Regarding Forward Looking Statements.”

	2012 Goals	2012 Performance	Variance	2013 Goals
Earnings per share	\$2.63	\$2.90	\$0.27	\$2.90 - \$3.06
Net income	\$40.7 million	\$44.9 million	\$4.2 million	\$45.2 - \$48.0 million
ROAA	1.11%	1.23%	0.12%	1.22% - 1.28%
ROAE	10.74%	11.52%	0.78%	11.15% - 11.21%
Revenues	\$182.6 million	\$178.1 million	(\$4.5 million)	\$180.6 - \$190.6 million
Noninterest revenue as of % of total revenue	22.3%	25.8%	3.5%	22.0% - 27.0%
Assets	\$3.7 billion	\$3.6 billion	(\$0.1 billion)	\$3.6 - \$3.8 billion
Loans	\$2.7 billion	\$2.6 billion	(\$0.1 billion)	\$2.6 - \$2.8 billion
Deposits, including repurchase agreements	\$3.2 billion	\$3.1 billion	(\$0.1 billion)	\$3.1 - \$3.3 billion
Shareholders' equity	\$388.2 million	\$400.3 million	\$12.1 million	\$425 - \$431 million

Results of Operations and Financial Condition

For the year ended December 31, 2012, we reported record earnings of \$44.9 million, or \$2.90 per basic share, an increase of 15.5% from the \$38.8 million, or \$2.54 per basic share, earned during the year ended December 31, 2011. Earnings for the year ended December 31, 2010 were \$33.0 million or \$2.17 per basic share.

2012 Highlights

- v Basic earnings per share for the year 2012 increased \$0.36 per share from prior year. The increase in earnings from prior year was supported by increased net interest income and noninterest income and decreased provision for loan loss and noninterest expense.
 - v Net interest income for the year increased 0.5% while our net interest margin declined 14 basis points.
- v Our nonperforming loans at \$36.0 million decreased \$1.3 million from December 31, 2011. Nonperforming assets at \$83.0 million were a \$10.9 million decrease from prior year.
- v Net loan charge-offs for the year 2012 were \$9.4 million, or 0.37% of average loans, compared to \$14.9 million, or 0.58% of average loans, for the year 2011.
- v Our loan loss provision for the year 2012 was \$3.8 million below 2011 as net charge-offs declined \$5.5 million and loans declined \$6.0 million.
- v Our loan loss reserve as a percentage of total loans outstanding remained at 1.30% from December 31, 2011 to December 31, 2012. Our reserve coverage (allowance for loan loss reserve to nonperforming loans) at December 31, 2012 was 92.3% compared to 89.0% at December 31, 2011.
- v Noninterest income for the year 2012 increased 4.8% as a result of increased gains on sales of loans, trust revenue, and loan related fees, as well as a \$1.0 million increase in net securities gains.
- v Noninterest expense for the year decreased 2.7% from prior year as a result of decreases in FDIC insurance premiums, legal fees, other real estate owned expense, and repossession expense, partially offset by an increase in personnel expense.
 - v Our loan portfolio decreased \$6.0 million from prior year.
 - v Our investment portfolio increased \$75.9 million from prior year.
- v Deposits, including repurchase agreements, increased \$18.4 million from prior year.
 - v Our tangible common equity/tangible assets ratio remains strong at 9.36%.

Income Statement Review

(dollars in thousands)				Change 2012 vs. 2011		
	2012	2011	2010	Amount	Percent	
Year Ended December 31						
Net interest income	\$132,134	\$131,455	\$119,254	\$679	0.5	%
Provision for loan losses	9,450	13,262	16,484	(3,812)	(28.7))
Noninterest income	45,957	43,832	40,926	2,125	4.8	
Noninterest expense	103,554	106,387	96,050	(2,833)	(2.7))
Income taxes	20,225	16,811	14,612	3,414	20.3	
Net income	\$44,862	\$38,827	\$33,034	\$6,035	15.5	%
Average earning assets	\$3,357,134	\$3,221,648	\$2,961,971	\$135,486	4.2	%
Yield on average earnings assets	4.63	% 4.97	% 5.26	% (0.34))% (6.8))%

Cost of interest bearing funds	0.83	%	1.06	%	1.51	%	(0.23)%	(21.7)%
Net interest margin	3.99	%	4.13	%	4.07	%	(0.14	%)	(3.4	%)

Net Interest Income

Net interest income for the year 2012 increased \$0.7 million as our net interest margin declined 14 basis points and average earning assets increased 4.2%. Our yield on average earning assets decreased 34 basis points from prior year. Loans represented 75.9% of our average earning assets for the year ended December 31, 2012, compared to 80.1% for the year ended December 31, 2011. Our cost of interest bearing funds decreased 23 basis points from prior year. The increased cost of our Hoops CD product resulting from the University of Kentucky's national championship win increased our cost of interest bearing funds and decreased our net interest margin by approximately 4 basis points for the year.

We experienced a 6 basis point improvement in our net interest margin for the year 2011 compared to prior year. Average earning assets for the year increased 8.8% from prior year, and the yield on average earning assets decreased 29 basis points. The decline in yield on earning assets was the result of a change in our earning asset mix. Loans represented 80.1% of our average earning assets for the year ended December 31, 2011, compared to 83.1% for the year ended December 31, 2010. As deposits, including repurchase agreements, increased and loan demand slowed, management chose to invest the excess liquidity in our investment portfolio. The cost of interest bearing funds decreased 45 basis points from prior year, primarily the result of the repricing of our CD products.

Provision for Loan Losses

The provision for loan losses that was added to the allowance for 2012 of \$9.5 million was a \$3.8 million decrease from prior year. 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.

The provision for loan losses that was added to the allowance for 2011 of \$13.3 million was a \$3.2 million decrease from 2010.

Noninterest Income

Noninterest income for the year ended December 31, 2012 increased 4.8% from prior year. The year over year increase was a result of increased gains on sales of loans, trust revenue, and loan related fees, partially offset by a decline in deposit service charges. Deposit service charges were negatively impacted by a change in the processing of overdraft items. Loan related fees were impacted by a \$0.8 million variance year over year in adjustments to the fair value of our mortgage servicing rights, as well as the receipt of a \$0.4 million commercial loan prepayment penalty. Noninterest income was also impacted by \$1.2 million in net securities gains for the year 2012 compared to \$0.2 million for the year 2011.

Noninterest income for the year ended December 31, 2011 increased 7.1% from prior year. The year over year increase was primarily attributable to increased gains on sales of loans, deposit service charges, and trust revenue partially offset by decreased loan related fees.

Noninterest Expense

Noninterest expense for the year ended December 31, 2012 decreased 2.7% from prior year as a result of decreases in FDIC insurance premiums, legal fees, other real estate owned expense, and repossession expense, partially offset by an increase in personnel expense associated with our employee incentive accrual of \$3.0 million.

Noninterest expense for the year ended December 31, 2011 increased 10.8% from prior year, primarily as a result of increased personnel expense, including health insurance and the increase related to our LaFollette acquisition; repossession expense; and other real estate owned expense, including adjustments to reflect declines in the values of foreclosed properties, as well as expected losses in investments in limited partnerships that were offset by tax credits. Other real estate owned expense during the year of \$8.6 million was significantly impacted by a \$3.2 million decrease in the carrying value of two groups of foreclosed properties that were vandalized. The insurance claims relative to these vandalisms have been resolved with no significant recoveries.

Balance Sheet Review

CTBI's total assets at \$3.6 billion increased \$44.5 million, or 1.2%, from December 31, 2011. Loans outstanding at December 31, 2012 were \$2.6 billion, decreasing \$6.0 million, or 0.2%, year over year. Loan growth during the year of \$8.5 million in the commercial loan portfolio and \$45.8 million in the residential loan portfolio was offset by decline of \$60.3 million in the consumer loan portfolio, primarily in our indirect auto lending area. The increase in the residential loan portfolio resulted from our decision to keep a portion of Federal Home Loan Mortgage Corporation (FHLMC) qualified loans which we normally sell in our in-house loan portfolio during the year. The decrease in indirect auto lending is the result of management's decision not to invest in long-term fixed rate auto loans at the current market rates. We recently began offering a new program to be more competitive in the indirect lending area while still obtaining an appropriate yield. CTBI's investment portfolio increased \$75.9 million, or 14.4%, from December 31, 2011. Deposits, including repurchase agreements, at \$3.1 billion increased \$18.4 million, or 0.6%, from December 31, 2011.

Shareholders' equity at December 31, 2012 was \$400.3 million compared to \$366.9 million at December 31, 2011. CTBI's annualized dividend yield to shareholders as of December 31, 2012 was 3.84%.

Loans

(in thousands)	December 31, 2012					
	Balance	Variance from Prior Year		Net Charge-Offs	Nonperforming	ALLL
Commercial:						
Construction	\$ 119,447	(0.9)%	\$ 999	\$ 9,733	\$ 4,033	
Secured by real estate	807,213	1.0	1,732	11,515	13,541	
Equipment lease financing	9,246	(4.7)	0	0	126	
Other commercial	376,348	0.5	2,469	5,522	5,469	
Total commercial	1,312,254	0.7	5,200	26,770	23,169	
Residential:						
Real estate construction	55,041	2.8	161	511	376	
Real estate mortgage	696,928	7.2	972	7,664	4,767	
Home equity	82,292	(3.0)	237	582	563	
Total residential	834,261	5.8	1,370	8,757	5,706	
Consumer:						
Consumer direct	122,581	(1.1)	707	98	1,102	
Consumer indirect	281,477	(17.3)	2,099	381	3,268	
Total consumer	404,058	(13.0)	2,806	479	4,370	
Total loans	\$ 2,550,573	(0.2)%	\$ 9,376	\$ 36,006	\$ 33,245	

Asset Quality

CTBI's total nonperforming loans were \$36.0 million at December 31, 2012, a 3.4% decrease from the \$37.3 million at December 31, 2011. The decrease for the year included a \$9.0 million decrease in nonaccrual loans partially offset by a \$7.7 million increase in the 90+ days past due category. The increase in the 90+ past due loans is made up of various commercial loans that are considered to be well secured and in the process of collection. Loans 30-89 days past due at \$27.0 million is an increase of \$5.3 million from December 31, 2011. The increase in our 30-89 days past due loans is primarily one commercial relationship collateralized by income producing property and is considered well secured. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss. Our loan risk management processes include weekly delinquent loan review meetings at the market levels and monthly delinquent loan review meetings involving senior corporate management to review all nonaccrual loans and loans 30 days or more past due. Any activity regarding a criticized/classified loan (i.e. problem loan) must be approved by CTB's Watch List Asset Committee (i.e. Problem Loan Committee). CTB's Watch List Asset Committee also meets on a quarterly basis and reviews every criticized/classified loan of \$100,000 or greater. We also have a Loan Review Department that reviews every market within CTB annually and performs extensive testing of the loan portfolio to assure the accuracy of loan grades and classifications for delinquency, troubled debt restructuring, impaired status, impairment, nonaccrual status, and adequate loan loss reserves. The Loan Review Department has annually reviewed on average 94% of the outstanding commercial loan portfolio for the past three years. The average annual review percentage of the consumer and residential loan portfolio for the past three years was 89% based on the loan production during the number of months included in the review scope which is generally four to six months.

Impaired loans, loans not expected to meet contractual principal and interest payments, at December 31, 2012 totaled \$62.5 million compared to \$47.1 million at December 31, 2011. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2012, CTBI had \$19.5 million in commercial loans secured by real estate, \$5.0 million in commercial real estate construction loans, \$4.5 million in commercial other loans, and \$0.7 million in real estate mortgage loans that were modified in troubled debt restructurings and impaired. Management evaluates all impaired loans for impairment and records a direct charge-off or provides specific reserves when necessary.

For further information regarding nonperforming and impaired loans, see note 4 to the consolidated financial statements.

CTBI generally does not offer high risk loans such as option ARM products, high loan to value ratio mortgages, interest-only loans, loans with initial teaser rates, or loans with negative amortizations, and therefore, CTBI would have no significant exposure to these products.

Our level of foreclosed properties at \$47.0 million at December 31, 2012 was a decrease from \$56.5 million at December 31, 2011. Sales of foreclosed properties for the year ended December 31, 2012 totaled \$19.3 million while new foreclosed properties totaled \$12.0 million. At December 31, 2012, the book value of properties under contracts to sell was \$3.3 million; however, the closings had not occurred at year-end.

When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Charges to earnings in 2012 to reflect the decrease in current market values of foreclosed properties totaled \$2.7 million. There were 136 properties reappraised during 2012. Of these, 59 were written down by a total of \$2.3 million. Charges during the year ended December 31, 2011 were \$6.4 million. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular

market and is typically between 12 and 18 months but generally not more than 24 months. Sixty-one percent of our OREO properties have been reappraised within the past 12 months. Our nonperforming loans and foreclosed properties remain primarily concentrated in our Central Kentucky Region. Management anticipates that our foreclosed properties will remain elevated as we work through current market conditions.

The major classifications of foreclosed properties are shown in the following table:

(in thousands)		
December 31	2012	2011
1-4 family	\$12,381	\$20,065
Agricultural/farmland	653	652
Construction/land development/other	23,823	23,006
Multifamily	1,281	1,841
Non-farm/non-residential	8,848	10,981
Total foreclosed properties	\$46,986	\$56,545

The appraisal aging analysis of foreclosed properties, as well as the holding period, at December 31, 2012 is shown below:

(in thousands)			
Appraisal Aging Analysis		Holding Period Analysis	
Days Since Last Appraisal	Current Book Value	Holding Period	Current Book Value
Up to 90 days	\$17,006	Less than one year	\$7,676
91 to 180 days	2,343	1 to 2 years	19,625
181 to 270 days	6,207	2 to 3 years	4,430
271 to 365 days	3,315	3 to 4 years	13,092
Over one year	18,115	Over 4 years	2,163
Total	\$46,986	Total	\$46,986

Net loan charge-offs for the year were \$9.4 million, or 0.37% of average loans annualized, a decrease from prior year's \$14.9 million, or 0.58% of average loans annualized. Of the total net charge-offs, \$5.2 million were in commercial loans, \$2.1 million were in indirect auto loans, and \$1.1 million were in residential real estate mortgage loans.

Our loan loss reserve as a percentage of total loans outstanding at December 31, 2012 remained at 1.30% from December 31, 2011. Our reserve coverage (allowance for loan loss reserve to nonperforming loans) was 92.3% at December 31, 2012 compared to 89.0% at December 31, 2011.

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, 2012, the aggregate contractual obligations and commitments are:

Contractual Obligations: (in thousands)	Payments Due by Period			
	Total	1 Year	2-5 Years	After 5 Years
Deposits without stated maturity	\$1,488,881	\$1,488,881	\$0	\$0
Certificates of deposit and other time deposits	1,414,967	1,241,997	172,604	366
Repurchase agreements and other short-term borrowings	222,434	222,434	0	0
Advances from Federal Home Loan Bank	1,429	152	439	838
Interest on advances from Federal Home Loan Bank*	102	28	65	9
Long-term debt	61,341	0	0	61,341
Interest on long-term debt*	59,245	1,193	9,063	48,989
Annual rental commitments under leases	7,284	1,607	3,074	2,603
Total contractual obligations	\$3,255,683	\$2,956,292	\$185,245	\$114,146

*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.

The interest on \$61.3 million in long-term debt is calculated based on the three-month LIBOR plus 1.59% until its maturity of June 1, 2037. The three-month LIBOR rate is projected using the most likely rate forecast from assumptions incorporated in the interest rate risk model and is determined two business days prior to the interest payment date. These assumptions are uncertain, and as a result, the actual payments will differ from the projection due to changes in economic conditions.

Other Commitments: (in thousands)	Amount of Commitment - Expiration by Period			
	Total	1 Year	2-5 Years	After 5 Years
Standby letters of credit	\$41,207	\$33,435	\$7,772	\$0
Commitments to extend credit	386,293	309,691	63,595	13,007
Total other commitments	\$427,500	\$343,126	\$71,367	\$13,007

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. Refer to note 17 to the consolidated financial statements for additional information regarding other commitments.

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, sufficient unused borrowing capacity, and growth in core deposits. As of December 31, 2012, we had approximately \$207.6 million in cash and cash equivalents and approximately \$603.3 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 \$1.4 million at December 31, 2012 compared to \$21.6 million at December 31, 2011. As of December 31, 2012, we had a \$320.9 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, 2012, we had \$44 million in lines of credit with various correspondent banks 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. At December 31, 2012, federal funds sold were \$6.7 million compared to \$2.7 million at December 31, 2011, and deposits with the Federal Reserve were \$123.9 million compared to \$159.0 million at December 31, 2011. Additionally, we project cash flows from our investment portfolio to generate additional liquidity over the next 90 days.

The investment portfolio consists of investment grade short-term issues suitable for bank investments. The majority of the investment portfolio is in U.S. government and government sponsored agency issuances. The average life of the portfolio is 4.28 years. At the end of 2012, available-for-sale (“AFS”) securities comprised approximately 99.7% of the total investment portfolio, and the AFS portfolio was approximately 151% of equity capital. Eighty-seven percent of the pledge eligible portfolio was pledged.

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, 2012:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	3.28%
+300	2.02%
+200	0.95%
+100	0.40%
-25	(0.16)%

The following table shows our estimated earnings sensitivity profile as of December 31, 2011:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	3.32%
+300	2.08%
+200	1.03%
+100	0.46%
-25	(0.25)%

The simulation model used the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2012 estimates that our net interest income in an up-rate environment would increase by 3.28% at a 400 basis point change, 2.02% increase at a 300 basis point change, 0.95% increase at a 200 basis point change, and a 0.40% 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 0.16% 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 or originated under terms where they could be sold. Periodically, additional assets such as commercial loans are also sold. In 2012 and 2011, \$113.6 million and \$81.1 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, 2012 is presented below. In the 12 month repricing GAP, rate sensitive liabilities ("RSL") exceeded rate sensitive assets ("RSA") by \$197.1 million.

(dollars in thousands)	1-3 Months	4-6 Months	7-9 Months	10-12 Months	2-3 Years	4-5 Years	> 5 Years
Assets	\$1,542,534	\$206,889	\$167,737	\$146,998	\$515,436	\$225,432	\$830,637
Liabilities and Equity	882,147	353,677	416,304	609,180	872,467	53,951	447,937
Repricing difference	660,388	(146,788)	(248,566)	(462,182)	(357,031)	171,480	382,699
Cumulative GAP	660,388	513,599	265,033	(197,149)	(554,179)	(382,699)	0
RSA/RSL	1.75	x 0.58	x 0.40	x 0.24	x 0.59	x 4.18	x 1.85
Cumulative GAP to total assets	18.16	% 14.13	% 7.29	% (5.42)%	(15.24)%	(10.53)%	0.00 %

Capital Resources

We continue to grow our shareholders' equity while also providing an annual dividend yield for the year 2012 of 3.81% to shareholders. Shareholders' equity increased 9.1% from December 31, 2011 to \$400.3 million at December 31, 2012. Our primary source of capital growth is the retention of earnings. Cash dividends were \$1.25 per share for 2012 and \$1.23 per share for 2011. We retained 56.9% of our earnings in 2012 compared to 51.6% in 2011.

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, 2012 were 10.65%, 15.23%, and 16.49%, respectively, all exceeding the threshold for meeting the definition of "well-capitalized." See note 20 to the consolidated financial statements for further information.

As of December 31, 2012, 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 provided for in the Dodd-Frank Act which is discussed in the Supervision and Regulation section of Item 1. Business and the Basel III Proposal which is discussed below.

Basel III Proposal

In the summer of 2012, our primary federal regulators, published two notices of proposed rulemaking (the "2012 Capital Proposals") that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including CTBI and CTB, compared to the current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision (the "Basel Committee") which are generally referred to as "Basel I."

One of the 2012 Capital Proposals (the "Basel III Proposal") addresses the components of capital and other issues affecting the numerator in banking institutions' regulatory capital ratios, and would implement the Basel Committee's December 2010 framework, known as "Basel III," for strengthening international capital standards. The other proposal (the "Standardized Approach Proposal") addresses risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios, and would replace the existing Basel I-derived risk weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. Although the Basel III Proposal was proposed to come into effect on January 1, 2013, the federal banking agencies jointly announced on November 9, 2012 that they do not expect any of the proposed rules to become effective on that date. As proposed, the Standardized Approach Proposal would come into effect on January 1, 2015.

The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

It is management's belief that, as of December 31, 2012, CTBI and CTB would meet all capital adequacy requirements under the Basel III and Standardized Approach Proposals on a fully phased-in basis if such requirements were currently effective. The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by our regulators.

Deposit Insurance

Substantially all of the deposits of CTBI are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by seven basis points for the first quarter of 2009 assessment, which resulted in annualized assessment rates for institutions in the highest risk category ("Risk Category 1 institutions") ranging from 12 to 14 basis points (basis points representing cents per \$100 of assessable deposits). In February 2009, the FDIC issued final rules to amend the DIF restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. For Risk Category 1 institutions that have long-term debt issuer ratings, the FDIC determines the initial base assessment rate using a combination of weighted average CAMELS component ratings, long-term debt issuer ratings (converted to numbers and averaged) and the financial ratios method assessment rate (as defined), each equally weighted. The initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates range from 7 to 24 basis points. The potential adjustments to a Risk Category 1 institution's initial base assessment rate include (i) a potential decrease of up to five basis points for long-term unsecured debt, including senior and subordinated debt and (ii) a potential increase of up to eight basis points for secured liabilities in excess of 25% of domestic deposits.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling five basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC's efforts to rebuild the DIF. Deposit insurance expense during 2009 included \$1.3 million recognized in the second quarter related to the special assessment.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. In December 2009, CTBI paid \$14.2 million in prepaid risk-based assessment, which included \$0.9 million related to the fourth quarter of 2009 that would have otherwise been payable in the first quarter of 2010. This amount was included in deposit insurance expense for 2009. The remaining \$13.3 million in prepaid deposit insurance was included in other assets on the consolidated balance sheet as of December 31, 2009. During 2010, \$3.9 million was expensed as a component of FDIC insurance and \$0.9 million in prepaid deposit insurance was acquired from LaFollette, leaving \$10.3 million in the prepaid. During 2011, \$2.9 million was expensed as a component of FDIC insurance, leaving \$7.4 million in the prepaid. During 2012, \$2.4 million was expensed as a component of FDIC insurance, leaving \$5.0 million in the prepaid.

FDIC insurance expense totaled \$2.6 million, \$3.2 million, and \$4.4 million in 2012, 2011, and 2010. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This law has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown.

Among many other provisions, the Dodd-Frank Act broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions

and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and noninterest bearing transaction accounts and IOLTA accounts had unlimited deposit insurance through December 31, 2012. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but will be FDIC-insured up to the legal maximum of \$250,000 for each ownership category. See the Supervision and Regulation section of Item 1. Business for further information on the provisions of the Dodd-Frank Act.

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, southern West Virginia, and northeastern Tennessee. 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. From early 2008 to the middle of 2010, CTBI experienced significant challenges, credit quality deteriorated, and net income and results of operations were adversely impacted. While there has been improvement in economic conditions in our markets starting in the second half of 2010 and continuing into 2012, we believe that we will continue to experience a challenging environment in 2013. 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.

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 and in May 2003. We have not repurchased any shares of our common stock since February 2008. There are currently 288,519 shares remaining under CTBI's current repurchase authorization. As of December 31, 2012, 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 2012:

	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	
2009	0	-	0	
2010	0	-	0	
2011	0	-	0	
2012	0	-	0	
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.

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

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, Investment 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 other than temporary, the carrying value of the securities is written down to fair value as a realized loss with a charge to income for the portion attributable to credit losses and a charge to other comprehensive income for the portion that is not credit related.

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.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether an other than temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other than temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity and (ii) whether it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the CTBI's results of operations and financial condition.

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, an allowance for loan and lease losses, and unamortized deferred fees or costs. 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 remain current for a period of time, generally six months, and future payments appear reasonably certain. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

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 defined by ASC 310-35, Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and 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.

A loan is considered impaired when, based on current information and events, it is probable that CTBI will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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 ASC 450, Contingencies.

When any secured commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. If the balance of the loan exceeds the fair value of the collateral, the loan is placed on non-accrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to CTBI, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell of the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off no later than 120 days (5 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to CTBI, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. We generally review the historical loss rates over eight quarters and four quarters on a rolling average basis. 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. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are 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 to approximate the most likely scenario. Management continually reevaluates the other subjective factors included in its ALLL analysis. During the third quarter 2012 analysis, management increased several of these subjective factors including trends in past dues, trends in losses, and current economic and regulatory conditions impacting business and individual customers in our geographic markets. The cumulative effect of all of the changes increased the amount calculated for our "most likely" scenario by \$3.2 million at December 31, 2012.

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained

on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

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 Interest Rate 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	2012	2011
Assets:		
Cash and due from banks	\$73,451	\$69,723
Interest bearing deposits	127,438	166,057
Federal funds sold	6,671	2,701
Cash and cash equivalents	207,560	238,481
Certificates of deposit in other banks	5,336	11,875
Securities available-for-sale at fair value (amortized cost of \$583,858 and \$511,731, respectively)	603,343	527,398
Securities held-to-maturity at amortized cost (fair value of \$1,659 and \$1,661, respectively)	1,662	1,662
Loans held for sale	22,486	536
Loans	2,550,573	2,556,548
Allowance for loan losses	(33,245)	(33,171)
Net loans	2,517,328	2,523,377
Premises and equipment, net	54,321	54,297
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,885	4,883
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$7,712 and \$7,499, respectively)	904	1,117
Bank owned life insurance	44,893	43,483
Mortgage servicing rights	2,364	2,282
Other real estate owned	47,537	56,965
Other assets	31,882	33,660
Total assets	\$3,635,664	\$3,591,179
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$606,448	\$584,735
Interest bearing	2,297,400	2,293,624
Total deposits	2,903,848	2,878,359
Repurchase agreements	210,120	217,177
Federal funds purchased and other short-term borrowings	12,314	13,104
Advances from Federal Home Loan Bank	1,429	21,609
Long-term debt	61,341	61,341
Other liabilities	46,268	32,723
Total liabilities	3,235,320	3,224,313
Shareholders' equity:		

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Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2012 – 15,612,935; 2011 – 15,429,992	78,065	77,151
Capital surplus	160,670	156,101
Retained earnings	148,944	123,431
Accumulated other comprehensive income, net of tax	12,665	10,183
Total shareholders' equity	400,344	366,866
Total liabilities and shareholders' equity	\$3,635,664	\$3,591,179

See notes to consolidated financial statements.

Consolidated Statements of Income and Other Comprehensive Income

(in thousands except per share data) Year Ended December 31	2012	2011	2010
Interest income:			
Interest and fees on loans, including loans held for sale	\$ 137,653	\$ 144,635	\$ 142,109
Interest and dividends on securities:			
Taxable	12,009	10,133	8,934
Tax exempt	2,074	1,712	1,601
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	1,433	1,374	1,351
Other, including interest on federal funds sold	553	606	516
Total interest income	153,722	158,460	154,511
Interest expense:			
Interest on deposits	17,911	21,282	29,152
Interest on repurchase agreements and other short-term borrowings	1,240	1,625	2,027
Interest on advances from Federal Home Loan Bank	34	99	79
Interest on long-term debt	2,403	3,999	3,999
Total interest expense	21,588	27,005	35,257
Net interest income	132,134	131,455	119,254
Provision for loan losses	9,450	13,262	16,484
Net interest income after provision for loan losses	122,684	118,193	102,770
Noninterest income:			
Service charges on deposit accounts	23,996	25,576	23,255
Gains on sales of loans, net	2,562	1,749	1,642
Trust income	6,918	6,354	5,846
Loan related fees	4,042	2,372	3,247
Bank owned life insurance	1,760	1,721	1,676
Securities gains	1,155	218	0
Other noninterest income	5,524	5,842	5,260
Total noninterest income	45,957	43,832	40,926
Noninterest expense:			
Officer salaries and employee benefits	10,561	8,379	8,244
Other salaries and employee benefits	41,327	40,416	39,020
Occupancy, net	7,546	7,929	7,058
Equipment	3,876	3,750	3,865
Data processing	6,394	6,495	6,889
Bank franchise tax	4,571	4,290	4,065
Legal fees	2,154	2,644	2,727
Professional fees	1,545	1,256	1,199
FDIC insurance	2,553	3,192	4,410
Other real estate owned provision and expense	5,267	8,604	2,626
Other noninterest expense	17,760	19,432	15,947
Total noninterest expense	103,554	106,387	96,050
Income before income taxes	65,087	55,638	47,646

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Income taxes	20,225	16,811	14,612
Net income	\$44,862	\$38,827	\$33,034
Other comprehensive income:			
Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains arising during the period	4,973	9,868	(464)
Less: Reclassification adjustments for realized gains included in net income	(1,155)	(218)	0
Tax expense (benefit)	1,336	3,378	(162)
Other comprehensive income (loss), net of tax	2,482	6,272	(302)
Comprehensive income	\$47,344	\$45,099	\$32,732
Basic earnings per share			
Basic earnings per share	\$2.90	\$2.54	\$2.17
Diluted earnings per share			
Diluted earnings per share	\$2.89	\$2.53	\$2.16
Weighted average shares outstanding-basic			
Weighted average shares outstanding-basic	15,466	15,313	15,234
Weighted average shares outstanding-diluted			
Weighted average shares outstanding-diluted	15,521	15,364	15,259
Dividends declared per share			
Dividends declared per share	\$1.25	\$1.23	\$1.21

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, 2010	15,200,773	\$76,004	\$152,400	\$88,840	\$ 4,213	\$321,457
Net income				33,034		33,034
Net change in unrealized gain/loss on securities available-for-sale, net of tax of \$162					(302)	(302)
Cash dividends declared (\$1.21 per share)				(18,435)		(18,435)
Issuance of common stock	93,115	466	1,409			1,875
Issuance of restricted stock	44,996	225	(225)			0
Forfeiture of restricted stock	(4,474)	(22)	22			0
Stock-based compensation and related excess tax benefits			1,009			1,009
Balance, December 31, 2010	15,334,410	76,673	154,615	103,439	3,911	338,638
Net income				38,827		38,827
Net change in unrealized gain/loss on securities available-for-sale, net of tax of (\$3,378)					6,272	6,272
Cash dividends declared (\$1.23 per share)				(18,835)		(18,835)
Issuance of common stock	50,256	251	1,040			1,291
Issuance of restricted stock	45,542	228	(228)			0
Forfeiture of restricted stock	(216)	(1)	1			0
Stock-based compensation and related excess tax benefits			673			673
Balance, December 31, 2011	15,429,992	77,151	156,101	123,431	10,183	366,866
Net income				44,862		44,862
Net change in unrealized gain/loss on securities available-for-sale, net of tax of (\$1,336)					2,482	2,482
Cash dividends declared (\$1.25 per share)				(19,349)		(19,349)
Issuance of common stock	182,612	912	3,483			4,395
Issuance of restricted stock	331	2	(2)			0
Stock-based compensation and related excess tax benefits			1,088			1,088
Balance, December 31, 2012	15,612,935	\$78,065	\$160,670	\$148,944	\$ 12,665	\$400,344

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)			
Year Ended December 31	2012	2011	2010
Cash flows from operating activities:			
Net income	\$44,862	\$38,827	\$33,034
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,324	4,216	4,377
Deferred taxes	5,441	(94)	219
Stock-based compensation	592	650	804
Excess tax benefits of stock-based compensation	496	23	205
Provision for loan losses	9,450	13,262	16,484
Write-downs of other real estate owned and other repossessed assets	2,704	6,464	689
Securities gains	(1,155)	(218)	0
Gains on sale of mortgage loans held for sale	(2,562)	(1,749)	(1,642)
(Gains)/losses on sale of assets, net	328	(34)	139
Proceeds from sale of mortgage loans held for sale	113,632	81,095	82,324
Funding of mortgage loans held for sale	(133,021)	(79,427)	(79,319)
Amortization of securities premiums and discounts, net	5,375	3,719	2,422
Change in cash surrender value of bank owned life insurance	(1,410)	(1,407)	(1,580)
Death benefits received on bank owned life insurance	0	79	0
Mortgage servicing rights:			
Fair value adjustments	559	1,405	769
New servicing assets created	(641)	(526)	(524)
Changes in:			
Other assets	1,792	(746)	1,259
Other liabilities	7,130	(1,213)	1,644
Net cash provided by operating activities	57,896	64,326	61,304
Cash flows from investing activities:			
Certificates of deposit in other banks:			
Purchase of certificates of deposit	0	0	(16,363)
Maturity of certificates of deposit	6,539	2,887	1,701
Securities available-for-sale (AFS):			
Purchase of AFS securities	(285,795)	(312,615)	(168,612)
Proceeds from sales of AFS securities	39,856	12,045	0
Proceeds from prepayments and maturities of AFS securities	169,592	117,996	127,072
Securities held-to-maturity (HTM):			
Purchase of HTM securities	0	(480)	(480)
Proceeds from prepayments and maturities of HTM securities	0	480	13,154
Change in loans, net	(7,664)	4,632	(75,996)
Purchase of premises and equipment	(4,301)	(3,116)	(2,426)
Proceeds from sale of premises and equipment	108	271	9
Asset Retirement	167	0	0
Additional investment in Federal Reserve Bank stock	(2)	(449)	(23)
Proceeds from sale of other real estate owned and repossessed assets	11,082	9,258	7,480
Additional investment in other real estate owned	(545)	(744)	(225)
Additional investment in bank owned life insurance	0	(2,458)	0
Net cash received in acquisition	0	0	2,906

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Net cash used in investing activities	(70,963)	(172,293)	(111,803)
Cash flows from financing activities:			
Change in deposits, net	25,489	172,242	79,794
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	(7,847)	32,326	4,853
Advances from Federal Home Loan Bank	0	571	40,000
Payments on advances from Federal Home Loan Bank	(20,180)	(200)	(40,632)
Issuance of common stock	4,395	1,291	1,875
Excess tax benefits of stock-based compensation	(496)	(23)	(205)
Dividends paid	(19,215)	(18,742)	(18,332)
Net cash provided by (used in) financing activities	(17,854)	187,465	67,353
Net increase (decrease) in cash and cash equivalents	(30,921)	79,498	16,854
Cash and cash equivalents at beginning of year	238,481	158,983	142,129
Cash and cash equivalents at end of year	\$207,560	\$238,481	\$158,983
Supplemental disclosures:			
Income taxes paid	\$11,325	\$13,680	\$15,820
Interest paid	22,451	27,682	36,095
Non-cash activities:			
Loans to facilitate the sale of other real estate owned and other repossessed assets	7,768	2,517	1,209
Common stock dividends accrued, paid in subsequent quarter	4,887	4,753	4,677
Real estate acquired in settlement of loans	12,031	31,536	11,806

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. (“CTB”). 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 and wealth management 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, southern West Virginia, and northeastern Tennessee.

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, valuation of other real estate owned, fair value of securities and mortgage servicing rights, goodwill, and valuation of deferred tax assets.

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital, and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

The accompanying financial statements have been prepared using values and information currently available to CTBI.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, and capital.

Cash and Cash Equivalents – CTBI considers all liquid investments with original maturities of three months or less to be 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.

Certificates of Deposit in Other Banks – Certificates of deposit in other banks generally mature within 18 months and are carried at cost.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, Investment 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 other than temporary, the carrying value of the securities is written down to fair value as a realized loss with a charge to income for the portion attributable to credit losses and a charge to other comprehensive income for the portion that is not credit related.

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.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether an other than temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other than temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity and (ii) whether it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the CTBI's results of operations and financial condition.

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, an allowance for loan and lease losses, and unamortized deferred fees or costs. 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 remain current for a period of time, generally six months, and future payments appear reasonably certain. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

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 defined by ASC 310-35, Impairment of a Loan. We

evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and 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.

A loan is considered impaired when, based on current information and events, it is probable that CTBI will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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 ASC 450, Contingencies.

When any secured commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. If the balance of the loan exceeds the fair value of the collateral, the loan is placed on non-accrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to CTBI, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell of the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off no later than 120 days (5 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to CTBI, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. We generally review the historical loss rates over eight quarters and four quarters on a rolling average basis. 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. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are 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 to approximate the most likely scenario. Management continually reevaluates the other subjective factors included in its ALLL analysis. During the third quarter 2012 analysis, management increased several of these subjective factors including trends in past dues, trends in losses, and current economic and regulatory conditions impacting business and individual customers in our geographic markets. The cumulative effect of all of the changes increased the amount calculated for our "most likely" scenario by \$3.2 million at December 31, 2012.

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 by charges to income. Gains and losses on loan sales are recorded in noninterest 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.

Federal Home Loan Bank and Federal Reserve Stock – CTB is a member of the Federal Home Loan Bank (“FHLB”) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest on additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

CTB is also a member of its regional Federal Reserve Bank. Federal Reserve Bank stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally no more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon ASC 350, Intangibles-Goodwill and Other, 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.

The activity to goodwill and core deposit intangible for the years ended December 31, 2012, 2011, and 2010 are shown below.

Goodwill:

(in thousands)	2012	2011	2010
Beginning balance, January 1	\$65,490	\$65,499	\$65,059
Acquisition adjustments	0	(9)	440
Ending balance, December 31	\$65,490	\$65,490	\$65,499

Core Deposit Intangible:

(in thousands)	2012	2011	2010
Beginning balance, January 1	\$1,117	\$1,342	\$648

Amortization	(213)	(213)	(430)
Acquisition adjustments	0	(12)	1,124
Ending balance, December 31	\$904	\$1,117	\$1,342

Amortization of core deposit intangible is estimated at approximately \$0.2 million annually for years one through five.

Transfers of Financial Assets -- Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from CTBI—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) CTBI does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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 benefits and 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 ASC 718, Share-Based Payment.

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 and wealth management 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 following the accounting guidance in ASC 860-50, Servicing Assets and Liabilities. MSRs are valued using Level 3 inputs as defined in ASC 820, Fair Value Measurements. 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 system used in this evaluation, Compass Point, attempts to quantify loan level idiosyncratic risk by calculating a risk derived value. As a result, each loan’s unique characteristics determine the valuation assumptions ascribed to that loan. Additionally, the computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. 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.

Share-Based Compensation – CTBI has a share-based employee compensation plan, which is described more fully in note 14 to the consolidated financial statements. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, Share-Based Payment.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other than temporary impairment has been recognized in income.

Transfers between Fair Value Hierarchy Levels – Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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

New Accounting Standards –

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

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

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

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

income must be reclassified to net income.

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

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

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

In July 2012, the FASB issued ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not that the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2012-02 is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Adoption of this ASU did not have a material effect on our consolidated financial statements.

Ø Amounts Reclassified Out of Other Comprehensive Income – In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting

period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. The adoption of ASU No. 2013-02 is not expected to have a material impact on CTBI's consolidated financial statements.

2. Cash and Due from Banks and Interest Bearing Deposits

Included in cash and due from banks and interest bearing deposits are amounts required to be held at the Federal Reserve or maintained in vault cash in accordance with regulatory reserve requirements. The balance requirements were \$56.8 million and \$52.1 million at December 31, 2012 and 2011, respectively.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest bearing transaction accounts December 31, 2010 through December 31, 2012, at all FDIC insured institutions. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but will be FDIC-insured up to the legal maximum of \$250,000 for each ownership category. At December 31, 2012, CTBI had no cash accounts which exceeded federally insured limits except our Federal Home Loan Bank interest bearing deposit account which had a balance of \$3.5 million at December 31, 2012; however, CTBI had \$124 million in deposits with the Federal Reserve which are not subject to FDIC insurance. At December 31, 2012, we had cash on deposit in noninterest bearing accounts with correspondent banks in the amount of \$35.4 million, of which \$34.9 million is no longer covered by FDIC insurance effective January 1, 2013.

3. Securities

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

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

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$60,625	\$463	\$(173)	\$60,915
State and political subdivisions	107,987	5,369	(135)	113,221
U.S. government sponsored agency mortgage-backed securities	370,246	13,347	(12)	383,581
Total debt securities	538,858	19,179	(320)	557,717
Marketable equity securities	45,000	626	(0)	45,626
Total available-for-sale securities	\$583,858	\$19,805	\$(320)	\$603,343

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$480	\$0	\$(4)	\$476
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	\$1,662	\$1	\$(4)	\$1,659

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

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$32,077	\$1,171	\$0	\$33,248
State and political subdivisions	68,358	3,816	(30)	72,144
U.S. government sponsored agency mortgage-backed securities	390,714	10,186	(57)	400,843
Total debt securities	491,149	15,173	(87)	506,235
Marketable equity securities	20,582	718	(137)	21,163
Total available-for-sale securities	\$511,731	\$15,891	\$(224)	\$527,398

Held-to-Maturity

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

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

(in thousands)	Amortized Cost	Available-for-Sale	Held-to-Maturity
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