COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 15, 2011

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

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
	For the fiscal year ended December 31, 2010
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
	For the transition period from _____________ to _____________

Commission file number 0-11129
COMMUNITY TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0979818
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.
346 North Mayo Trail Pikeville, Kentucky (address of principal executive offices)	41501 (Zip Code)

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

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

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

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

Yes	No ü

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

Yes	No ü

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

Yes ü	No

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

Yes	No

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

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

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

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

Yes	No ü

Based upon the closing price of the Common Shares of the Registrant on the NASDAQ-Stock Market LLC – Global Select Market, the aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2010 was $361.5 million. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates. The number of shares outstanding of the Registrant's Common Stock as of February 28, 2011 was 15,296,519.

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DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Form 10-K
(1) Proxy statement for the annual meeting of shareholders to be held April 26, 2011	Part III

PART I

Item 1. Business

Community Trust Bancorp, Inc. ("CTBI") is a bank holding company registered with the Board of Governors of the Federal Reserve System pursuant to Section 5(a) of the Bank Holding Company Act of 1956, as amended. CTBI was incorporated August 12, 1980, under the laws of the Commonwealth of Kentucky for the purpose of becoming a bank holding company. Currently, CTBI owns all the capital stock of one commercial bank and one trust company, serving small and mid-sized communities in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky and the trust company is Community Trust and Investment Company, Lexington, Kentucky.

On June 8, 2010, CTBI entered into an Agreement and Plan of Share Exchange with LaFollette First National Corporation, a Tennessee corporation ("LaFollette Corporation") and First National Bank of LaFollette, the wholly-owned subsidiary of LaFollette Corporation ("LaFollette Bank"). On November 17, 2010, CTBI completed the acquisition of LaFollette Corporation and LaFollette Bank, acquiring all outstanding shares of LaFollette Corporation in a share exchange for $650 per share, or a total of approximately $16.1 million. In addition, CTBI paid $1.2 million to retire a debt owed by LaFollette Corporation. Immediately following the share exchange, LaFollette Corporation was merged into CTBI. LaFollette Bank was merged into Community Trust Bank, Inc. (the "Bank") on January 21, 2011. All references to the "Bank" included herein shall be deemed to include both Community Trust Bank, Inc. and LaFollette Bank unless otherwise noted.

At December 31, 2010, CTBI had total consolidated assets of $3.4 billion and total consolidated deposits, including repurchase agreements, of $2.9 billion, making it the largest bank holding company based on total deposits headquartered in the Commonwealth of Kentucky.

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

COMPETITION

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

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

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

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

No material portion of our business is seasonal. We are not dependent upon any one customer or a few customers, and the loss of any one or a few customers would not have a material adverse effect on us. See note 19 to the consolidated financial statements for additional information regarding concentrations of credit.

We do not engage in any operations in foreign countries.

EMPLOYEES

As of December 31, 2010, CTBI and subsidiaries had 1,041 full-time equivalent employees. Our employees are provided with a variety of employee benefits. A retirement plan, an employee stock ownership plan, group life insurance, major medical insurance, a cafeteria plan, and annual management and employee incentive compensation plans are available to all eligible personnel.

SUPERVISION AND REGULATION

General

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

Community Trust Bank, Inc. is a state-chartered bank subject to state and federal banking laws and regulations and periodic examination by the Kentucky Department of Financial Institutions and the restrictions, including dividend restrictions, thereunder. Our Bank is also a member of the Federal Reserve System and is subject to certain restrictions imposed by and to examination and supervision under the Federal Reserve Act. Community Trust and Investment Company is also regulated by the Kentucky Department of Financial Institutions and the Federal Reserve. Prior to the merger of LaFollette Bank into Community Trust Bank, Inc., LaFollette Bank was a national bank regulated by the Office of the Comptroller of the Currency.

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

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

- Broaden the base for FDIC insurance assessments, eliminate the ceiling and increase the size of the floor of the Deposit Insurance Fund, and offset the impact of the minimum floor on institutions with less than $10 billion in assets. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

- Remove the federal prohibition on payment of interest on demand deposits, thereby permitting businesses to have interest bearing checking accounts.

    - Require new capital regulations to be adopted within 18 months. These regulations must be at least as stringent as, and may call for higher levels of capital than, current regulations. The same leverage and risk based capital requirements that apply to depository institutions will apply to holding companies. New issuances of trust preferred securities will no longer be eligible to qualify as Tier 1 capital. However, CTBI's currently outstanding trust preferred securities are grandfathered and will still be considered in Tier 1 capital under the regulations. Under Dodd-Frank, and previously under Federal Reserve policy, we are required to act as a source of financial strength for our bank subsidiary and to commit sufficient resources to support it.

- Create a new agency, the Consumer Financial Protection Bureau, responsible for the implementation of federal consumer protection laws. The Bureau will have broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Bureau will have examination and enforcement authority over all banks with more than $10 billion in assets. Although CTBI does not have assets of more than $10 billion, any change in regulatory environment may have a negative impact on all financial institutions.

- Permanently increase the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, with noninterest bearing transaction accounts and IOLTA accounts having unlimited deposit insurance through December 31, 2012.

- Increase the authority of the Federal Reserve Board to examine CTBI and its non-bank subsidiaries and give the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board recently proposed capping such fees at seven to 12 cents, subject to adjustment for fraud prevention costs. Although this requirement does not apply to CTBI, it may impact our ability to generate revenue at the same level as we have in the past.

- Restrict proprietary trading by banks, bank holding companies and others, and their acquisition and retention of ownership interests in and sponsorship of hedge funds and private equity funds, subject to an exception allowing a bank to organize and offer hedge funds and private equity funds to customers if certain conditions are met, including, among others, a requirement that the bank limit its ownership interest in any single fund to 3%, and its aggregate investment in all funds to 3%, of Tier 1 capital, with no director or employee of the bank holding an ownership interest in the fund unless he or she provides services directly to the funds.

- Require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments in mergers and acquisitions, and authorize the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own director candidates using a company's proxy materials. The legislation also directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.

- Impose new restrictions related to mortgage lending, such as new minimum underwriting standards, require certain loan provision qualifications, limitations on mortgage terms and additional disclosures to mortgage borrowers, and prohibit certain yield-spread compensation to mortgage originators.

Permit banks to establish de novo interstate branches at a location where a bank based in that state could establish a branch, and require banks and bank holding companies to be well-capitalized and well-managed in order to acquire banks outside their home state.

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

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors. See also, "Cautionary Statement Regarding Forward-Looking Statements." If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

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

The national and global economic downturn has resulted in unprecedented levels of financial market volatility and has in general adversely impacted the market value of financial institutions, limited access to capital and had an adverse effect on the financial condition or results of operations of banking companies in general, including CTBI. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength. From early 2008 to the middle of 2010, CTBI experienced significant challenges, credit quality deteriorated, and net income and results of operations were adversely impacted. While there has been some improvement in economic conditions in our markets starting in the second half of 2010, we believe that we will continue to experience a challenging environment in 2011. CTBI is a part of the financial system and a continuation of the systemic lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely impact CTBI's business, financial condition, and results of operations. In addition, the possible duration and severity of the adverse economic cycle is unknown and may exacerbate financial service providers', including CTBI's, exposure to credit risk. Actions by Congress, Treasury, the FDIC and other governmental agencies and regulators have been initiated to address economic stabilization, yet the efficacy of these programs in stabilizing the economy and the banking system is uncertain. There can be no assurance that these actions will not have an adverse effect on the financial position or results of operations of financial service providers including CTBI.

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

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Our profits depend on providing products and services to clients in these local regions. These regions have experienced an increase in unemployment and a decrease in real estate values. Further increases in unemployment, additional decreases in real estate values, or increases in interest rates could weaken the local economies in which we operate. Typically, our market area lags behind the national economy in the recovery from economic downturns. The improvement of certain economic indicators such as unemployment and real estate asset values, may continue to lag behind improvement in the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. A continuation of high levels of unemployment and depressed real estate asset values in the markets we serve would likely prolong the economic recovery period in our market area. Weakness in our market area could depress our earnings and consequently our financial condition because:

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

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

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

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

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

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

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

Liquidity Risk
CTBI is subject to liquidity risk.

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

Banking Reform
Our business may be adversely affected by "banking reform" legislation.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. This legislation includes, among other things: (i) changes in the manner in which the FDIC deposit insurance assessments will be computed and an increase in the minimum designated reserve ratio for the Deposit Insurance Fund; (ii) authorization of interest-bearing demand deposits; (iii) requirements for new capital regulations applicable to banks and bank holding companies which may call for higher levels of capital; (iv) creation of the Consumer Financial Protection Bureau, responsible for implementation of federal consumer protection laws which affect banks and bank holding companies; (v) a permanent increase in the maximum amount of deposit insurance for banks; (vi) a prohibition of certain proprietary trading and equity investment activities by banks; (vii) new restrictions related to mortgage lending; (viii) allowance of de novo interstate branching; and (ix) additional corporate governance provisions relating to non-binding shareholder votes on executive compensation and new rules prohibiting incentive compensation that encourages inappropriate risks.

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

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

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

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

Federal banking regulators are increasing regulatory scrutiny, and additional limitations (including those contained in the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. The banking industry is highly regulated and changes in federal and state banking regulations as well as policies and administration guidelines may affect our practices, growth prospects, and earnings. In particular, there is no assurance that recent governmental actions designed to stabilize the economy and banking system will not adversely affect the financial position or results of operations of CTBI.

Credit Risk

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

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

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

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

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

- Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risks because they are generally not fully amortizing over a loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. As of December 31, 2010, commercial real estate loans, including multi-family loans, comprised approximately 31% of our total loan portfolio.

- Other Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2010, other commercial loans comprised approximately 15% of our total loan portfolio.

- Construction and Development Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2010, construction and development loans comprised approximately 7% of our total loan portfolio.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans, particularly when the consumer loan is unsecured. Repayment of a consumer loan typically depends on the borrower's financial stability, and it is more likely to be affected adversely by job loss, illness, or personal bankruptcy. In addition, federal and state bankruptcy, insolvency, and other laws may limit the amount we can recover when a consumer client defaults. As of December 31, 2010, consumer loans comprised approximately 19% of our total loan portfolio.

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

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

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

As of December 31, 2010, approximately 66% of our loan portfolio is secured by real estate, the majority of which is commercial real estate. Although our level of net charge-offs decreased in 2010, ongoing high levels of commercial and consumer delinquencies or further declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition, and results of operations and prospects.

Our level of other real estate owned has increased, primarily as a result of foreclosures. To the extent that we continue to hold a higher level of real estate owned, related real estate expense would likely increase.

During the recent economic downturn, we experienced an increase in non-performing real estate loans. As a result, we have experienced an increase in the level of foreclosed properties. Foreclosed real estate expense consists of maintenance costs, valuation adjustments to appraisal values and gains or losses on disposition. If our levels of other real estate owned increase or are sustained and local real estate values decline, our foreclosed real estate expense will increase, which would adversely impact our results of operations.

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

Operational Risk

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

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

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

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

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

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

Technology Risk
CTBI continually encounters technological change.

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

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

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

Item 1B. Unresolved Staff Comments

None.

SELECTED STATISTICAL INFORMATION

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

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

	2010			2009			2008		
(in thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	$2,461,225	$142,519	5.79 %	$2,383,875	$139,677	5.86 %	$2,283,180	$150,413	6.59 %
Loans held for sale	1,040	111	10.67 %	1,580	359	22.72 %	1,752	171	9.76 %
Securities:									
U.S. Treasury and agencies	249,835	7,983	3.20 %	237,641	8,792	3.70 %	249,515	10,912	4.37 %
Tax exempt state and political subdivisions (3)	43,128	2,456	5.69 %	47,801	2,839	5.94 %	45,146	2,875	6.37 %
Other securities	36,927	951	2.58 %	20,812	777	3.73 %	32,842	1,723	5.25 %
Federal Reserve Bank and Federal Home Loan Bank stock	29,183	1,351	4.63 %	29,047	1,402	4.83 %	28,549	1,559	5.46 %
Federal funds sold	89,598	234	0.26 %	66,619	193	0.29 %	53,816	1,083	2.01 %
Interest bearing deposits	37,989	85	0.22 %	24,203	54	0.22 %	6,297	121	1.92 %
Other investments	11,190	77	0.69 %	17,267	131	0.76 %	100	3	3.00 %
Investment in unconsolidated subsidiaries	1,856	120	6.47 %	1,856	120	6.47 %	1,857	120	6.46 %
Total earning assets	2,961,971	$155,887	5.26 %	2,830,701	$154,344	5.45 %	2,703,054	$168,980	6.25 %
Allowance for loan and lease losses	(35,741)			(32,599)			(29,901)		
	2,926,230			2,798,102			2,673,153		
Nonearning assets:									
Cash and due from banks	66,740			59,940			74,264		
Premises and equipment, net	49,468			50,843			52,559		

Other assets	177,649			138,215			121,241		
Total assets	$3,220,087			$3,047,100			$2,921,217		
Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	$668,255	$3,074	0.46 %	$666,874	$4,002	0.60 %	$655,577	$7,885	1.20%
Time deposits	1,392,510	26,078	1.87 %	1,271,072	35,791	2.82 %	1,204,550	45,964	3.82%
Repurchase agreements and federal funds purchased	198,880	2,027	1.02 %	180,044	2,457	1.36 %	170,231	4,424	2.60%
Advances from Federal Home Loan Bank	20,286	79	0.39 %	47,434	1,291	2.72 %	49,001	1,701	3.47%
Long-term debt	61,341	3,999	6.52 %	61,341	3,999	6.52 %	61,341	4,000	6.52%
Total interest bearing liabilities	2,341,272	$35,257	1.51 %	2,226,765	$47,540	2.13 %	2,140,700	$63,974	2.99%
Noninterest bearing liabilities:									
Demand deposits	514,196			471,902			443,593		
Other liabilities	30,974			30,722			28,523		
Total liabilities	2,886,442			2,729,389			2,612,816		
Shareholders' equity	333,645			317,711			308,401		
Total liabilities and shareholders' equity	$3,220,087			$3,047,100			$2,921,217		
Net interest income		$120,630			$106,804			$105,006	
Net interest spread			3.75 %			3.32 %			3.26%
Benefit of interest free funding			0.32 %			0.45 %			0.62%
Net interest margin			4.07 %			3.77 %			3.88%

(1) Interest includes fees on loans of $1,766, $1,741, and $1,679 in 2010, 2009, and 2008, respectively.
(2) Loan balances are net of unearned income and include principal balances on nonaccrual loans.
(3) Tax exempt income on securities and loans is reported on a fully taxable equivalent basis using a 35% rate.

Net Interest Differential

The following table illustrates the approximate effect of volume and rate changes on net interest differentials between 2010 and 2009 and also between 2009 and 2008.

(in thousands)	Total Change 2010/2009	Change Due to Volume	Change Due to Rate	Total Change 2009/2008	Change Due to Volume	Change Due to Rate
Interest income						
Loans	$2,842	$4,493	$(1,651)	$(10,736)	$6,424	$(17,160)
Loans held for sale	(248)	(148)	(100)	188	(15)	203
U.S. Treasury and agencies	(809)	434	(1,243)	(2,120)	(538)	(1,582)
Tax exempt state and political subdivisions	(383)	(286)	(97)	(36)	164	(200)
Other securities	174	468	(294)	(946)	(733)	(213)
Federal Reserve Bank and Federal Home Loan Bank stock	(51)	7	(58)	(157)	27	(184)
Federal funds sold	41	61	(20)	(890)	210	(1,100)
Interest bearing deposits	31	31	0	(67)	112	(179)
Other investments	(54)	(49)	(5)	128	132	(4)
Investment in unconsolidated subsidiaries	0	0	0	0	0	0
Total interest income	1,543	5,011	(3,468)	(14,636)	5,783	(20,419)
Interest expense						
Savings and demand deposits	(928)	8	(936)	(3,883)	134	(4,017)
Time deposits	(9,713)	3,165	(12,878)	(10,173)	2,423	(12,596)
Repurchase agreements and federal funds purchased	(430)	238	(668)	(1,967)	242	(2,209)
Advances from Federal Home Loan Bank	(1,212)	(992)	(220)	(410)	(56)	(354)
Long-term debt	0	0	0	(1)	0	(1)
Total interest expense	(12,283)	2,419	(14,702)	(16,434)	2,743	(19,177)
Net interest income	$13,826	$2,592	$11,234	$1,798	$3,040	$(1,242)

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

Investment Portfolio

The maturity distribution and weighted average interest rates of securities at December 31, 2010 are as follows:

Available-for-sale

	Estimated Maturity at December 31, 2010					
	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total Fair Value	Amortized Cost

(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agencies	$9,480	4.62%	$230,006	3.52%	$25,650	3.09%	$1,361	4.06%	$266,497	3.52%	$260,059
State and municipal obligations	3,372	5.25	14,570	4.83	12,457	4.95	21,466	5.56	51,865	5.19	52,017
Other securities	0	0.00	20,052	3.27	0	0.00	261	3.66	20,313	3.28	20,582
Total	$12,852	4.78%	$264,628	3.58%	$38,107	3.70%	$23,088	5.45%	$338,675	3.76%	$332,658

Held-to-maturity

	Estimated Maturity at December 31, 2010										
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
State and municipal obligations	$0	0.00%	$0	0.00%	$1,182	4.45%	$0	0.00%	$1,182	4.45%	$1,182
Other securities	0	0.00	480	2.82	0	0.00	0	0.00	480	2.82	480
Total	$0	0.00%	$480	2.82%	$1,182	4.45%	$0	0.00%	$1,662	3.98%	$1,662
Total securities	$12,852	4.78%	$265,108	3.57%	$39,289	3.72%	$23,088	5.45%	$340,337	3.76%	$334,320

The calculations of the weighted average interest rates for each maturity category are based upon yield weighted by the respective costs of the securities. The weighted average rates on state and political subdivisions are computed on a taxable equivalent basis using a 35% tax rate.

Excluding those holdings of the investment portfolio in U.S. Treasury securities, government agencies, and government sponsored agencies, there were no securities of any one issuer that exceeded 10% of our shareholders' equity at December 31, 2010.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2010 and 2009 are presented in note 4 to the consolidated financial statements.

The book value of securities at December 31, 2008 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	$ 18,330	$ 0
State and political subdivisions	39,738	1,576
U.S. government sponsored agencies	187,390	24,021
Collateralized mortgage obligations	1	0
Total debt securities	245,459	25,597
Marketable equity securities	20,540	0
Total securities	$ 265,999	$ 25,597

Loan Portfolio

(in thousands)	2010	2009	2008	2007	2006
Commercial:					
Construction	$135,091	$141,440	$156,425	$143,773	$133,902
Secured by real estate	807,049	707,500	663,663	640,574	632,881
Equipment lease financing	14,151	20,048	12,343	5,817	11,524
Other commercial	388,746	373,829	365,685	333,774	337,075
Total commercial	1,345,037	1,242,817	1,198,116	1,123,938	1,115,382
Residential:					
Real estate construction	56,910	51,311	56,298	69,021	50,588
Real estate mortgage	623,851	528,592	524,827	511,458	481,857
Home equity	85,103	82,135	84,567	88,207	97,340
Total residential	765,864	662,038	665,692	668,686	629,785
Consumer:					
Consumer direct	126,046	115,555	117,186	119,971	120,975
Consumer indirect	368,233	415,350	367,657	315,302	301,316
Total consumer	494,279	530,905	484,843	435,273	422,291
Total loans	$2,605,180	$2,435,760	$2,348,651	$2,227,897	$2,167,458
Percent of total year-end loans					
Commercial:					
Construction	5.19 %	5.80 %	6.65 %	6.45 %	6.18 %
Secured by real estate	30.98	29.05	28.26	28.75	29.20
Equipment lease financing	0.54	0.82	0.53	0.26	0.53
Other commercial	14.92	15.35	15.57	14.98	15.55
Total commercial	51.63	51.02	51.01	50.44	51.46
Residential:					
Real estate construction	2.18	2.11	2.40	3.10	2.34
Real estate mortgage	23.95	21.70	22.35	22.96	22.23
Home equity	3.27	3.37	3.60	3.96	4.49
Total residential	29.40	27.18	28.35	30.02	29.06

Consumer:					
Consumer direct	4.84	4.74	4.99	5.38	5.58
Consumer indirect	14.13	17.06	15.65	14.16	13.90
Total consumer	18.97	21.80	20.64	19.54	19.48
Total loans	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

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

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

	Maturity at December 31, 2010			
(in thousands)	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	$ 251,999	$ 274,750	$ 669,046	$ 1,195,795
Commercial and real estate construction	119,552	18,639	53,810	192,001
	$ 371,551	$ 293,389	$ 722,856	$ 1,387,796
Rate sensitivity:				
Fixed rate	$ 80,865	$ 45,679	$ 55,974	$ 182,518
Adjustable rate	290,686	247,710	666,882	1,205,278
	$ 371,551	$ 293,389	$ 722,856	$ 1,387,796

Nonperforming Assets

(in thousands)	2010		2009		2008		2007		2006	
Nonaccrual loans	$45,021		$32,247		$40,945		$22,230		$9,863	
90 days or more past due and still accruing interest	17,014		9,067		11,245		9,622		4,294	
Total nonperforming loans	62,035		41,314		52,190		31,859		14,157	
Other repossessed assets	129		276		239		241		3	
Foreclosed properties	42,935		37,333		10,425		7,851		4,524	
Total nonperforming assets	$105,099		$78,923		$62,854		$39,951		$18,684	
Nonperforming assets to total loans and foreclosed properties/assets	3.97	%	3.19	%	2.66	%	1.79	%	0.86	%
Allowance to nonperforming loans	56.10	%	79.01	%	59.06	%	88.06	%	194.43	%

Nonaccrual and Past Due Loans

(in thousands)	Nonaccrual loans	As a % of Loan Balances by Category		Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category		Balances
December 31, 2010							
Commercial construction	$13,138	9.73	%	$1,178	0.87	%	$135,091
Commercial secured by real estate	15,608	1.93		9,641	1.19		807,049
Equipment lease financing	0	0.00		0	0.00		14,151
Commercial other	9,338	2.40		1,692	0.44		388,746
Real estate construction	636	1.12		372	0.65		56,910
Real estate mortgage	6,137	0.98		3,337	0.53		623,851
Home equity	164	0.19		226	0.27		85,103
Consumer direct	0	0.00		70	0.06		126,046
Consumer indirect	0	0.00		498	0.14		368,233
Total	$45,021	1.73	%	$17,014	0.65	%	$2,605,180
December 31, 2009							
Commercial construction	$12,312	8.70	%	$865	0.61	%	$141,440
Commercial secured by real estate	9,803	1.39		5,640	0.80		707,500
Equipment lease financing	0	0.00		0	0.00		20,048
Commercial other	4,489	1.20		286	0.08		373,829
Real estate construction	1,244	2.42		0	0.00		51,311
Real estate mortgage	3,781	0.72		1,540	0.29		528,592
Home equity	618	0.75		158	0.19		82,135
Consumer direct	0	0.00		160	0.14		115,555
Consumer indirect	0	0.00		418	0.10		415,350
Total	$32,247	1.32	%	$9,067	0.37	%	$2,435,760

In 2010, gross interest income that would have been recorded on nonaccrual loans had the loans been current in accordance with their original terms amounted to $2.5 million. Interest income actually received and included in net income for the period was $0.5 million, leaving $2.0 million of interest income not recognized during the period.

Discussion of the Nonaccrual Policy

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

Potential Problem Loans

Interest accrual is discontinued when we believe, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Foreign Outstandings

None

Loan Concentrations

We had no concentration of loans exceeding 10% of total loans at December 31, 2010. See note 19 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2010	2009	2008	2007	2006
Allowance for loan and lease losses, beginning of year	$32,643	$30,821	$28,054	$27,526	$29,506
Loans charged off:					
Commercial construction	1,695	3,435	1,491	273	23
Commercial secured by real estate	3,826	3,192	914	1,106	872
Commercial other	5,184	4,342	2,080	2,134	3,816
Real estate construction	22	330	125	32	56
Real estate mortgage	684	858	458	414	538
Home equity	358	223	288	133	34
Consumer direct	1,256	1,892	1,891	1,602	1,657
Consumer indirect	4,611	4,587	4,051	2,738	2,434
Total charge-offs	17,636	18,859	11,298	8,432	9,430
Recoveries of loans previously charged off:					
Commercial construction	6	204	25	0	0
Commercial secured by real estate	163	415	177	180	132
Commercial other	688	350	534	428	689
Real estate construction	19	7	5	1	0
Real estate mortgage	99	132	50	242	192
Home equity	23	18	10	8	18
Consumer direct	635	792	654	680	848
Consumer indirect	1,681	1,295	1,158	881	1,266
Total recoveries	3,314	3,213	2,613	2,420	3,145
Net charge-offs:					
Commercial construction	1,689	3,231	1,466	273	23
Commercial secured by real estate	3,663	2,777	737	926	740
Commercial other	4,496	3,992	1,546	1,706	3,127
Real estate construction	3	323	120	31	56
Real estate mortgage	585	726	408	172	346
Home equity	335	205	278	125	16
Consumer direct	621	1,100	1,237	922	809
Consumer indirect	2,930	3,292	2,893	1,857	1,168
Total net charge-offs	14,322	15,646	8,685	6,012	6,285
Provisions charged against operations	16,484	17,468	11,452	6,540	4,305
Balance, end of year	$34,805	$32,643	$30,821	$28,054	$27,526
Allocation of allowance, end of year:					
Commercial construction	$4,332	$3,381	$3,645	$3,194	$2,059
Commercial secured by real estate	12,327	10,961	11,304	9,081	7,224
Commercial other	7,392	7,472	5,782	4,817	4,335
Equipment lease financing	148	221	191	76	126
Real estate construction	271	291	281	335	206
Real estate mortgage	2,982	3,041	2,616	2,479	1,957

Home equity	407	455	422	428	395
Consumer direct	1,169	1,258	1,590	1,387	1,228
Consumer indirect	5,777	5,563	4,990	3,647	3,060
Unallocated	0	0	0	2,610	6,936
Balance, end of year	$34,805	$32,643	$30,821	$28,054	$27,526
Average loans outstanding, net of deferred loan costs and fees	$2,461,225	$2,383,875	$2,283,180	$2,205,431	$2,131,649
Loans outstanding at end of year, net of deferred loan costs and fees	$2,605,180	$2,435,760	$2,348,651	$2,227,897	$2,167,458
Net charge-offs to average loan type:					
Commercial construction	1.20 %	2.22 %	0.98 %	0.19 %	0.02 %
Commercial secured by real estate	0.48	0.40	0.11	0.14	0.11
Commercial other	1.24	1.07	0.43	0.51	0.99
Real estate construction	0.01	0.64	0.19	0.05	0.11
Real estate mortgage	0.11	0.14	0.08	0.03	0.08
Home equity	0.40	0.25	0.33	0.14	0.02
Consumer direct	0.53	0.95	1.04	0.76	0.67
Consumer indirect	0.75	0.84	0.87	0.60	0.39
Total	0.58 %	0.66 %	0.38 %	0.27 %	0.29 %
Other ratios:					
Allowance to net loans, end of year	1.34 %	1.34 %	1.31 %	1.26 %	1.27 %
Allowance to net legacy loans, end of year	1.40 %	1.34 %	1.31 %	1.26 %	1.27 %
Provision for loan losses to average loans	0.67 %	0.73 %	0.50 %	0.30 %	0.20 %

The allowance for loan and lease losses balance is maintained at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. The allowance to net legacy loans excludes loans acquired in the acquisition of LaFollette Bank. See notes 1, 5, and 8 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	2010	2009	2008
Deposits:			
Noninterest bearing deposits	$514,196	$471,902	$443,593
NOW accounts	20,919	19,478	19,601
Money market accounts	422,329	430,818	436,895
Savings accounts	225,007	216,578	199,081
Certificates of deposit of $100,000 or more	576,382	480,653	443,020
Certificates of deposit < $100,000 and other time deposits	816,128	790,419	761,530
Total deposits	2,574,961	2,409,848	2,303,720
Other borrowed funds:			
Repurchase agreements and federal funds purchased	198,880	180,044	170,231
Advances from Federal Home Loan Bank	20,286	47,434	49,001
Long-term debt	61,341	61,341	61,341
Total other borrowed funds	280,507	288,819	280,573
Total deposits and other borrowed funds	$2,855,468	$2,698,667	$2,584,293

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2010 occurred at November 30, 2010, with a month-end balance of $210.7 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2009 occurred at November 30, 2009, with a month-end balance of $192.8 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2008 occurred at May 31, 2008, with a month-end balance of $182.7 million.

Maturities and/or repricing of time deposits of $100,000 or more outstanding at December 31, 2010 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	$202,517	$13,791	$216,308
Over three through six months	102,529	8,083	110,612
Over six through twelve months	279,114	17,196	296,310
Over twelve through sixty months	25,770	4,434	30,204
Over sixty months	0	195	195
	$609,930	$43,699	$653,629

Item 2. Properties

Our main office, which is owned by Community Trust Bank, Inc., is located at 346 North Mayo Trail, Pikeville, Kentucky 41501. Following is a schedule of properties owned and leased by CTBI and its subsidiaries as of December 31, 2010:

	Location	Owned	Leased	Total
Banking locations:				
Community Trust Bank, Inc.				
*	Pikeville Market (lease land to 3 owned locations)	9	1	10
	10 locations in Pike County, Kentucky			
		3	1	4

	Floyd/Knott/Johnson Market (lease land to 1 owned location)			
	2 locations in Floyd County, Kentucky, 1 location in Knott County, Kentucky, and 1 location in Johnson County, Kentucky			
	Tug Valley Market (lease land to 1 owned location)	2	0	2
	1 location in Pike County, Kentucky, 1 location in Mingo County, West Virginia			
	Whitesburg Market	4	1	5
	5 locations in Letcher County, Kentucky			
	Hazard Market (lease land to 2 owned locations)	4	0	4
	4 locations in Perry County, Kentucky			
*	Lexington Market (lease land to 2 owned locations)	3	2	5
	5 locations in Fayette County, Kentucky			
	Winchester Market	2	0	2
	2 locations in Clark County, Kentucky			
	Richmond Market (lease land to 1 owned location)	3	0	3
	3 locations in Madison County, Kentucky			
	Mt. Sterling Market	2	0	2
	2 locations in Montgomery County, Kentucky			
*	Versailles Market (lease land to 2 owned locations)	3	2	5
	2 locations in Woodford County, Kentucky, 2 locations in Franklin County, Kentucky, and 1 location in Scott County, Kentucky			
	Danville Market (lease land to 1 owned location)	3	0	3
	2 locations in Boyle County, Kentucky and 1 location in Mercer County, Kentucky			
*	Ashland Market (lease land to 1 owned location)	5	0	5
	4 locations in Boyd County, Kentucky and 1 location in Greenup County, Kentucky			
	Flemingsburg Market	3	0	3
	3 locations in Fleming County, Kentucky			
	Advantage Valley Market	3	1	4
	2 locations in Lincoln County, West Virginia, 1 location in Wayne County, West Virginia, and 1 location in Cabell County, West Virginia			
	Summersville Market	1	0	1
	1 location in Nicholas County, West Virginia			
*	Middlesboro Market (lease land to 1 owned location)	3	0	3
	3 locations in Bell County, Kentucky			
	Williamsburg Market	5	0	5

2 locations in Whitley County, Kentucky and 3 locations in Laurel County, Kentucky			
Campbellsville Market (lease land to 2 owned locations)	8	0	8
2 locations in Taylor County, Kentucky, 2 locations in Pulaski County, Kentucky, 1 location in Adair County, Kentucky, 1 location in Green County, Kentucky, 1 location in Russell County, Kentucky, and 1 location in Marion County, Kentucky			
Mt. Vernon Market	2	0	2
2 locations in Rockcastle County, Kentucky			
First National Bank of LaFollette	3	1	4
3 locations in Campbell County, Tennessee and 1 location in Anderson County, Tennessee			
Total banking locations	71	9	80
Operational locations:			
Community Trust Bank, Inc.			
Pikeville (Pike County, Kentucky) (lease land to 1 owned location)	1	0	1
Lexington (Fayette County, Kentucky)	0	1	1
Total operational locations	1	1	2
Other:			
Community Trust Bank, Inc.			
Flemingsburg (Fleming County, Kentucky)	1	0	1
Ashland (Boyd County, Kentucky)	0	1	1
Total other locations	1	1	2
Total locations	73	11	84

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

See notes 9 and 16 to the consolidated financial statements included herein for the year ended December 31, 2010, for additional information relating to lease commitments and amounts invested in premises and equipment.

Item 3. Legal Proceedings

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

PART II

Item 4. [Removed and Reserved]

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

Our common stock is listed on The NASDAQ-Stock Market LLC – Global Select Market under the symbol CTBI. As of February 28, 2011, there were approximately 3,174 holders of record of our outstanding common shares. Additional information required by this item is included in the Quarterly Financial Data below:

Quarterly Financial Data
(Unaudited)

(in thousands except per share amounts)				
Three Months Ended	December 31	September 30	June 30	March 31
2010				
Net interest income	$31,254	$29,377	$29,278	$29,345
Net interest income, taxable equivalent basis	31,609	29,721	29,614	29,686
Provision for loan losses	3,980	3,676	3,106	5,722
Noninterest income	11,046	10,597	9,542	9,741
Noninterest expense	24,956	23,998	23,655	23,441
Net income	9,240	8,450	8,553	6,791
Per common share:				
Basic earnings per share	$0.61	$0.55	$0.56	$0.45
Diluted earnings per share	0.60	0.55	0.56	0.45
Dividends declared	0.305	0.305	0.30	0.30
Common stock price:				
High	$29.91	$28.00	$31.56	$28.32
Low	26.52	24.50	24.89	22.15
Last trade	28.96	27.09	25.10	27.07
Selected ratios:				
Return on average assets, annualized	1.11 %	1.04 %	1.06 %	0.88 %
Return on average common equity, annualized	10.71	9.95	10.40	8.47
Net interest margin, annualized	4.15	3.95	4.00	4.20

(in thousands except per share amounts)				
Three Months Ended	December 31	September 30	June 30	March 31
2009				
Net interest income	$28,582	$27,045	$25,409	$24,474
Net interest income, taxable equivalent basis	28,912	27,386	25,741	24,765
Provision for loan losses	5,193	5,772	4,522	1,981
Noninterest income	10,486	9,226	10,955	10,753
Noninterest expense	23,847	22,579	23,578	23,797
Net income	6,958	5,584	5,937	6,580
Per common share:				

Basic earnings per share	$0.46		$0.37		$0.39		$0.44	
Diluted earnings per share	0.46		0.37		0.39		0.43	
Dividends declared	0.30		0.30		0.30		0.30	
Common stock price:								
High	$27.08		$28.49		$31.29		$37.17	
Low	22.41		25.15		25.62		22.55	
Last trade	24.45		26.17		26.75		26.75	
Selected ratios:								
Return on average assets, annualized	0.90	%	0.72	%	0.78	%	0.89	%
Return on average common equity, annualized	8.58		6.94		7.54		8.51	
Net interest margin, annualized	4.06		3.81		3.62		3.61	

Dividends

The annual dividend paid to our stockholders was increased from $1.20 per share to $1.21 per share during 2010. We have adopted a conservative policy of cash dividends by maintaining an average annual cash dividend ratio of less than 45%, with periodic stock dividends. The current year cash dividend ratio was 55.76%. The higher dividend ratio reflects the Board of Directors decision to continue to pay increased dividends to our shareholders despite the current economy as CTBI has continued to outperform its peers during this recessionary time. Dividends are typically paid on a quarterly basis. Future dividends are subject to the discretion of CTBI’s Board of Directors, cash needs, general business conditions, dividends from our subsidiaries, and applicable governmental regulations and policies. For information concerning restrictions on dividends from the subsidiary bank to CTBI, see note 21 to the consolidated financial statements included herein for the year ended December 31, 2010.

Stock Repurchases

CTBI did not acquire any shares of common stock through the stock repurchase program during the years 2010 and 2009. We repurchased 93,500 shares of common stock during 2008, leaving 288,519 shares remaining under CTBI's current repurchase authorization. For further information, see the Liquidity and Market Risk section of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Common Stock Performance

The following graph shows the cumulative return experienced by CTBI's shareholders during the last five years compared to the NASDAQ Stock Market (U.S.) and the NASDAQ Bank Stock Index. The graph assumes the investment of $100 on December 31, 2005 in CTBI's common stock and in each index and the reinvestment of all dividends paid during the five-year period.

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

Fiscal Year Ending December 31 ($)						
	2005	2006	2007	2008	2009	2010
Community Trust Bancorp, Inc.	100.00	138.47	95.46	131.49	91.77	113.24
NASDAQ Stock Market (U.S.)	100.00	109.84	119.14	57.41	82.53	97.95
NASDAQ Bank Stocks	100.00	112.23	88.95	64.86	54.35	64.28

Item 6. Selected Financial Data 2006-2010

(in thousands except ratios, per share amounts and # of employees)					
Year Ended December 31	2010	2009	2008	2007	2006
Interest income	$154,511	$153,050	$167,611	$196,864	$189,305
Interest expense	35,257	47,540	63,974	90,832	81,538
Net interest income	119,254	105,510	103,637	106,032	107,767
Provision for loan losses	16,484	17,468	11,452	6,540	4,305
Noninterest income	40,926	41,420	21,767	36,608	32,559
Noninterest expense	96,050	93,801	82,532	83,055	80,407
Income before income taxes	47,646	35,661	31,420	53,045	55,614
Income taxes	14,612	10,602	8,347	16,418	16,550
Net income	$33,034	$25,059	$23,073	$36,627	$39,064
Per common share:					
Basic earnings per share	$2.17	$1.66	$1.54	$2.42	$2.59
Cash dividends declared-	$1.21	$1.20	$1.17	$1.10	$1.05
as a % of net income	55.76 %	72.29 %	75.97 %	45.45 %	40.54 %
Book value, end of year	$22.16	$21.17	$20.46	$20.03	$18.63
Market price, end of year	$28.96	$24.45	$36.75	$27.53	$41.53
Market to book value, end of year	1.31 x	1.15 x	1.80 x	1.37 x	2.23 x
Price/earnings ratio, end of year	13.35 x	14.73 x	23.86 x	11.38 x	16.03 x
Cash dividend yield, end of year	4.18 %	4.91 %	3.18 %	4.00 %	2.53 %
At year-end:					
Total assets	$3,355,872	$3,086,659	$2,954,531	$2,902,684	$2,969,761
Long-term debt	61,341	61,341	61,341	61,341	61,341
Shareholders’ equity	338,638	321,457	308,206	301,355	282,375
Averages:					
Assets	$3,220,087	$3,047,100	$2,921,217	$2,980,713	$2,942,892
Deposits	2,574,961	2,409,848	2,303,720	2,352,902	2,294,385
Earning assets	2,961,971	2,830,701	2,703,054	2,760,014	2,717,325
Loans	2,461,225	2,383,875	2,283,180	2,205,431	2,131,649
Shareholders’ equity	333,645	317,711	308,401	294,106	269,202
Profitability ratios:					
Return on average assets	1.03 %	0.82 %	0.79 %	1.23 %	1.33 %
Return on average equity	9.90	7.89	7.48	12.45	14.51
Capital ratios:					
Equity to assets, end of year	10.09 %	10.41 %	10.43 %	10.38 %	9.51 %
Average equity to average assets	10.36	10.43	10.56	9.87	9.15
Risk based capital ratios:					
Tier 1 capital					
(to average assets)	10.15 %	10.38 %	10.37 %	10.32 %	9.58 %
Tier 1 capital					
(to risk weighted assets)	12.90	12.90	13.05	13.24	12.21
Total capital					

(to risk weighted assets)	14.10		14.15		14.30		14.49		13.43	
Other significant ratios:										
Allowance to net loans, end of year	1.34	%	1.34	%	1.31	%	1.26	%	1.27	%
Allowance to net legacy loans, end of year	1.40		1.34		1.31		1.26		1.27	
Allowance to nonperforming loans, end of year	56.10		79.01		59.06		88.06		194.43	
Nonperforming assets to loans and foreclosed properties, end of year	3.97		3.19		2.66		1.79		0.86	
Net interest margin	4.07		3.77		3.88		3.90		4.02	
Other statistics:										
Average common shares outstanding	15,234		15,129		15,017		15,150		15,086	
Number of full-time equivalent employees, end of year	1,041		982		986		1,011		1,021	

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

Overview

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

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

Our Business

Community Trust Bancorp, Inc. (“CTBI”) is a bank holding company headquartered in Pikeville, Kentucky. Currently, CTBI owns one commercial bank and one trust company. Through its subsidiaries, CTBI has eighty banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern

Tennessee, and five trust offices across Kentucky. At December 31, 2010, CTBI had total consolidated assets of $3.4 billion and total consolidated deposits, including repurchase agreements, of $2.9 billion, making it the largest bank holding company based on total deposits headquartered in the Commonwealth of Kentucky. Total shareholders' equity at December 31, 2010 was $338.6 million.

On June 8, 2010, CTBI entered into an Agreement and Plan of Share Exchange with LaFollette First National Corporation, a Tennessee corporation ("LaFollette Corporation") and First National Bank of LaFollette ("LaFollette Bank"), the wholly-owned subsidiary of LaFollette Corporation. On November 17, 2010, CTBI completed the acquisition of LaFollette Corporation and LaFollette Bank, acquiring all outstanding shares of LaFollette Corporation in a share exchange for $650 per share, or a total of approximately $16.1 million. In addition, CTBI paid $1.2 million to retire a debt owed by LaFollette Corporation. Immediately following the share exchange, LaFollette Corporation was merged into CTBI. LaFollette Bank was merged into Community Trust Bank, Inc. (the "Bank") on January 21, 2011. All references to the "Bank" included herein shall be deemed to include both Community Trust Bank, Inc. and LaFollette Bank unless otherwise noted.

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust activities, which include accepting time and demand deposits; making secured and unsecured loans to corporations, individuals and others; providing cash management services to corporate and individual customers; issuing letters of credit; renting safe deposit boxes; and providing funds transfer services. The lending activities of our Bank include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our corporate subsidiaries act as trustees of personal trusts, as executors of estates, as trustees for employee benefit trusts, as registrars, transfer agents, and paying agents for bond and stock issues, as depositories for securities, and as providers of full service brokerage services. For further information, see Item 1 of this annual report.

Critical Accounting Policies and Estimates

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

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

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

Cash and Cash Equivalents – CTBI considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other financial institutions, and federal funds sold. Generally, federal funds are sold for one-day periods.

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

Investments – Management determines the classification of securities at purchase. We classify securities into held-to-maturity, trading, or available-for-sale categories. Held-to-maturity securities are those which we have the positive intent and ability to hold to maturity and are reported at amortized cost. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, Investment Securities, investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values shall be classified in one of the following categories and measured at fair value in the statement of financial position:

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

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

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

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

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

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, 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.

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. 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.

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, Intangibles-Goodwill and Other, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

The activity to goodwill and core deposit intangible for the year 2010 is shown below.

(in thousands)	Goodwill	Core Deposit Intangible
Beginning balance, January 1	$65,059	$648
Amortization	0	(430)
Acquired through acquisition	440	1,124
Ending balance, December 31	$65,499	$1,342

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

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

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

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

Diluted EPS adjusts the number of weighted average shares of common stock outstanding by the dilutive effect of stock options, including restricted shares, as prescribed in ASC 718, Share-Based Payment.

Segments – Management analyzes the operation of CTBI assuming one operating segment, community banking services. CTBI, through its operating subsidiaries, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) annuity and life insurance products; (viii) Individual Retirement Accounts and Keogh plans; (ix) commercial loans; (x) trust 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 860-50, Servicing Assets and Liabilities, in January 2007. MSRs are valued using Level 3 inputs as defined in ASC 820, Fair Value Measurements. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The 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 December 31, 2010 and 2009, CTBI had a share-based employee compensation plan, which is described more fully in note 15 to the consolidated financial statements. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, Share-Based Payment.

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

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 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. ASU 2010-18 did not 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 requires CTBI to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures include details on our past due loans, credit quality indicators, and modifications of loans, and are included in notes 4 and 8 to the consolidated financial statements. CTBI adopted the standard beginning with our December 31, 2010 financial statements.

Ø Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings – In January 2011, the FASB released ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings. The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 discussed above. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated.

Results of Operations

2010 Compared to 2009

CTBI’s earnings for the year 2010 increased 31.8% to $33.0 million, or $2.17 per basic share, compared to $25.1 million, or $1.66 per basic share, for the year ended December 31, 2009. Average shares outstanding increased from 15.1 million for the year ended December 31, 2009 to 15.2 million for the year ended December 31, 2010.

v CTBI's earnings per share for the year 2010 increased $0.51 per share from prior year. Earnings for the year 2010 were positively impacted by increased net interest income and decreased provision for loan loss, partially offset by decreased noninterest income and increased noninterest expense. The acquisition of LaFollette Corporation increased earnings by $0.02 per basic share.

v CTBI experienced significant improvement in our net interest margin year over year increasing from 3.77% for the year ended December 31, 2009 to 4.07% for the year ended December 31, 2010 as deposit expense decreased significantly.

v As problem loans continued to work through the collection process, nonperforming loans increased from the $41.3 million at December 31, 2009 to $62.0 million at December 31, 2010. December 31, 2010 information includes $2.2 million in nonperforming loans for First National Bank of LaFollette. Nonperforming assets increased $26.1 million from prior year.

v The loan loss provision for the year ended December 31, 2010 decreased $1.0 million from prior year.

v Net loan charge-offs for the year 2010 decreased from $15.6 million for the year 2009 to $14.3 million for the year 2010.

v Our loan loss reserve as a percentage of total loans outstanding was 1.34% at December 31, 2010 and 2009. Generally accepted accounting principles require that expected credit losses associated with loans obtained in an acquisition be reflected in the estimation of loan fair value as of the acquisition date and prohibits any carryover of an allowance for credit losses. Excluding amounts related to loans obtained in the fourth quarter 2010 acquisition of LaFollette, the allowance-to-legacy loan ratio was 1.40% and 1.34%, respectively, at December 31, 2010 and 2009.

v Noninterest income for the year 2010 decreased $0.5 million from prior year due to declines in gains on sales of loans and the fair value of our mortgage servicing rights, partially offset by increases in trust and brokerage revenue and deposit service charges.

v Our loan portfolio increased $169.4 million year over year, including a $119.1 million increase resulting from the acquisition of LaFollette.

- v Our investment portfolio increased $55.8 million from prior year, including the $29.2 million increase from the LaFollette acquisition.

- v Our tangible common equity/tangible assets ratio remains strong at 8.27%. The acquisition of LaFollette was an all cash transaction and decreased our tangible common equity/tangible assets ratio by 56 basis points.

- v Return on average assets for the year 2010 was 1.03% compared to 0.82% for the year 2009. Return on average equity was 9.90% compared to 7.89%.

Net Interest Income:

We saw improvement in our net interest margin of 30 basis points for the year 2010 compared to 2009. Net interest income increased 13.0% with a 4.6% increase in average earning assets. The yield on average earnings assets for the year 2010 decreased 19 basis points in comparison to the 62 basis point decline in the cost of interest bearing funds.

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

The provision for loan losses that was added to the allowance for 2010 decreased $1.0 million from prior year. This provision represented a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section. Our loan loss reserve as a percentage of total loans outstanding was 1.34% at December 31, 2010 and 2009. The adequacy of our loan loss reserves is analyzed quarterly and adjusted as necessary with a focus on maintaining appropriate reserves for potential losses. Generally accepted accounting principles require that expected credit losses associated with loans obtained in an acquisition be reflected in the estimation of loan fair value as of the acquisition date and prohibits any carryover of an allowance for credit losses. Excluding amounts related to loans obtained in the fourth quarter 2010 acquisition of LaFollette, the allowance-to-legacy loan ratio was 1.40% and 1.34%, respectively, at December 31, 2010 and 2009.

CTBI's total nonperforming loans were $62.0 million at December 31, 2010, an increase from the $41.3 million at December 31, 2009. Nonperforming loans include an increase of $2.2 million from the acquisition of LaFollette. Also included in the increased nonperforming loans was a $5.6 million automobile floor plan loan, three loans totaling $8.2 million which were secured by hotel properties, and one commercial real estate relationship totaling $4.1 million related to the restaurant industry. Loans past-due 30-89 days at December 31, 2010 at $28.4 million increased from the $24.8 at December 31, 2009, including a $3.2 million increase from the LaFollette acquisition. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss.

Impaired loans at December 31, 2010 totaled $63.3 million, an increase from the $37.7 million at December 31, 2009. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010, the Bank had $0.4 million in commercial other, $0.1 million in commercial secured by real estate, and $1.3 million in commercial real estate construction loans that were modified in troubled debt restructurings and impaired. In addition to the troubled debt restructurings included in the impaired loans above, the Bank had troubled debt restructurings that were performing in accordance with their modified terms at December 31, 2010 of $0.8 million in commercial other, $2.4 million in commercial secured by real estate, and $1.6 million in commercial real estate construction loans.

For further information regarding nonperforming and impaired loans, see note 5 to the consolidated financial statements.

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

Foreclosed properties increased to $42.9 million at December 31, 2010 compared to $37.3 million at December 31, 2009. The increase in foreclosed properties includes $2.7 million from the acquisition of LaFollette. Sales of foreclosed properties for the year ended December 31, 2010 totaled $8.5 million. Net loss on sales of foreclosed properties in 2010 totaled $134 thousand. New foreclosed properties totaled $11.8 million and are carried at the lesser of book value or appraised value less cost to sell. Our nonperforming loans and foreclosed properties remain primarily concentrated in our Central Kentucky Region. The major classifications of other real estate owned are shown in the following table:

(in thousands) December 31	2010	2009
1-4 family	$18,792	$18,388
Agricultural/farmland	58	128
Construction/land development/other	10,207	7,414
Multifamily	4,594	4,117
Non-farm/non-residential	9,284	7,286
Total other real estate owned	$42,935	$37,333

Net loan charge-offs for the year 2010 were $14.3 million, or 0.58% of average loans, compared to prior year's $15.6 million, or 0.66% of average loans. Of the total net charge-offs, $9.8 million was in commercial loans, $2.9 million was in indirect auto loans, and $0.9 million was in residential real estate mortgage loans.

Noninterest Income:

Noninterest income for the year 2010 declined 1.2% from prior year. The decrease in noninterest income was significantly impacted by decreased gains on sales of loans as 2009 was a period of significant refinancing of residential real estate loans, as well as a $0.8 million decline in the fair value of our mortgage servicing rights. The decline in these noninterest income sources was partially offset by increases in trust and brokerage revenue and deposit service charges.

Noninterest Expense:

Noninterest expense for the year 2010 increased 2.4% from 2009 as increased personnel expenses were partially offset by a decrease in FDIC insurance premiums and special assessment.

Balance Sheet Review:

CTBI’s total assets at $3.4 billion increased $269.2 million, or 8.7%, from prior year-end, including an increase of $193.7 million from the acquisition of LaFollette Bank. Loans outstanding at December 31, 2010 were $2.6 billion, increasing $169.4 million, or 7.0%, from December 31, 2009, including a $119.1 million increase resulting from the acquisition of LaFollette Bank. Loan growth of $102.3 million in the commercial loan portfolio and $103.2 million in the residential loan portfolio was partially offset by a decline in the consumer loan portfolio of $36.1 million. CTBI's investment portfolio increased $55.8 million, or 19.6%, from prior year, including the $29.2 million increase from LaFollette Bank. Deposits, including repurchase agreements, at $2.9 billion increased $251.7 million, or 9.5%, from prior year, including $174.5 million from the acquisition of LaFollette Bank. The deposit (including repurchase agreements) to FTE (full-time equivalent) ratio increased to $2.8 million at December 31, 2010 from $2.7 million at December 31, 2009. Shareholders’ equity at December 31, 2010 was $338.6 million compared to $321.5 million at December 31, 2009.

2009 Compared to 2008

CTBI's earnings increased for the year 2009. Earnings per basic share for the year 2009 were $1.66 compared to $1.54 for the same period in 2008. Average shares outstanding increased from 15.0 million for the year ended December 31, 2008 to 15.1 million for the year ended December 31, 2009.

v Year over year basic earnings per share increased $0.12 per share. 2009 earnings were impacted by increased provision for loan losses ($0.26 per share impact after-tax), increased FDIC insurance premiums and special FDIC assessment ($0.23 per share impact after-tax), and increased noninterest income compared to 2008 which was impacted by the other than temporary impairment (OTTI) charges on investment securities of $14.6 million ($0.62 per share impact after-tax).

v The significant increase in provision for loan losses was driven by increased charge-offs in 1-4 family commercial real estate loans with specific reserves and to a lesser extent consumer loans, and it supported loan growth of $87.1 million for the year.

v Net loan charge-offs for the year 2009 increased $7.0 million from prior year.

v Noninterest income was impacted by increased gains on sales of loans and loan related fees due to the refinancing of mortgage loans and an increase in the fair value of mortgage servicing rights.

v Noninterest expense increased year over year as a result of increases in legal fees, net expenses related to other real estate owned, and repossession expense as CTBI worked through its problem real estate loans resulting from the decline in the housing market and consumers and small businesses were being impacted by current economic conditions. CTBI also experienced increased FDIC insurance premiums including the special FDIC assessment and increased personnel expense.

v Our net interest margin for the year was 11 basis points below prior year.

v Our loan portfolio grew $87.1 million or 3.7% with growth in the commercial and consumer loan portfolios offset by a decline in the residential loan portfolio.

v Nonperforming loans decreased to $41.3 million compared to $52.2 million at December 31, 2008. The year over year decrease in nonperforming loans was in both the 90 day and accruing and the nonaccrual classifications. Nonperforming assets increased $16.1 million from prior year-end, December 31, 2008, as a result of increased other real estate owned.

v Our investment portfolio declined $8.4 million year over year.

v Our tangible common equity/tangible assets ratio remained strong at 8.47%.

v Return on average assets for the year was 0.82% compared to 0.79% for the year 2008. Return on average equity was 7.89% compared to 7.48%.

Net Interest Income:

Our net interest margin decreased 11 basis points compared to the year ended December 31, 2008. Net interest income for the year 2009 increased 1.8% with a 4.7% increase in average earning assets compared to 2008. The yield on average earnings assets for the year 2009 decreased 80 basis points in comparison to the 86 basis point decline in the cost of interest bearing funds.

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

The provision for loan losses that was added to the allowance for 2009 increased $6.0 million from the year 2008. This provision represented a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section. Our loan loss reserve as a percentage of total loans outstanding at December 31, 2009 increased to 1.34% compared to 1.31% at December 31, 2008. The adequacy of our loan loss reserves is analyzed quarterly and adjusted as necessary with a focus on maintaining appropriate reserves for potential losses.

CTBI's total nonperforming loans were $41.3 million at December 31, 2009, a decrease from the $52.2 million at December 31, 2008. Loans past-due 30-89 days at December 31, 2009 were $24.8 million, a decrease of $2.9 million from the $27.7 million at December 31, 2008. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss.

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

Foreclosed properties increased to $37.3 million from the $10.4 million at December 31, 2008, as problem real estate loans were working their way through the legal system, which remained strained due to current economic conditions, and CTBI continued working through a prolonged foreclosure process. Sales of foreclosed properties for the year ended December 31, 2009 totaled $7.0 million. Net loss on sales of foreclosed properties in 2009 totaled $45 thousand. New foreclosed properties, carried at the lesser of book value or appraised value less cost to sell, totaled $33.3 million. Our nonperforming loans and foreclosed properties remained primarily concentrated in our Central Kentucky Region. The major classifications of other real estate owned are shown in the following table:

(in thousands)	
December 31	2009