COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
August 06, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2010
	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 Pikeville, Kentucky (address of principal executive offices)	41501 (Zip Code)

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

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

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

Yes	No ü

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

Common stock – 15,239,459 shares outstanding at July 31, 2010

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2009 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) June 30 2010	December 31 2009
Assets:		
Cash and due from banks	$71,196	$62,720
Interest bearing deposits	38,363	31,814
Federal funds sold	67,006	47,595
Cash and cash equivalents	176,565	142,129
Certificates of deposits in other banks	15,508	100
Securities available-for-sale at fair value		
(amortized cost of $344,163 and $263,756, respectively)	352,616	270,237
Securities held-to-maturity at amortized cost		
(fair value of $1,662 and $14,435, respectively)	1,662	14,336
Loans held for sale	1,466	1,818
Loans	2,441,222	2,435,760
Allowance for loan losses	(36,156)	(32,643)
Net loans	2,405,066	2,403,117
Premises and equipment, net	48,403	49,242
Federal Reserve Bank and Federal Home Loan Bank stock	29,054	29,048
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of $7,174 and		
$6,857, respectively)	331	648
Bank owned life insurance	38,812	38,117
Mortgage servicing rights	2,692	3,406
Other real estate owned	40,105	37,333
Other assets	31,953	32,069
Total assets	$3,209,292	$3,086,659
Liabilities and shareholders’ equity:		
Deposits		
Noninterest bearing	$494,901	$490,809
Interest bearing	2,076,226	1,971,400
Total deposits	2,571,127	2,462,209
Repurchase agreements	183,287	180,471
Federal funds purchased and other short-term borrowings	8,465	12,205
Advances from Federal Home Loan Bank	20,059	20,671
Long-term debt	61,341	61,341
Other liabilities	34,682	28,305
Total liabilities	2,878,961	2,765,202
Shareholders’ equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-

Common stock, $5 par value, shares authorized 25,000,000;		
shares outstanding 2010 – 15,227,945; 2009 – 15,183,987	76,140	75,920
Capital surplus	153,640	152,484
Retained earnings	95,057	88,840
Accumulated other comprehensive income, net of tax	5,494	4,213
Total shareholders’ equity	330,331	321,457
Total liabilities and shareholders’ equity	$3,209,292	$3,086,659

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2010	2009	2010	2009
Interest income:				
Interest and fees on loans, including loans held for sale	$35,165	$34,434	$70,316	$68,622
Interest and dividends on securities				
Taxable	2,394	2,499	4,608	5,098
Tax exempt	394	498	818	928
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock	343	340	962	684
Other, including interest on federal funds sold	148	154	237	269
Total interest income	38,444	37,925	76,941	75,601
Interest expense:				
Interest on deposits	7,637	10,435	15,233	21,489
Interest on repurchase agreements and other short-term borrowings	512	599	1,047	1,271
Interest on advances from Federal Home Loan Bank	17	482	38	958
Interest on long-term debt	1,000	1,000	2,000	2,000
Total interest expense	9,166	12,516	18,318	25,718
Net interest income	29,278	25,409	58,623	49,883
Provision for loan losses	3,106	4,522	8,828	6,503
Net interest income after provision for loan losses	26,172	20,887	49,795	43,380
Noninterest income:				
Service charges on deposit accounts	5,949	5,517	11,246	10,466
Gains on sales of loans, net	337	1,309	779	3,240
Trust income	1,458	1,249	2,882	2,411
Loan related fees	46	1,494	886	2,242
Bank owned life insurance	407	287	812	543
Securities gains (losses)	0	(4)	0	515
Other	1,345	1,103	2,678	2,291
Total noninterest income	9,542	10,955	19,283	21,708
Noninterest expense:				
Salaries and employee benefits	11,632	10,650	23,077	21,918
Occupancy, net	1,742	1,714	3,483	3,518
Equipment	959	1,269	1,942	2,388
Data processing	1,697	1,514	3,283	3,001
Bank franchise tax	977	918	1,955	1,828
Legal and professional fees	1,014	924	1,838	1,994
FDIC insurance	1,140	2,250	2,139	3,746
Other real estate owned provision and expense	606	386	1,478	899

Other	3,888	3,953	7,901	8,083
Total noninterest expense	23,655	23,578	47,096	47,375
Income before income taxes	12,059	8,264	21,982	17,713
Income taxes	3,506	2,327	6,638	5,196
Net income	8,553	5,937	15,344	12,517
Other comprehensive income, net of tax:				
Unrealized holding gains on securities available-for-sale	964	56	1,281	1,142
Comprehensive income	$9,517	$5,993	$16,625	$13,659
Basic earnings per share	$0.56	$0.39	$1.01	$0.83
Diluted earnings per share	$0.56	$0.39	$1.01	$0.82
Weighted average shares outstanding-basic	15,228	15,127	15,215	15,101
Weighted average shares outstanding-diluted	15,305	15,219	15,252	15,194
Dividends declared per share	$0.30	$0.30	$0.60	$0.60

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30	
(in thousands)	2010	2009
Cash flows from operating activities:		
Net income	$15,344	$12,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,326	2,712
Deferred taxes	0	581
Stock based compensation	380	283
Excess tax benefits of stock-based compensation	21	313
Provision for loan and other real estate losses	9,223	7,030
Securities gains	0	(515)
Gains on sale of mortgage loans held for sale	(779)	(3,240)
(Gains) losses on sale of assets, net	16	(11)
Proceeds from sale of mortgage loans held for sale	36,794	162,972
Funding of mortgage loans held for sale	(35,663)	(159,708)
Amortization of securities premiums, net	954	929
Change in cash surrender value of bank owned life insurance	(695)	(444)
Mortgage servicing rights		
Fair value adjustments	981	(237)
New servicing assets created	(267)	(1,002)
Changes in:		
Other liabilities	5,695	8,785
Other assets	265	467
Net cash provided by operating activities	34,595	31,432
Cash flows from investing activities:		
Certificates of deposit in other banks		
Purchase of certificates of deposit	(16,363)	(29,400)
Maturity of certificates of deposit	955	0
Securities available-for-sale:		
Proceeds from sales	43,358	37,451
Proceeds from prepayments and maturities	5,005	51,744
Purchase of securities	(129,723)	(118,454)
Securities held-to-maturity:		
Proceeds from prepayments and maturities	13,153	6,179
Purchase of securities	(480)	(480)
Change in loans, net	(17,230)	(49,582)
Purchase of premises and equipment	(1,170)	(1,900)
Proceeds from sale of premises and equipment	2	24
Additional investment in equity securities	(6)	(8)
Proceeds from sale of other real estate and other repossessed assets	3,304	2,155
Additional investment in other real estate owned	(185)	(508)
Additional investment in bank owned life insurance	0	(945)

Net cash used in investing activities	$(99,380)	$(103,724)
Cash flows from financing activities:		
Change in deposits, net	$108,918	$62,119
Change in repurchase agreements and other short-term borrowings, net	(924)	3,088
Payments on advances from Federal Home Loan Bank	(612)	(31)
Issuance of common stock	975	1,375
Excess tax benefits of stock-based compensation	(21)	(313)
Dividends paid	(9,115)	(9,045)
Net cash provided by financing activities	99,221	57,193
Net increase (decrease) in cash and cash equivalents	34,436	(15,099)
Cash and cash equivalents at beginning of period	142,129	140,878
Cash and cash equivalents at end of period	$176,565	$125,779
Supplemental disclosures:		
Income taxes paid	$4,200	$3,468
Interest paid	15,288	23,353
Non-cash activities		
Loans to facilitate the sale of other real estate and other repossessed assets	146	281
Common stock dividends accrued, paid in subsequent quarter	4,568	4,540
Real estate acquired in settlement of loans	6,599	12,357

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 June 30, 2010, the results of operations for the three and six months ended June 30, 2010 and 2009, and the cash flows for the six months ended June 30, 2010 and 2009. 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 six months ended June 30, 2010 and 2009, and the cash flows for the six months ended June 30, 2010 and 2009, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2009 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, 2009, included in CTBI's 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 Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities – ASC 260, formerly FASB Staff Position (FSP) EITF 03-6-1, addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in ASC 260-10-45, formerly paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This standard was effective January 1, 2009, and did not have a significant impact on our consolidated financial statements.

Ø Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly – ASC 820, formerly FSP FAS 157-4, affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. This standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This standard did not have a significant impact on our consolidated financial statements.

Ø Recognition and Presentation of Other Than Temporary Impairments – ASC 320, formerly FSP FAS 115-2 and FSP FAS 124-2, (i) changes existing guidance for determining whether an impairment is other than temporary to debt

securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. This standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This standard did not have a significant impact on our consolidated financial statements.

Ø Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies – ASC 805, formerly FSP FAS 141(R)-1, requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC 450, formerly FAS 5, Accounting for Contingencies and FASB Interpretation No. (FIN) 14, Reasonable Estimation of the Amount of a Loss. ASC 805 removes subsequent accounting guidance for assets and liabilities arising from contingencies and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. This standard also eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by ASC 450, formerly FAS 5. The standard also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with the standard. This standard is effective for assets or liabilities arising from contingencies CTBI acquires in business combinations occurring after January 1, 2009.

Ø Accounting for Transfers of Financial Assets – In June 2009, the FASB issued ASC 860, formerly FAS 166, Accounting for Transfers of Financial Assets — An Amendment of FAS 140. ASC 860 removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Determining When to Consolidate Variable Purpose Entities – In June 2009, the FASB issued ASC 810, formerly FAS 167 — Amendments to FASB Interpretation No. 46(R). ASC 810 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Codification of Authoritative Accounting Principles – In June 2009, the FASB issued ASC 105, formerly FAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard became effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Disclosures Regarding Postretirement Benefit Plan Assets – In December 2008, the FASB issued ASC 715, formerly FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This standard requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Improving Disclosures about Fair Value Measurements – In January 2010, the FASB released Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Subtopic 820, Fair Value Measurements and Disclosures, and Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans. The new standard expands the existing fair value disclosures required by these two subtopics. Additional disclosures required by the new standard must be made for each period beginning after the effective date. Expansion of disclosures for prior periods to include those required by the ASU is optional.

Disclosure changes made by ASU 2010-06 include:

- The amounts of and reasons for significant transfers in and out of Level 1, Level 2 and Level 3 fair value measurements and the accounting policy for the date used to recognize such transfers, e.g., actual transaction date, beginning of reporting period date or end of reporting period date

- Presentation of purchases, sales, issuances and settlements as separate lines, rather than one net number, in the table reconciling activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs

- Provision of fair value measurement disclosures for each class of assets and liabilities with a class often being a subset of assets or liabilities within a balance sheet line item. Class should be determined on the basis of the nature and risks of investments in debt and equity securities and generally will not require change from the classifications already employed in disclosures for those investments

- Provision of explanations about the valuation techniques and inputs used to determine fair value for both recurring and nonrecurring fair value measurements falling in either Level 2 or Level 3

- Revision of the existing disclosures made by a plan sponsor about fair value for assets of defined benefit pension and other postretirement benefit plans to require those disclosures be made by asset class instead of asset category

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, with early adoption permitted. The one exception involves reporting certain items gross instead of net in the existing activity table for items measured at fair value on a recurring basis using Level 3 inputs, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years and may be adopted earlier if desired. Except for the Level 3 table item, each SEC issuer must apply the ASU starting with its first interim period beginning after December 15, 2009. CTBI did not elect to early adopt the provisions which are effective for years beginning after December 15, 2009 or the December 15, 2010 provisions. ASU 2010-06 has not and is not expected to have a material impact on CTBI’s consolidated financial statements.

Ø Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force – In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310) – Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 is effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. We do not expect ASU 2010-18 to have an impact on our financial condition, results of operations, or disclosures.

Ø Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses – In July 2010, the FASB released ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The standard will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The standard will require CTBI to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures will include details on our past due loans, credit quality indicators, and modifications of loans. CTBI will adopt the standard beginning with our December 31, 2010 financial statements.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was $198 thousand and $238 thousand, respectively, for the six months ended June 30, 2010 and 2009, respectively. Restricted stock expense for the first six months of 2010 and 2009 was $182 thousand and $45 thousand, respectively. As of June 30, 2010, there was a total of $0.4 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 1.9 years.

There were options to purchase 4,525 shares of CTBI common stock and 44,996 shares of restricted stock granted during the six months ended June 30, 2010. The options were granted pursuant to the terms of the 2006 Stock Ownership Incentive Plan, with an exercise price per share of $25.09 (equal to fair market value on date of grant), a term of 10 years, and vesting in five years. The restrictions on the restricted stock will lapse at the end of five years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the participant's restricted stock for each year since the date of award). The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were options to purchase 9,000 shares of CTBI common stock and 5,710 shares of restricted stock granted during the six months ended June 30, 2009.

The fair values of options granted during the six months ended June 30, 2010 and 2009, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Six Months Ended June 30			
	2010		2009	
Expected dividend yield	4.78	%	4.02	%
Risk-free interest rate	3.14	%	2.23	%
Expected volatility	39.12	%	37.12	%
Expected term (in years)	7.5		7.5	
Weighted average fair value of options	$6.53		$7.69	

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale 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 June 30, 2010 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	$16,989	$352	$0	$17,341
State and political subdivisions	40,554	1,015	(38)	41,531
U.S. government sponsored agencies	238,495	7,120	(111)	245,504
Collateralized mortgage obligations	27,585	47	(106)	27,526
Total debt securities	323,623	8,534	(255)	331,902
Marketable equity securities	20,540	357	(183)	20,714
Total available-for-sale securities	$344,163	$8,891	$(438)	$352,616

Held-to-Maturity

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

The amortized cost and fair value of securities as of December 31, 2009 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	$16,994	$20	$(283)	$16,731
State and political subdivisions	44,529	1,222	(94)	45,657
U.S. government sponsored agencies	181,693	5,787	(83)	187,397
Total debt securities	243,216	7,029	(460)	249,785
Marketable equity securities	20,540	97	(185)	20,452
Total available-for-sale securities	$263,756	$7,126	$(645)	$270,237

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$1,576	$6	$0	$1,582
U.S. government sponsored agencies	12,280	93	0	12,373
Other debt securities	480	0	0	480
Total held-to-maturity securities	$14,336	$99	$0	$14,435

The amortized cost and fair value of securities at June 30, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations

with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$5,772	$5,825	$0	$0
Due after one through five years	14,667	15,207	0	0
Due after five through ten years	24,066	24,549	0	0
Due after ten years	13,038	13,291	1,182	1,182
U.S. government sponsored agencies	238,495	245,504	0	0
Collateralized mortgage obligations	27,585	27,526	0	0
Other securities	0	0	480	480
Total debt securities	323,623	331,902	1,662	1,662
Marketable equity securities	20,540	20,714	0	0
Total securities	$344,163	$352,616	$1,662	$1,662

There were no pre-tax gains or losses as of June 30, 2010. There was a combined gain of $519 thousand realized in the first six months of 2009 due to sales of five securities and a loss of $4 thousand due to a sale of one security in 2009.

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $104.0 million at June 30, 2010 and $89.2 million at December 31, 2009.

The book value of securities sold under agreements to repurchase amounted to $181.1 million at June 30, 2010 and $179.9 million at December 31, 2009.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of June 30, 2010 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of June 30, 2010 was 7.6% compared to 8.5% as of December 31, 2009. 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 June 30, 2010 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			
States and political subdivision	$2,632	$(19)	$2,613
U.S. government sponsored agencies	7,890	(111)	7,779
Collateralized mortgage obligations	15,116	(106)	15,010
Total debt securities	25,638	(236)	25,402
Marketable equity securities	0	0	0
Total securities	25,638	(236)	25,402
12 Months or More			
States and political subdivision	1,385	(20)	1,365
U.S. government sponsored agencies	0	0	0
Collateralized mortgage obligations	0	0	0
Total debt securities	1,385	(20)	1,365
Marketable equity securities	329	(183)	146
Total securities	1,714	(203)	1,511
Total			
States and political subdivision	4,017	(38)	3,978
U.S. government sponsored agencies	7,890	(111)	7,779
Collateralized mortgage obligations	15,116	(106)	15,010
Total debt securities	27,023	(255)	26,767
Marketable equity securities	329	(183)	146
Total securities	$27,352	$(438)	$26,913

As of June 30, 2010, there were no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2009 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, 2009 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	$14,992	$(283	)	$14,709
States and political subdivision	2,567	(55	)	2,512
U.S. government sponsored agencies	5,013	(83	)	4,930
Total debt securities	22,572	(421	)	22,151
Marketable equity securities	540	(185	)	355
Total securities	23,112	(606	)	22,506
12 Months or More				
U.S. Treasury and government agencies	0	0		0
States and political subdivision	1,601	(39	)	1,562
U.S. government sponsored agencies	0	0		0
Total debt securities	1,601	(39	)	1,562
Marketable equity securities	0	0		0
Total securities	1,601	(39	)	1,562
Total				
U.S. Treasury and government agencies	14,992	(283	)	14,709
States and political subdivision	4,168	(94	)	4,074
U.S. government sponsored agencies	5,013	(83	)	4,930
Total debt securities	24,173	(460	)	23,713
Marketable equity securities	540	(185	)	355
Total securities	$24,713	$(645	)	$24,068

As of December 31, 2009, there were no held-to-maturity securities with unrealized losses.

Note 4 – Loans

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

(in thousands)	June 30 2010	December 31 2009
Commercial construction	$142,847	$141,440
Commercial secured by real estate	761,646	707,500
Commercial other	347,284	373,829
Real estate construction	47,957	51,311
Real estate mortgage	616,618	610,727
Consumer	507,724	530,905
Equipment lease financing	17,146	20,048
Total loans	$2,441,222	$2,435,760

Not included in the loan balances above were loans held for sale in the amount of $1.5 million and $1.8 million at June 30, 2010 and December 31, 2009, respectively. The amount of capitalized fees and costs under ASC 310, formerly SFAS 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, included in the above loan totals were $0.7 million at June 30, 2010 and $0.6 million at December 31, 2009.

Total nonperforming loans were as follows:

(in thousands)	June 30 2010	December 31 2009
Homogeneous pools of nonaccrual loans	$7,073	$5,643
Nonaccrual loans individually evaluated for impairment	38,362	26,604
Total nonaccrual loans	45,435	32,247
Loans greater than 90 days past due	16,857	9,067
Total nonperforming loans	$62,292	$41,314

Additional interest which would have been recorded for the quarter ended June 30, 2010 was $0.9 million compared to $0.4 million and $0.8 million for quarters ended December 31, 2009 and June 30, 2009, respectively. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest.

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

The recorded investments in impaired loans are summarized below:

(in thousands)	June 30 2010	December 31 2009

Impaired loans without specific reserves	$26,143	$12,775
Impaired loans with specific reserves	28,443	19,231
Restructured loans	5,604	6
Total impaired loans	$60,190	$32,012

Specific reserves for impaired loans totaled $9.3 million at June 30, 2010 compared to $6.6 million at December 31, 2009. The average investment in impaired loans was $54.7 million and $30.2 million at June 30, 2010 and December 31, 2009, respectively.

Cash payments on impaired loans were as follows:

(in thousands)	June 30 2010	June 30 2009
Interest payments on impaired loans	$240	$252
Principal payments on impaired loans	1,159	1,523
Total payments	$1,399	$1,775

Activity in the allowance for loan and lease losses was as follows:

	Six Months Ended June 30	
(in thousands)	2010	2009
Allowance balance at January 1	$32,643	$30,821
Additions to allowance charged against operations	8,828	6,503
Recoveries credited to allowance	1,618	1,668
Losses charged against allowance	(6,933)	(7,570)
Allowance balance at June 30	$36,156	$31,422

Note 5 – Mortgage Banking and Servicing Rights

Mortgage banking activities primarily include residential mortgage originations and servicing. Mortgage servicing rights ("MSRs") are carried at fair market value. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. 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.

The following table presents the components of mortgage banking income:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands)	2010	2009	2010	2009
Net gain on sale of loans held for sale	$337	$1,309	$779	$3,240
Net loan servicing income (loss)				
Servicing fees	275	262	548	500
Late fees	18	15	34	33
Ancillary fees	57	161	123	388
Fair value adjustments	(855)	511	(981)	237
Net loan servicing income (loss)	(505)	949	(276)	1,158
Mortgage banking income (loss)	$(168)	$2,258	$503	$4,398

Mortgage loans serviced for others are not included in the accompanying balance sheets. Mortgage loans serviced for the benefit of others (primarily FHLMC) at June 30, 2010, December 31, 2009, and June 30, 2009, were $438 million, $431 million, and $425 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $1.2 million at June 30, 2010, $0.6 million at December 31, 2009, and $1.2 million at June 30, 2009.

Activity for capitalized mortgage servicing rights using the fair value method was as follows:

	Six Months Ended June 30	
(in thousands)	2010	2009
Fair value, beginning of period	$3,406	$2,168
New servicing assets created	267	1,002
Change in fair value during the period due to:		
Time decay (1)	(74)	(76)
Payoffs (2)	(58)	(392)
Changes in valuation inputs or assumptions (3)	(849)	705
Fair value, end of period	$2,692	$3,407

(1) Represents decrease in value due to regularly scheduled loan principal payments and partial loan paydowns.
(2) Represents decrease in value due to loans that paid off during the period.
(3) Represents change in value resulting from market-driven changes in interest rates and prepayment speeds.

The fair value of capitalized mortgage servicing rights was $2.7 million at June 30, 2010 compared to $3.4 million at December 31, 2009 and $3.4 million at June 30, 2009. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended June 30, 2010, December 31, 2009 and June 30, 2009, and weighted average default rates of 2.1%, 1.9% and 1.5% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 17.9%, 13.6%, and 13.3% at June 30, 2010, December 31, 2009, and June 30, 2009, respectively. MSR values are very sensitive to movement in interest rates as expected future net servicing income depends on the projected balance of the underlying loans, which can be greatly impacted by the level of prepayments. CTBI does not currently hedge against changes in the fair value of its MSR portfolio.

Note 6 – Other Real Estate Owned

Activity for foreclosed properties during the six months ended June 30, 2010 and 2009 was as follows:

(in thousands)	2010	2009
Beginning balance, January 1	$37,333	$10,425
New assets acquired	6,450	12,358
Capitalized costs	185	508
Fair value adjustments	(395)	(517)
Sale of assets	(3,468)	(2,405)
Ending balance, June 30	$40,105	$20,369

Carrying costs and fair value adjustments associated with foreclosed properties at June 30, 2010 and 2009, respectively, were $1.5 million and $0.9 million.

Note 7 – Borrowings

Short-term debt consists of the following:

(in thousands)	June 30 2010	December 31 2009
Subsidiaries:		
Repurchase agreements	$183,287	$180,471
Federal funds purchased	8,465	12,205
Total short-term debt	$191,752	$192,676

On October 28, 2009, Community Trust Bancorp, Inc. entered into a revolving credit promissory note for a line of credit in the amount of $12 million at a floating interest rate of 2.25% in excess of the one-month LIBOR Rate. An unused commitment fee of 0.15% has been established. Currently, all $12 million remain available for general corporate purposes. The agreement, which was effective October 29, 2009, replaced the agreement dated July 29, 2008, and will mature on October 28, 2010.

All federal funds purchased and the majority of repurchase agreements mature and reprice daily. The average rates paid for federal funds purchased and repurchase agreements on June 30, 2010 were 0.15% and 1.09%, respectively.

The maximum balance for repurchase agreements at any month-end during the second quarter 2010 occurred at May 31, 2010, with a month-end balance of $191.5 million. The average balance of repurchase agreements for the quarter was $184.8 million.

Federal Home Loan Bank advances consisted of the following monthly amortizing and term borrowings:

(in thousands)	June 30 2010	December 31 2009
Monthly amortizing	$59	$671
Term	20,000	20,000
Total advances	$20,059	$20,671

The advances from the Federal Home Loan Bank that require monthly principal payments were due for repayment as follows:

	Principal Payments Due by Period at June 30, 2010						
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 1.40%	$59	$9	$8	$8	$8	$7	$19

The term advances that require the total payment to be made at maturity follow:

(in thousands)	June 30 2010	December 31 2009
Advance #156, 0.43%, due 1/29/10	$0	$20,000
Advance #157, 0.32%, due 7/28/10	20,000	0
Total term advances	$20,000	$20,000

Advances totaling $20.1 million at June 30, 2010 were collateralized by FHLB stock of $24.7 million and a blanket lien on qualifying first mortgage loans. As of June 30, 2010, CTBI had a $312.1 million FHLB borrowing capacity with $20.1 million in advances and $98.3 million in letters of credit leaving $193.7 million available for additional advances. The advances had fixed interest rates ranging from 0.32% to 2.00% with a weighted average rate of 0.32%. The advances are subject to restriction or penalties in the event of prepayment.

Long-term debt consists of the following:

(in thousands)	June 30 2010	December 31 2009
Junior subordinated debentures, 6.52%, due 6/1/37	$61,341	$61,341

On March 31, 2007, CTBI issued $61.3 million in junior subordinated debentures to a newly formed unconsolidated Delaware statutory trust subsidiary which in turn issued $59.5 million of capital securities in a private placement to institutional investors. The debentures, which mature in 30 years but are redeemable at par at CTBI's option after five years, were issued at a rate of 6.52% until June 1, 2012, and thereafter at a floating rate based on the three-month LIBOR plus 1.59%. The underlying capital securities were issued at the equivalent rates and terms. The proceeds of the debentures were used to fund the redemption on April 2, 2007 of all CTBI's outstanding 9.0% and 8.25% junior subordinated debentures in the total amount of $61.3 million.

Note 8 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2010	2009	2010	2009
Numerator:				
Net income	$8,553	$5,937	$15,344	$12,517
Denominator:				
Basic earnings per share:				
Weighted average shares	15,228	15,127	15,215	15,101
Diluted earnings per share:				
Effect of dilutive stock options	77	92	37	93
Adjusted weighted average shares	15,305	15,219	15,252	15,194
Earnings per share:				
Basic earnings per share	$0.56	$0.39	$1.01	$0.83
Diluted earnings per share	$0.56	$0.39	$1.01	$0.82

Options to purchase 385,022 and 422,972 common shares, respectively, were excluded from the diluted calculations above for the three and six months ended June 30, 2010 because the exercise prices on the options were greater than the average market price for the period. Options to purchase 388,024 common shares were excluded from the diluted calculations above for the three and six months ended June 30, 2009.

Note 9 – Fair Value of Financial Assets and Liabilities

ASC 820, formerly FAS 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The application of ASC 820 in situations where the market for a financial asset is not active was clarified in October 2008 by the issuance of ASC 820-10-35, formerly FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This clarification was effective for financial statements issued as of September 30, 2008 and thereafter and did not have a material impact on the methods by which CTBI determines the

fair values of its financial assets. ASC 820 was also clarified in April 2009 effective for the second quarter 2009 by ASC 820-10-65, formerly FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This section clarifies factors that determine whether transactions are orderly or not in evaluating the reliability of market transactions for fair value estimates. ASC 820-10-15, formerly FSP FAS 157-2, deferred the application of ASC 820 for nonfinancial assets and nonfinancial liabilities that are measured at fair value on a nonrecurring basis to fiscal years beginning after November 15, 2008. CTBI adopted the provisions of this standard with respect to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009.

Assets Measured on a Recurring Basis

The following tables present information about CTBI's assets measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by CTBI to determine such fair value.

(in thousands)		Fair Value Measurements at June 30, 2010 Using		
	Fair Value June 30 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	$17,341	$0	$17,341	$ 0
State and political subdivisions	41,531	0	41,531	0
U.S. government sponsored agencies and mortgage-backed pass through certificates	273,030	0	273,030	0
Marketable equity securities	20,714	0	20,503	211
Mortgage servicing rights	2,692	0	0	2,692
Total recurring assets measured at fair value	$355,308	$0	$352,405	$ 2,903

(in thousands)		Fair Value Measurements at December 31, 2009 Using		
	Fair Value December 31 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	$16,731	$0	$16,731	$ 0
State and political subdivisions	45,657	0	45,657	0
U.S. government sponsored agencies and mortgage-backed pass through certificates	187,397	0	187,397	0
Marketable equity securities	20,452	0	20,241	211
Mortgage servicing rights	3,406	0	0	3,406
Total recurring assets measured at fair value	$273,643	$0	$270,026	$ 3,617

U.S. Treasury and government agencies, State and political subdivision, U.S. government sponsored agencies and mortgage-backed pass through certificates, Marketable equity securities – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service, which utilizes pricing models to determine fair value measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

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

Mortgage Servicing Rights – Level 3 Inputs. CTBI records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value. In determining fair value, CTBI utilizes the expertise of an independent third party. An estimate of the fair value of CTBI's MSRs is determined by the independent third party utilizing discounted cash flow models and assumptions about mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of CTBI's MSRs are classified as Level 3.

Following is a reconciliation of the beginning and ending balances of recurring fair value measurements using significant unobservable (Level 3) inputs:

	Three Months Ended June 30		Six Months Ended June 30	
Marketable Equity Securities (in thousands)	2010	2009	2010	2009
Beginning balance	$211	$211	$211	$540
Total realized and unrealized gains and losses				
Included in net income	0	0	0	0
Transfer of Securities from Level 3 to Level 2	0	0	0	0
Purchases	0	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	(329)
Ending balance	$211	$211	$211	$211

	Three Months Ended June 30		Six Months Ended June 30	
Mortgage Servicing Rights (in thousands)	2010	2009	2010	2009
Beginning balance	$3,442	$2,475	$3,406	$2,168
Total realized and unrealized gains and losses				
Included in net income	(834)	744	(849)	705
Transfer of Securities from Level 3 to Level 2	0	0	0	0
Purchases	0	0	0	0
Issuances	105	420	267	1,002
Settlements	(21)	(232)	(132)	(468)
Ending balance	$2,692	$3,407	$2,692	$3,407

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis as of June 30, 2010 and December 31, 2009 are summarized below:

(in thousands)	Fair Value Measurements at June 30, 2010 Using			
	Fair Value June 30 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$15,317	$0	$0	$ 15,317
Other real estate/assets owned	3,898	0	0	3,898

(in thousands)	Fair Value Measurements at December 31, 2009 Using			
	Fair Value December 31 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$8,387	$0	$0	$ 8,387
Other real estate/assets owned	8,331	0	0	8,331

Impaired Loans – Level 3 Inputs. Loans considered impaired under ASC 310, formerly FAS 114, Accounting, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosure, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral less discounts for costs to sell and other estimated discounts or (2) the full charge-off of the loan carrying value. Quarter-to-date fair value adjustments on impaired loans were $2.1 million at June 30, 2010 compared to $1.1 million and $2.4 million for quarters ended December 31, 2009 and June 30, 2009, respectively. Year-to-date fair value adjustments on impaired loans were $5.6 million for both June 30, 2010 and December 31, 2009.

Other real estate/assets owned – Level 3 Inputs. In accordance with the provisions of FASB Codification Topic 360, formerly FAS 144, long-lived assets held for sale with a carrying amount of $3.9 million were written down to their fair value less costs to sale during the year. Long-lived assets are subject to nonrecurring fair value adjustments to reflect partial write-downs that are based on the observable market price or current appraised value of the collateral. Quarter-to-date fair value adjustments on other real estate/assets owned were $0.1 million, $0.7 million, and $0.2 million for quarters ended June 30, 2010, December 31, 2009, and June 30, 2009, respectively. Year-to-date fair value adjustments on other real estate/assets owned were $0.4 million as of June 30, 2010 compared to $1.4 million as of December 31, 2009.

The following table presents the carrying amounts and estimated fair values of financial instruments at June 30, 2010 and December 31, 2009:

(in thousands)	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$176,565	$176,565	$142,129	$142,129
Certificates of deposits in other banks	15,508	15,489	100	100
Securities available-for-sale	352,616	352,616	270,237	270,237
Securities held-to-maturity	1,662	1,662	14,336	14,435
Loans, net (including impaired loans)	2,405,066	2,397,560	2,403,117	2,407,703
Loans held for sale	1,466	1,494	1,818	1,845
Federal Reserve Bank stock	4,354	4,354	4,348	4,348
Federal Home Loan Bank stock	24,700	24,700	24,700	24,700
Accrued interest receivable	11,769	11,769	11,936	11,936
Capitalized mortgage servicing rights	2,692	2,692	3,406	3,406
Total financial assets	$2,996,398	$2,988,901	$2,876,127	$2,880,839
Financial liabilities				
Deposits	$2,571,127	$2,572,347	$2,462,209	$2,462,676
Repurchase agreements	183,287	183,385	180,471	180,776
Federal funds purchased	8,465	8,465	12,205	12,205
Advances from Federal Home Loan Bank	20,059	20,059	20,671	20,670
Long-term debt	61,341	30,832	61,341	29,522
Accrued interest payable	6,716	6,716	3,686	3,686
Total financial liabilities	$2,850,995	$2,821,804	$2,740,583	$2,709,535
Unrecognized financial instruments				
Letters of credit	$0	$0	$0	$0
Commitments to extend credit	0	0	0	0
	$0	$0	$0	$0

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value.

Certificates of deposit in other banks – Fair values are based on quoted market prices or dealer quotes.

Securities – Fair values are based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities.

Loans (net of the allowance for loan and lease losses and including impaired loans) – The fair value of fixed rate loans and variable rate mortgage loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For other variable rate loans, the carrying amount approximates fair value.

Loans held for sale – The fair value is predetermined at origination based on sale price.

Federal Reserve Bank stock – The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

Federal Home Loan Bank stock – The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Accrued interest receivable – The carrying amount approximates fair value.

Deposits – The fair value of fixed maturity time deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. For deposits including demand deposits, savings accounts, NOW accounts, and certain money market accounts, the carrying value approximates fair value.

Repurchase agreements – The fair value is estimated by discounting future cash flows using current rates.

Federal funds purchased – The carrying amount approximates fair value.

Advances from Federal Home Loan Bank – The fair value of these fixed-maturity advances is estimated by discounting future cash flows using rates currently offered for advances of similar remaining maturities.

Long-term debt – The fair value is estimated by discounting future cash flows using current rates.

Accrued interest payable – The carrying amount approximates fair value.

Other financial instruments – The estimated fair value for other financial instruments and off-balance sheet loan commitments approximates cost at June 30, 2010 and December 31, 2009. Off-balance sheet loan commitments at June 30, 2010 and December 31, 2009 were $421.6 million and $425.1 million, respectively.

Letters of credit – The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of such letters of credit is not material.

Commitments to extend credit – The fair value of commitments to extend credit is based upon the difference between the interest rate at which we are committed to make the loans and the current rates at which similar loans would be

made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for the estimated volume of loan commitments actually expected to close. The fair value of such commitments is not material.

Item 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations

Overview

Community Trust Bancorp, Inc. ("CTBI") is a bank holding company headquartered in Pikeville, Kentucky. At June 30, 2010, CTBI owned one commercial bank and one trust company. Through its subsidiaries, CTBI has seventy-six banking locations in eastern, northeastern, central, and south central Kentucky and southern West Virginia, and five trust offices across Kentucky. At June 30, 2010, CTBI had total consolidated assets of $3.2 billion and total consolidated deposits, including repurchase agreements, of $2.8 billion, making it the largest depository of Kentucky based deposits of any bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders' equity at June 30, 2010 was $330.3 million.

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 our 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.

See note 1 to the condensed consolidated financial statements for further information regarding our accounting policies. We have identified the following critical accounting policies:

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

At December 31, 2009, all of the financial institutions holding CTBI's or its subsidiary's cash accounts were participating in the FDIC's Transaction Account Guarantee Program. Under the program, through December 31, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. Effective January 1, 2010 one correspondent bank opted out of the program leaving CTBI with exposure of $1.2 million at June 30, 2010. The Dodd-Frank financial reform bill extended the unlimited FDIC insurance on noninterest-bearing transaction accounts through December 31, 2012. Beginning January 1, 2011, this will apply to all insured institutions, including those who opted out of the current rules.

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, formerly Financial Accounting Standard (FAS) 115, Accounting for Certain Investments in Debt and Equity Securities, investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values shall be classified in one of the following categories and measured at fair value in the statement of financial position:

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

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

We do not have any securities that are classified as trading securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of shareholders' equity, net of tax. If declines in fair value are other than temporary, the carrying value of the securities is written down to fair value as a realized loss.

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

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.

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

U.S. Treasury and government agencies, state and political subdivision, U.S. government sponsored agencies, Marketable equity securities – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service, which utilizes pricing models to determine fair value measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

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

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

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

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

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower’s cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310, formerly FAS 114, Accounting by Creditors for Impairment of a Loan. We evaluate the collectibility of both principal and interest when assessing the need for loss provision. Historical loss rates are 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, formerly FAS 5, Accounting for Contingencies.

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

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

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization. Premises and equipment are evaluated for impairment on a quarterly basis.

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

Other Real Estate – Real estate acquired by foreclosure is carried at the lower of the investment in the property or its fair value less estimated cost to sell. Periodically, but not less frequently than bi-annually, an updated appraisal is obtained for each property owned and any decline in the fair value is recognized by a charge to income. 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, formerly FAS 142, Goodwill and Other Intangible Assets and FAS 147, Acquisitions of Certain Financial Institutions, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

Amortization of core deposit intangible is estimated at approximately $0.4 million for year one, approximately $0.05 million annually in years two through five, and approximately $0.03 million in year six.

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, formerly FAS 123R.

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

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

Mortgage Servicing Rights – Mortgage servicing rights ("MSRs") are carried at fair market value with the implementation of ASC 860, formerly FAS 156, in January 2007. MSRs are valued using Level 3 inputs as defined in ASC 820, formerly FAS 157. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average

life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. 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 in mortgage banking income.

Stock Options – At June 30, 2010 and December 31, 2009, CTBI had a share-based employee compensation plan, which is described more fully in note 14 to the consolidated financial statements for the year ended December 31, 2009, included in CTBI's Annual Report on Form 10-K. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, formerly FAS 123R, 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.

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.

Dividends

The following schedule shows the quarterly cash dividends paid for the past six quarters:

Pay Date	Record Date	Amount Per Share
July 1, 2010	June 15, 2010	$0.30
April 1, 2010	March 15, 2010	$0.30
January 1, 2010	December 15, 2009	$0.30
October 1, 2009	September 15, 2009	$0.30
July 1, 2009	June 15, 2009	$0.30
April 1, 2009	March 15, 2009	$0.30

On July 27, 2010, CTBI announced an increase in the quarterly cash dividend to $0.305 per share to be paid on October 1, 2010, to shareholders of record on September 15, 2010.

Statement of Income Review

CTBI reported earnings for the second quarter 2010 of $8.6 million or $0.56 per basic share compared to $6.8 million or $0.45 per basic share earned during the quarter ended March 31, 2010 and $5.9 million or $0.39 per basic share earned during the second quarter of 2009. Earnings for the six months ended June 30, 2010 were $15.3 million or $1.01 per basic share compared to $12.5 million or $0.83 per basic share for the six months ended June 30, 2009.

Earnings Summary					
(in thousands except per share data)	2Q 2010	1Q 2010	2Q 2009	6 Months 2010	6 Months 2009
Net income	$8,553	$6,791	$5,937	$15,344	$12,517
Earnings per share	$0.56	$0.45	$0.39	$1.01	$0.83
Earnings per share--diluted	$0.56	$0.45	$0.39	$1.01	$0.82
Return on average assets	1.06 %	0.88 %	0.78 %	0.98 %	0.83 %
Return on average equity	10.40 %	8.47 %	7.54 %	9.44 %	8.02 %
Efficiency ratio	60.41 %	59.45 %	64.25 %	59.93 %	66.08 %
Tangible common equity	8.43 %	8.36 %	8.38 %	8.43 %	8.38 %
Dividends declared per share	$0.30	$0.30	$0.30	$0.60	$0.60
Book value per share	$21.69	$21.35	$20.80	$21.69	$20.80
Weighted average shares	15,228	15,202	15,127	15,215	15,101
Weighted average shares--diluted	15,305	15,235	15,219	15,252	15,194

Second Quarter 2010 Highlights

- As announced on June 8, 2010, CTBI has entered into an acquisition agreement and plan of share exchange with LaFollette First National Corporation and First National Bank of LaFollette, the wholly-owned subsidiary of LaFollette Corporation.

- CTBI's quarterly basic earnings per share increased $0.11 per share from first quarter 2010 and $0.17 per share from second quarter 2009. Year-to-date basic earnings per share increased $0.18 per share from prior year. Year-to-date earnings were positively impacted by increased net interest income; however, this was partially offset by an increased provision for loan losses.

- CTBI experienced significant improvement in our net interest margin year over year; however, our net interest margin for the quarter decreased 20 basis points from first quarter 2010.

- Nonperforming loans increased $7.4 million during the second quarter 2010 to $62.3 million compared to $54.9 million at prior quarter end and $59.6 million at June 30, 2009. The linked quarter increase in nonperforming loans was in the nonaccrual classification. Nonperforming assets increased $8.7 million from prior quarter-end and $22.5 million from prior year second quarter.

- The loan loss provision for the six months ended June 30, 2010 increased $2.3 million from prior year to support the increase in nonperforming loans year over year per CTBI’s robust loan portfolio management process and loan loss reserve analysis. This increase resulted in an increase in the loan loss reserve ratio to 1.48% from 1.32% at June 30, 2009.

- Net loan charge-offs for the quarter ended June 30, 2010 of $1.8 million, or 0.30% of average loans annualized, was a reduction from prior quarter’s 0.58% and from the 0.63% experienced for the second quarter 2009.

- Noninterest income decreased for the period ended June 30, 2010 compared to same period 2009 as a result of decreased gains on sales of loans and loan related fees. The decrease in loan related fees resulted from a $0.7 million decline in the fair value of our mortgage servicing rights portfolio. The decline in these noninterest income sources, however, was partially offset by increases in trust revenue and deposit service charges.