

COMMUNITY TRUST BANCORP INC /KY/  
Form 10-Q  
November 08, 2013

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-11129

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

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

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

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

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

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
---	-----------------------------

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

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

Common stock – 15,803,331 shares outstanding at October 31, 2013

---

---

---

**CAUTIONARY STATEMENT  
REGARDING FORWARD LOOKING STATEMENTS**

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

**PART I - FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

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

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2012 for further information in this regard.

Community Trust Bancorp, Inc.  
Condensed Consolidated Balance Sheets

	(unaudited)	
	September 30 2013	December 31 2012
(dollars in thousands)		
Assets:		
Cash and due from banks	\$74,252	\$73,451
Interest bearing deposits	27,681	127,438
Federal funds sold	7,063	6,671
Cash and cash equivalents	108,996	207,560
Certificates of deposit in other banks	9,568	5,336
Securities available-for-sale at fair value (amortized cost of \$669,304 and \$583,858, respectively)	663,916	603,343
Securities held-to-maturity at amortized cost (fair value of \$1,614 and \$1,659, respectively)	1,662	1,662
Loans held for sale	768	22,486
Loans	2,616,365	2,550,573
Allowance for loan losses	(34,013 )	(33,245 )
Net loans	2,582,352	2,517,328
Premises and equipment, net	51,898	54,321
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,886	4,885
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$7,872 and \$7,712, respectively)	744	904
Bank owned life insurance	53,317	44,893
Mortgage servicing rights	3,305	2,364
Other real estate owned	43,078	47,537
Other assets	28,201	31,882
Total assets	\$3,643,854	\$3,635,664
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$616,796	\$606,448
Interest bearing	2,257,488	2,297,400
Total deposits	2,874,284	2,903,848
Repurchase agreements	214,755	210,120
Federal funds purchased and other short-term borrowings	13,933	12,314
Advances from Federal Home Loan Bank	31,316	1,429
Long-term debt	61,341	61,341
Other liabilities	39,548	46,268
Total liabilities	3,235,177	3,235,320
Shareholders' equity:		

Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2013 – 15,697,593; 2012 – 15,612,935	78,488	78,065
Capital surplus	163,128	160,670
Retained earnings	170,563	148,944
Accumulated other comprehensive income (loss), net of tax	(3,502 )	12,665
Total shareholders' equity	408,677	400,344
Total liabilities and shareholders' equity	\$3,643,854	\$3,635,664

See notes to condensed consolidated financial statements.

Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(in thousands except per share data)	2013	2012	2013	2012
<b>Interest income:</b>				
Interest and fees on loans, including loans held for sale	\$33,290	\$34,298	\$98,810	\$103,628
Interest and dividends on securities				
Taxable	3,196	3,148	9,220	9,001
Tax exempt	561	534	1,676	1,525
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock				
Other, including interest on federal funds sold	63	125	273	423
<b>Total interest income</b>	<b>37,455</b>	<b>38,450</b>	<b>111,014</b>	<b>115,631</b>
<b>Interest expense:</b>				
Interest on deposits	2,778	4,777	8,699	14,178
Interest on repurchase agreements and other short-term borrowings	232	294	729	953
Interest on advances from Federal Home Loan Bank	7	8	20	27
Interest on long-term debt	288	325	877	2,102
<b>Total interest expense</b>	<b>3,305</b>	<b>5,404</b>	<b>10,325</b>	<b>17,260</b>
Net interest income	34,150	33,046	100,689	98,371
Provision for loan losses	2,129	2,919	7,349	6,504
<b>Net interest income after provision for loan losses</b>	<b>32,021</b>	<b>30,127</b>	<b>93,340</b>	<b>91,867</b>
<b>Noninterest income:</b>				
Service charges on deposit accounts	6,349	6,038	18,298	17,865
Gains on sales of loans, net	653	660	2,805	1,982
Trust income	2,005	1,734	6,028	5,169
Loan related fees	1,088	631	3,532	2,528
Bank owned life insurance	517	462	2,265	1,321
Securities gains (losses)	(23 )	0	(31 )	819
Other noninterest income	1,482	1,313	4,368	4,330
<b>Total noninterest income</b>	<b>12,071</b>	<b>10,838</b>	<b>37,265</b>	<b>34,014</b>
<b>Noninterest expense:</b>				
Officer salaries and employee benefits	2,705	3,048	7,891	7,727
Other salaries and employee benefits	10,543	10,237	31,553	30,773
Occupancy, net	1,945	1,969	5,844	5,681
Equipment	920	957	2,886	2,870
Data processing	1,850	1,644	5,438	4,771
Bank franchise tax	1,124	1,130	3,370	3,413
Legal fees	585	522	1,747	1,619
Professional fees	491	411	1,305	1,056
FDIC insurance	624	643	1,863	1,913
Other real estate owned provision and expense	905	1,123	3,914	2,672
Other noninterest expense	3,899	4,129	12,066	13,216

Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

Total noninterest expense	25,591	25,813	77,877	75,711
Income before income taxes	18,501	15,152	52,728	50,170
Income taxes	5,848	4,943	16,313	15,860
Net income	12,653	10,209	36,415	34,310
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period	(981 )	3,337	(24,904 )	7,505
Less: Reclassification adjustments for realized (gains) losses included in net income	23	0	31	(819 )
Tax (benefit) expense	(336 )	1,168	(8,706 )	2,340
Other comprehensive income (loss), net of tax	(622 )	2,169	(16,167 )	4,346
Comprehensive income	\$12,031	\$12,378	\$20,248	\$38,656
Basic earnings per share	\$0.81	\$0.66	\$2.34	\$2.22
Diluted earnings per share	\$0.81	\$0.66	\$2.33	\$2.21
Weighted average shares outstanding-basic	15,594	15,491	15,566	15,450
Weighted average shares outstanding-diluted	15,688	15,555	15,647	15,501
Dividends declared per share	\$0.320	\$0.315	\$0.950	\$0.935

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30	
(in thousands)	2013	2012
Cash flows from operating activities:		
Net income	\$36,415	\$34,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,440	3,212
Deferred taxes	570	(2,340 )
Stock-based compensation	498	443
Excess tax benefits of stock-based compensation	100	495
Provision for loan losses	7,349	6,504
Write-downs of other real estate owned and other repossessed assets	1,958	899
Gains on sale of mortgage loans held for sale	(2,805 )	(1,982 )
(Gains)/losses on sales of securities	31	(819 )
Losses on sale of assets, net	160	101
Proceeds from sale of mortgage loans held for sale	122,764	89,015
Funding of mortgage loans held for sale	(98,240 )	(87,268 )
Amortization of securities premiums and discounts, net	3,221	4,143
Change in cash surrender value of bank owned life insurance	(1,119 )	(1,063 )
Mortgage servicing rights:		
Fair value adjustments	(173 )	511
New servicing assets created	(768 )	(510 )
Changes in:		
Other assets	3,674	456
Other liabilities	1,316	11,088
Net cash provided by operating activities	78,391	57,195
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	(4,472 )	0
Purchase of certificates of deposit	240	3,117
Securities available-for-sale (AFS):		
Purchase of AFS securities	(197,263 )	(216,143 )
Proceeds from prepayments and maturities of AFS securities	94,211	113,648
Proceeds from the sales of AFS securities	14,354	12,025
Change in loans, net	(76,276 )	(9,118 )
Purchase of premises and equipment	(933 )	(3,823 )
Proceeds from sale of premises and equipment	93	103
Additional investment in Federal Reserve Bank stock	(1 )	(2 )
Proceeds from sale of other real estate and other repossessed assets	6,408	7,915
Additional investment in other real estate and other repossessed assets	(173 )	(527 )
Additional investment in bank owned life insurance	(7,950 )	0
Proceeds from bank owned life insurance	644	0
Net cash used in investing activities	(171,118 )	(92,805 )
Cash flows from financing activities:		



Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

Change in deposits, net	(29,564 )	33,485
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	6,254	(2,949 )
Proceeds from Federal Home Loan Bank advances	30,000	0
Payments on advances from Federal Home Loan Bank	(113 )	(20,137 )
Issuance of common stock	2,376	4,099
Excess tax benefits of stock-based compensation	(100 )	(495 )
Dividends paid	(14,690 )	(14,333 )
Net cash used in financing activities	(5,837 )	(330 )
Net decrease in cash and cash equivalents	(98,564 )	(35,940 )
Cash and cash equivalents at beginning of period	207,560	238,481
Cash and cash equivalents at end of period	\$108,996	\$202,541
Supplemental disclosures:		
Income taxes paid	\$14,250	\$11,325
Interest paid	9,426	14,303
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	2,231	2,897
Common stock dividends accrued, paid in subsequent quarter	4,992	4,882
Real estate acquired in settlement of loans	6,135	10,540

See notes to condensed consolidated financial statements.

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

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of September 30, 2013, the results of operations for the three and nine months ended September 30, 2013 and 2012, and the cash flows for the nine months ended September 30, 2013 and 2012. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and nine months ended September 30, 2013 and 2012, and the cash flows for the nine months ended September 30, 2013 and 2012, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2012, included in our annual report on Form 10-K.

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

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

**New Accounting Standards** –

**Ø 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. The adoption of ASU No. 2013-02 did not have a material impact on CTBI's consolidated financial statements.

#### Unrealized gains (losses) on AFS securities

Amounts reclassified from accumulated other comprehensive income (AOCI) and the affected line items in the statements of income during the three and nine month periods ended September 30, 2013 and 2012 were:

(in thousands)	Amounts Reclassified from AOCI			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
Affected line item in the statements of income	2013	2012	2013	2012
Securities gains (losses)	\$(23 )	\$0	\$(31 )	\$819
Tax (benefit) expense	(8 )	0	(11 )	287
Net reclassified amount	\$(15 )	\$0	\$(20 )	\$532

#### 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 above. 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.

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.

## Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$2 thousand and \$20 thousand for the three months ended September 30, 2013 and 2012, respectively, and \$7 thousand and \$59 thousand for the nine months ended September 30, 2013 and 2012, respectively. Restricted stock expense for the three months ended September 30, 2013 and 2012 was \$161 thousand and \$159 thousand, respectively, including \$31 thousand in dividends paid for each period. Restricted stock expense for the first nine months of 2013 and 2012 was \$491 thousand and \$475 thousand, respectively, including \$93 thousand and \$91 thousand, respectively, in dividends paid for each period. As of September 30, 2013, there was a total of \$13 thousand of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 1.5 years and a total of \$1.0 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 1.3 years.

There were no shares of restricted stock granted during the three months ended September 30, 2013 and 2012, and 10,822 shares and 331 shares of restricted stock granted during the nine months ended September 30, 2013 and 2012. The restrictions on the restricted stock granted in 2013 and 2012 will lapse over four years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis. The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were no options granted to purchase shares of CTBI common stock during the three months ended September 30, 2013 and 2012. There were 1,500 options granted to purchase shares of CTBI common stock during the nine months ended September 30, 2013. There were no options granted to purchase shares of CTBI common stock during the nine months ended September 30, 2012.

The fair values of options granted during the nine months ended September 30, 2013, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Nine Months Ended September 30 2013	
Expected dividend yield	3.74	%
Risk-free interest rate	1.33	%
Expected volatility	39.11	%
Expected term (in years)	7.5	
Weighted average fair value of options	\$9.05	

## Note 3 – Securities

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

The amortized cost and fair value of securities at September 30, 2013 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	\$66,049	\$284	\$(3,817)	\$62,516
State and political subdivisions	118,708	2,261	(2,604)	118,365
U.S. government sponsored agency mortgage-backed securities	429,547	5,676	(5,706)	429,517
Total debt securities	614,304	8,221	(12,127)	610,398
Marketable equity securities	55,000	0	(1,482)	53,518
Total available-for-sale securities	\$669,304	\$8,221	\$(13,609)	\$663,916

## Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$480	\$0	\$(49)	\$431
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	\$1,662	\$1	\$(49)	\$1,614

The amortized cost and fair value of securities as of 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	791	(165)	45,626
Total available-for-sale securities	\$583,858	\$19,970	\$(485)	\$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 September 30, 2013 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)	Available-for-Sale Fair Value	Held-to-Maturity Fair Value
----------------	-------------------------------	-----------------------------

Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

	Amortized Cost		Amortized Cost	
Due in one year or less	\$4,305	\$4,326	\$0	\$0
Due after one through five years	23,044	23,774	0	0
Due after five through ten years	120,948	117,093	1,182	1,183
Due after ten years	36,460	35,688	480	431
U.S. government sponsored agency mortgage-backed securities	429,547	429,517	0	0
Total debt securities	614,304	610,398	1,662	1,614
Marketable equity securities	55,000	53,518	0	0
Total securities	\$669,304	\$663,916	\$1,662	\$1,614

As of September 30, 2013, there was a combined loss of \$31 thousand due to the partial call of two municipal securities, the sale of one agency security and the sale of three mortgage-backed securities. A pre-tax gain of \$284 thousand and a pre-tax loss of \$315 thousand were realized as of September 30, 2013. As of September 30, 2012, there was a combined gain of \$819 thousand due to the sale of two agency securities. A pre-tax gain of \$885 thousand and a pre-tax loss of \$66 thousand were realized as of September 30, 2012.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$258.5 million at September 30, 2013 and \$262.4 million at December 31, 2012.

The amortized cost of securities sold under agreements to repurchase amounted to \$246.7 million at September 30, 2013 and \$237.3 million at December 31, 2012.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical costs. CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of September 30, 2013 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of September 30, 2013 was 61.1% compared to 14.8% as of December 31, 2012 as a result of changes in the market rates during the third quarter of 2013. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of September 30, 2013 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
<b>Less Than 12 Months</b>			
U.S. Treasury and government agencies	\$55,516	\$(3,817)	\$51,699
State and political subdivisions	60,407	(2,568)	57,839
U.S. government sponsored agency mortgage-backed securities	240,284	(5,698)	234,586
Total debt securities	356,207	(12,083)	344,124
Marketable equity securities	55,000	(1,482)	53,518
Total <12 months temporarily impaired AFS securities	411,207	(13,565)	397,642
<b>12 Months or More</b>			
State and political subdivisions	1,407	(36)	1,371
U.S. government sponsored agency mortgage-backed securities	7,282	(8)	7,274
Total ≥12 months temporarily impaired AFS securities	8,689	(44)	8,645



Total			
U.S. Treasury and government agencies	55,516	(3,817 )	51,699
State and political subdivisions	61,814	(2,604 )	59,210
U.S. government sponsored agency mortgage-backed securities	247,566	(5,706 )	241,860
Total debt securities	364,896	(12,127 )	352,769
Marketable equity securities	55,000	(1,482 )	53,518
Total temporarily impaired AFS securities	\$419,896	\$(13,609 )	\$406,287

## Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$480	\$(49 )	\$431
Total temporarily impaired HTM securities	\$480	\$(49 )	\$431

The analysis performed as of December 31, 2012 indicated that all impairment was considered temporary, market driven, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2012 that are not deemed to be other-than-temporarily impaired.

## Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$47,576	\$(173 )	\$47,403
State and political subdivisions	11,126	(135 )	10,991
U.S. government sponsored agency mortgage-backed securities	10,563	(12 )	10,551
Total debt securities	69,265	(320 )	68,945
Marketable equity securities	20,000	(165 )	19,835
Total temporarily impaired AFS securities	\$89,265	\$(485 )	\$88,780

## Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$480	\$(4 )	\$476
Total temporarily impaired HTM securities	\$480	\$(4 )	\$476

## Note 4 – Loans

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

(in thousands)	September 30	December 31
----------------	--------------	-------------

	2013	2012
Commercial construction	\$107,940	\$119,447
Commercial secured by real estate	877,935	807,213
Equipment lease financing	9,380	9,246
Commercial other	376,486	376,348
Real estate construction	53,545	55,041
Real estate mortgage	693,809	696,928
Home equity	82,498	82,292
Consumer direct	123,960	122,581
Consumer indirect	290,812	281,477
Total loans	\$2,616,365	\$2,550,573

CTBI has segregated and evaluates its loan portfolio through nine portfolio segments. CTBI serves customers in small and mid-sized communities in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Therefore, CTBI's exposure to credit risk is significantly affected by changes in these communities.

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

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

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

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

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

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

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

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

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

Not included in the loan balances above were loans held for sale in the amount of \$0.8 million at September 30, 2013 and \$22.5 million at December 31, 2012. The amount of capitalized fees and costs under ASC 310-20, included in the above loan totals were (\$0.06) million and \$0.4 million at September 30, 2013 and December 31, 2012, respectively.

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

(in thousands)	September 30 2013	December 31 2012
<b>Commercial:</b>		
Commercial construction	\$4,558	\$5,955
Commercial secured by real estate	6,471	5,572
Commercial other	2,482	1,655
<b>Residential:</b>		
Real estate construction	481	315
Real estate mortgage	2,826	3,153
Home equity	313	141
<b>Total nonaccrual loans</b>	<b>\$17,131</b>	<b>\$16,791</b>

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
<b>Commercial:</b>							
Commercial construction	\$226	\$95	\$6,310	\$6,631	\$101,309	\$107,940	\$1,768
Commercial secured by real estate	5,093	2,455	16,989	24,537	853,398	877,935	12,543
Equipment lease financing	0	0	0	0	9,380	9,380	0
Commercial other	5,602	592	6,636	12,830	363,656	376,486	4,174
<b>Residential:</b>							
Real estate construction	354	409	657	1,420	52,125	53,545	175
Real estate mortgage	1,444	3,959	7,644	13,047	680,762	693,809	5,528
Home equity	976	222	690	1,888	80,610	82,498	383
<b>Consumer:</b>							
Consumer direct	997	161	145	1,303	122,657	123,960	145
Consumer indirect	2,082	574	417	3,073	287,739	290,812	417
<b>Total</b>	<b>\$16,774</b>	<b>\$8,467</b>	<b>\$39,488</b>	<b>\$64,729</b>	<b>\$2,551,636</b>	<b>\$2,616,365</b>	<b>\$25,133</b>

(in thousands)	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*

Edgar Filing: COMMUNITY TRUST BANCORP INC /KY/ - Form 10-Q

Commercial:							
Commercial construction	\$1,413	\$312	\$9,598	\$11,323	\$108,124	\$119,447	\$3,778
Commercial secured by real estate	9,733	1,633	10,456	21,822	785,391	807,213	5,943
Equipment lease financing	0	0	0	0	9,246	9,246	0
Commercial other	259	1,142	5,164	6,565	369,783	376,348	3,867
Residential:							
Real estate construction	248	572	511	1,331	53,710	55,041	196
Real estate mortgage	2,765	4,029	7,138	13,932	682,996	696,928	4,511
Home equity	921	102	565	1,588	80,704	82,292	441
Consumer:							
Consumer direct	1,360	336	98	1,794	120,787	122,581	98
Consumer indirect	2,772	907	381	4,060	277,417		