

COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
November 05, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

Or

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

For the transition period from _____ to _____

Commission file number 0-11129

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

Kentucky
(State or other jurisdiction of incorporation or
organization)

61-0979818
IRS Employer Identification No.

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

41501
(Zip Code)

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

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes

No

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

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

(Do not check if a smaller reporting company)

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

Yes

No

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

Common stock – 15,250,149 shares outstanding at October 31, 2010

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

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

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

	(unaudited) September 30 2010	December 31 2009
(dollars in thousands)		
Assets:		
Cash and due from banks	\$71,149	\$62,720
Interest bearing deposits	41,884	31,814
Federal funds sold	98,015	47,595
Cash and cash equivalents	211,048	142,129
Certificates of deposits in other banks	15,508	100
Securities available-for-sale at fair value (amortized cost of \$320,360 and \$263,756, respectively)	332,235	270,237
Securities held-to-maturity at amortized cost (fair value of \$1,667 and \$14,435, respectively)	1,662	14,336
Loans held for sale	1,223	1,818
Loans	2,445,507	2,435,760
Allowance for loan losses	(34,238)	(32,643)
Net loans	2,411,269	2,403,117
Premises and equipment, net	47,805	49,242
Federal Reserve Bank and Federal Home Loan Bank stock	29,057	29,048
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of \$7,246 and \$6,857, respectively)	259	648
Bank owned life insurance	39,357	38,117
Mortgage servicing rights	2,645	3,406
Other real estate owned	41,083	37,333
Other assets	33,530	32,069
Total assets	\$3,231,740	\$3,086,659
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$519,059	\$490,809
Interest bearing	2,056,236	1,971,400
Total deposits	2,575,295	2,462,209
Repurchase agreements	188,164	180,471
Federal funds purchased and other short-term borrowings	12,649	12,205
Advances from Federal Home Loan Bank	20,057	20,671
Long-term debt	61,341	61,341
Other liabilities	37,390	28,305
Total liabilities	2,894,896	2,765,202
Shareholders' equity:		

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Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2010 – 15,239,459; 2009 – 15,183,987	76,197	75,920
Capital surplus	154,069	152,484
Retained earnings	98,859	88,840
Accumulated other comprehensive income, net of tax	7,719	4,213
Total shareholders' equity	336,844	321,457
Total liabilities and shareholders' equity	\$3,231,740	\$3,086,659

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

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans, including loans held for sale	\$35,402	\$35,477	\$105,718	\$104,099
Interest and dividends on securities				
Taxable	2,308	2,292	6,916	7,390
Tax exempt	388	473	1,206	1,401
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock				
Other, including interest on federal funds sold	65	373	1,027	1,057
Total interest income	38,315	38,756	115,256	114,357
Interest expense:				
Interest on deposits	7,454	9,833	22,687	31,322
Interest on repurchase agreements and other short-term borrowings				
Interest on advances from Federal Home Loan Bank	466	575	1,513	1,846
Interest on long-term debt	18	304	56	1,262
Total interest expense	1,000	999	3,000	2,999
Net interest income	8,938	11,711	27,256	37,429
Provision for loan losses	29,377	27,045	88,000	76,928
Net interest income after provision for loan losses	3,676	5,772	12,504	12,275
Net interest income after provision for loan losses	25,701	21,273	75,496	64,653
Noninterest income:				
Service charges on deposit accounts	5,920	5,721	17,166	16,187
Gains on sales of loans, net	575	341	1,354	3,581
Trust income	1,492	1,345	4,374	3,756
Loan related fees	862	525	1,748	2,767
Bank owned life insurance	451	275	1,263	818
Securities gains (losses)	0	(1)	0	514
Other	1,297	1,020	3,975	3,311
Total noninterest income	10,597	9,226	29,880	30,934
Noninterest expense:				
Salaries and employee benefits	11,560	10,296	34,637	32,214
Occupancy, net	1,725	1,744	5,208	5,262
Equipment	950	1,204	2,892	3,592
Data processing	1,759	1,510	5,042	4,511
Bank franchise tax	1,002	939	2,957	2,767
Legal and professional fees	1,015	847	2,853	2,841
FDIC insurance	1,118	1,086	3,257	4,832

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Other real estate owned provision and expense	584	617	2,062	1,516
Other	4,285	4,336	12,186	12,419
Total noninterest expense	23,998	22,579	71,094	69,954
Income before income taxes	12,300	7,920	34,282	25,633
Income taxes	3,850	2,336	10,488	7,532
Net income	8,450	5,584	23,794	18,101
Other comprehensive income, net of tax:				
Unrealized holding gains on securities available-for-sale	2,225	2,599	3,506	3,741
Comprehensive income	\$10,675	\$8,183	\$27,300	\$21,842
Basic earnings per share	\$0.55	\$0.37	\$1.56	\$1.20
Diluted earnings per share	\$0.55	\$0.37	\$1.56	\$1.19
Weighted average shares outstanding-basic	15,239	15,145	15,223	15,116
Weighted average shares outstanding-diluted	15,275	15,198	15,260	15,207
Dividends declared per share	\$0.305	\$0.30	\$0.905	\$0.90

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30	
(in thousands)	2010	2009
Cash flows from operating activities:		
Net income	\$23,794	\$18,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,366	4,005
Deferred taxes	1,709	4,833
Stock based compensation	597	420
Excess tax benefits of stock-based compensation	3	110
Provision for loan and other real estate losses	12,982	12,946
Securities gains	0	(514)
Gains on sale of mortgage loans held for sale	(1,354)	(3,581)
(Gains) losses on sale of assets, net	4	(6)
Proceeds from sale of mortgage loans held for sale	66,971	181,983
Funding of mortgage loans held for sale	(65,022)	(178,533)
Amortization of securities premiums and discounts, net	1,587	1,595
Change in cash surrender value of bank owned life insurance	(1,240)	(669)
Mortgage servicing rights		
Fair value adjustments	1,194	201
New servicing assets created	(433)	1,103
Changes in:		
Other liabilities	5,398	8,298
Other assets	(1,533)	(2,313)
Net cash provided by operating activities	48,023	47,979
Cash flows from investing activities:		
Certificates of deposit in other banks		
Purchase of certificates of deposit	(16,363)	(29,400)
Maturity of certificates of deposit	955	10,780
Securities available-for-sale:		
Proceeds from sales	0	37,451
Proceeds from prepayments and maturities	75,413	74,130
Purchase of securities	(133,604)	(118,454)
Securities held-to-maturity:		
Proceeds from prepayments and maturities	13,154	9,360
Purchase of securities	(480)	(480)
Change in loans, net	(29,409)	(93,947)
Purchase of premises and equipment	(1,540)	(2,111)
Proceeds from sale of premises and equipment	9	24
Additional investment in equity securities	(9)	(11)
Proceeds from sale of other real estate and other repossessed assets	4,788	3,589
Additional investment in other real estate owned	(203)	(1,634)
Additional investment in bank owned life insurance	0	(945)

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Net cash used in investing activities	(87,289)	(111,648)
Cash flows from financing activities:		
Change in deposits, net	113,086	72,120
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	8,137	23,289
Payments on advances from Federal Home Loan Bank	(615)	(40,043)
Issuance of common stock	1,263	1,668
Excess tax benefits of stock-based compensation	(3)	(110)
Dividends paid	(13,683)	(13,604)
Net cash provided by financing activities	108,185	43,320
Net increase (decrease) in cash and cash equivalents	68,919	(20,349)
Cash and cash equivalents at beginning of period	142,129	140,878
Cash and cash equivalents at end of period	\$211,048	\$120,529
Supplemental disclosures:		
Income taxes paid	\$12,550	\$4,895
Interest paid	22,767	21,354
Non-cash activities		
Loans to facilitate the sale of other real estate and other repossessed assets	577	315
Common stock dividends accrued, paid in subsequent quarter	4,667	4,549
Real estate acquired in settlement of loans	9,105	29,068

See notes to condensed consolidated financial statements.

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

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009, and the cash flows for the nine months ended September 30, 2010 and 2009. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and nine months ended September 30, 2010 and 2009, and the cash flows for the nine months ended September 30, 2010 and 2009, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2009 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2009, included in CTBI's Annual Report on Form 10-K.

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

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

New Accounting Standards –

Ø **Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities** – ASC 260, formerly FASB Staff Position (FSP) EITF 03-6-1, addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in ASC 260-10-45, formerly paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This standard was effective January 1, 2009, and did not have a significant impact on our consolidated financial statements.

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

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

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

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

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

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

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

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

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

Disclosure changes made by ASU 2010-06 include:

- The amounts of and reasons for significant transfers in and out of Level 1, Level 2 and Level 3 fair value measurements and the accounting policy for the date used to recognize such transfers, e.g., actual transaction date, beginning of reporting period date or end of reporting period date
- Presentation of purchases, sales, issuances and settlements as separate lines, rather than one net number, in the table reconciling activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs
- Provision of fair value measurement disclosures for each class of assets and liabilities with a class often being a subset of assets or liabilities within a balance sheet line item. Class should be determined on the basis of the nature and risks of investments in debt and equity securities and generally will not require change from the classifications already employed in disclosures for those investments
- Provision of explanations about the valuation techniques and inputs used to determine fair value for both recurring and nonrecurring fair value measurements falling in either Level 2 or Level 3
- Revision of the existing disclosures made by a plan sponsor about fair value for assets of defined benefit pension and other postretirement benefit plans to require those disclosures be made by asset class instead of asset category

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

Ø Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force – In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310) – Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 is effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. 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 will require CTBI to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures will include details on our past due loans, credit quality indicators, and modifications of loans. CTBI will adopt the standard beginning with our December 31, 2010 financial statements.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$324 thousand and \$353 thousand, respectively, for the nine months ended September 30, 2010 and 2009, respectively. Restricted stock expense for the first nine months of 2010 and 2009 was \$273 thousand and \$67 thousand, respectively. As of September 30, 2010, there was a total of \$0.3 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 2.2 years.

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

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

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

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other

reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at September 30, 2010 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 16,987	\$ 504	\$ 0	\$ 17,491
State and political subdivisions	42,326	1,865	(17)	44,174
U.S. government sponsored agencies	213,327	7,964	0	221,291
Collateralized mortgage obligations	27,180	1,345	0	28,525
Total debt securities	299,820	11,678	(17)	311,481
Marketable equity securities	20,540	507	(293)	20,754
Total available-for-sale securities	\$ 320,360	\$ 12,185	\$ (310)	\$ 332,235

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 1,182	\$ 5	\$ 0	\$ 1,187
Other debt securities	480	0	0	480
Total held-to-maturity securities	\$ 1,662	\$ 5	\$ 0	\$ 1,667

The amortized cost and fair value of securities as of December 31, 2009 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 16,994	\$ 20	\$ (283)	\$ 16,731
State and political subdivisions	44,529	1,222	(94)	45,657
U.S. government sponsored agencies	181,693	5,787	(83)	187,397
Total debt securities	243,216	7,029	(460)	249,785
Marketable equity securities	20,540	97	(185)	20,452
Total available-for-sale securities	\$ 263,756	\$ 7,126	\$ (645)	\$ 270,237

Held-to-Maturity

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

The amortized cost and fair value of securities at September 30, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$5,068	\$5,122	\$0	\$0
Due after one through five years	12,277	12,748	0	0
Due after five through ten years	26,565	27,636	1,182	1,187
Due after ten years	15,403	16,159	0	0
U.S. government sponsored agencies	213,327	221,291	0	0
Collateralized mortgage obligations	27,180	28,525	0	0
Other securities	0	0	480	480
Total debt securities	299,820	311,481	1,662	1,667
Marketable equity securities	20,540	20,754	0	0
Total securities	\$320,360	\$332,235	\$1,662	\$1,667

There were no pre-tax gains or losses as of September 30, 2010. There was a combined gain of \$518 thousand realized in the first nine months of 2009 due to sales of five securities and a loss of \$4 thousand due to sales of three securities in 2009.

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$96.3 million at September 30, 2010 and \$89.2 million at December 31, 2009.

The carrying value of securities sold under agreements to repurchase amounted to \$188.2 million at September 30, 2010 and \$180.5 million at December 31, 2009.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of September 30, 2010 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of September 30, 2010 was 0.6% compared to 8.5% as of December 31, 2009. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of September 30, 2010 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
State and political subdivisions	\$1,381	\$(12)	\$1,369
Marketable equity securities	0	0	0
Total securities	1,381	(12)	1,369
12 Months or More			
State and political subdivisions	590	(5)	585
Marketable equity securities	329	(293)	36
Total securities	919	(298)	621

Total

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State and political subdivisions	1,971	(17)	1,954
Marketable equity securities	329	(293)	36
Total securities	\$2,300	\$(310)	\$1,990

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

The analysis performed as of December 31, 2009 indicated that all impairment was considered temporary, market driven, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2009 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$ 14,992	\$ (283)	\$ 14,709
State and political subdivisions	2,567	(55)	2,512
U.S. government sponsored agencies	5,013	(83)	4,930
Total debt securities	22,572	(421)	22,151
Marketable equity securities	540	(185)	355
Total securities	23,112	(606)	22,506
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	1,601	(39)	1,562
U.S. government sponsored agencies	0	0	0
Total debt securities	1,601	(39)	1,562
Marketable equity securities	0	0	0
Total securities	1,601	(39)	1,562
Total			
U.S. Treasury and government agencies	14,992	(283)	14,709
State and political subdivisions	4,168	(94)	4,074
U.S. government sponsored agencies	5,013	(83)	4,930
Total debt securities	24,173	(460)	23,713
Marketable equity securities	540	(185)	355
Total securities	\$ 24,713	\$ (645)	\$ 24,068

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

Note 4 – Loans

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

(in thousands)	September 30 2010	December 31 2009
Commercial construction	\$132,849	\$141,440

Commercial secured by real estate	768,535	707,500
Commercial other	356,585	373,829
Real estate construction	47,945	51,311
Real estate mortgage	626,383	610,727
Consumer	497,592	530,905
Equipment lease financing	15,618	20,048
Total loans	\$2,445,507	\$2,435,760

Not included in the loan balances above were loans held for sale in the amount of \$1.2 million and \$1.8 million at September 30, 2010 and December 31, 2009, respectively. The amount of capitalized fees and costs under ASC 310, formerly SFAS 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, included in the above loan totals were \$0.7 million at September 30, 2010 and \$0.6 million at December 31, 2009.

Total nonperforming loans were as follows:

	September 30 2010	December 31 2009
(in thousands)		
Homogeneous pools of nonaccrual loans	\$7,040	\$5,643
Nonaccrual loans individually evaluated for impairment	29,289	26,604
Total nonaccrual loans	36,329	32,247
Loans greater than 90 days past due	20,252	9,067
Total nonperforming loans	\$56,581	\$41,314

Additional interest which would have been recorded for the quarter ended September 30, 2010 was \$0.4 million compared to \$0.4 million and \$0.2 million for quarters ended December 31, 2009 and September 30, 2009, respectively. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest.

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

The recorded investments in impaired loans are summarized below:

	September 30 2010	December 31 2009
(in thousands)		
Impaired loans without specific reserves	\$26,871	\$12,775
Impaired loans with specific reserves	19,070	19,231
Restructured loans	6,377	6
Total impaired loans	\$52,318	\$32,012

Specific reserves for impaired loans totaled \$5.7 million at September 30, 2010 compared to \$6.6 million at December 31, 2009. The average investment in impaired loans was \$56.3 million and \$30.2 million for the quarters ended September 30, 2010 and December 31, 2009, respectively.

Cash payments on impaired loans were as follows:

(in thousands)	September 30 2010	September 30 2009
Interest payments on impaired loans	\$460	\$380
Principal payments on impaired loans	1,909	2,297
Total payments	\$2,369	\$2,677

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

(in thousands)	Nine Months Ended September 30	
	2010	2009
Allowance balance at January 1	\$32,643	\$30,821
Additions to allowance charged against operations	12,504	12,275
Recoveries credited to allowance	2,473	2,418
Losses charged against allowance	(13,382)	(13,557)
Allowance balance at June 30	\$34,238	\$31,957

Note 5 – Mortgage Banking and Servicing Rights

Mortgage banking activities primarily include residential mortgage originations and servicing. Mortgage servicing rights (“MSRs”) are carried at fair market value. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

The following table presents the components of mortgage banking income:

(in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net gain on sale of loans held for sale	\$575	\$341	\$1,354	\$3,581
Net loan servicing income (loss)				
Servicing fees	280	267	828	767
Late fees	18	21	53	54
Ancillary fees	93	39	216	427
Fair value adjustments	(213)	(438)	(1,194)	(201)
Net loan servicing income (loss)	178	(111)	(97)	1,047
Mortgage banking income	\$753	\$230	\$1,257	\$4,628

Mortgage loans serviced for others are not included in the accompanying balance sheets. Mortgage loans serviced for the benefit of others (primarily FHLMC) at September 30, 2010, December 31, 2009, and September 30, 2009, were \$444 million, \$431 million, and \$417 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing

foreclosures. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$1.7 million at September 30, 2010, \$0.6 million at December 31, 2009, and \$1.5 million at September 30, 2009.

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

(in thousands)	Nine Months Ended	
	September 30	
	2010	2009
Fair value, beginning of period	\$3,406	\$2,168
New servicing assets created	433	1,103
Change in fair value during the period due to:		
Time decay (1)	(105)	(99)
Payoffs (2)	(103)	(504)
Changes in valuation inputs or assumptions (3)	(986)	402
Fair value, end of period	\$2,645	\$3,070

(1) Represents decrease in value due to regularly scheduled loan principal payments and partial loan paydowns.

(2) Represents decrease in value due to loans that paid off during the period.

(3) Represents change in value resulting from market-driven changes in interest rates and prepayment speeds.

The fair value of capitalized mortgage servicing rights was \$2.6 million at September 30, 2010 compared to \$3.4 million at December 31, 2009 and \$3.1 million at September 30, 2009. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended September 30, 2010, December 31, 2009 and September 30, 2009, and weighted average default rates of 1.84%, 1.9% and 1.8% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 17.4%, 13.6%, and 16.3% at September 30, 2010, December 31, 2009, and September 30, 2009, respectively. MSR values are very sensitive to movement in interest rates as expected future net servicing income depends on the projected balance of the underlying loans, which can be greatly impacted by the level of prepayments. CTBI does not currently hedge against changes in the fair value of its MSR portfolio.

Note 6 – Other Real Estate Owned

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

(in thousands)	2010	2009
Beginning balance, January 1	\$37,333	\$10,425
New assets acquired	9,105	29,068
Capitalized costs	203	1,634
Fair value adjustments	(478)	(652)
Sale of assets	(5,080)	(3,868)
Ending balance, September 30	\$41,083	\$36,607

Carrying costs and fair value adjustments associated with foreclosed properties at September 30, 2010 and 2009, respectively, were \$2.1 million and \$1.5 million.

Note 7 – Borrowings

Short-term debt consists of the following:

(in thousands)

	September 30 2010	December 31 2009
Subsidiaries:		
Repurchase agreements	\$188,164	\$180,471
Federal funds purchased	12,649	12,205
Total short-term debt	\$200,813	\$192,676

On October 28, 2010, Community Trust Bancorp, Inc. entered into a revolving credit promissory note for a line of credit in the amount of \$12 million at a floating interest rate of 2.25% in excess of the one-month LIBOR Rate. An unused commitment fee of 0.15% has been established. Currently, all \$12 million remain available for general corporate purposes. The agreement, which was effective October 28, 2010, replaced the agreement dated October 29, 2009, and will mature on October 27, 2011.

All federal funds purchased and the majority of repurchase agreements mature and reprice daily. The average rates paid for federal funds purchased and repurchase agreements on September 30, 2010 were 0.15% and 0.80%, respectively.

The maximum balance for repurchase agreements at any month-end during the third quarter 2010 occurred at May 31, 2010, with a month-end balance of \$191.5 million. The average balance of repurchase agreements for the quarter was \$185.8 million.

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

	September 30 2010	December 31 2009
(in thousands)		
Monthly amortizing	\$57	\$671
Term	20,000	20,000
Total advances	\$20,057	\$20,671

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

Principal Payments Due by Period at September 30, 2010							
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 1.41%	\$57	\$9	\$8	\$8	\$8	\$5	\$19

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

	September 30 2010	December 31 2009
(in thousands)		
Advance #156, 0.43%, due 1/29/10	\$0	\$20,000
Advance #158, 0.37%, due 1/24/11	20,000	0
Total term advances	\$20,000	\$20,000

Advances totaling \$20.1 million at September 30, 2010 were collateralized by FHLB stock of \$24.7 million and a blanket lien on qualifying first mortgage loans. As of September 30, 2010, CTBI had a \$315.7 million FHLB borrowing capacity with \$20.1 million in advances and \$94.1 million in letters of credit leaving \$201.5 million available for additional advances. The advances had fixed interest rates ranging from 0.37% to 2.00% with a weighted average rate of 0.37%. The advances are subject to restriction or penalties in the event of prepayment.

Long-term debt consists of the following:

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

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

Note 8 – Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands except per share data)	2010	2009	2010	2009
Numerator:				
Net income	\$8,450	\$5,584	\$23,794	\$18,101