COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
May 07, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2010
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _____________ to _____________

Commission file number 0-11129

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

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

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

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

Yes ü	No

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

Yes	No

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

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

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

Yes	No ü

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

Common stock – 15,227,946 shares outstanding at April 30, 2010

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

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

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) March 31 2010	December 31 2009
Assets:		
Cash and due from banks	$69,534	$62,720
Interest bearing deposits	27,616	31,814
Federal funds sold	95,450	47,595
Cash and cash equivalents	192,600	142,129
Certificates of deposits in other banks	5,277	100
Securities available-for-sale at fair value		
(amortized cost of $304,069 and $263,756, respectively)	311,038	270,237
Securities held-to-maturity at amortized cost		
(fair value of $10,300 and $14,435, respectively)	10,291	14,336
Loans held for sale	330	1,818
Loans	2,428,934	2,435,760
Allowance for loan losses	(34,874)	(32,643)
Net loans	2,394,060	2,403,117
Premises and equipment, net	49,159	49,242
Federal Reserve Bank and Federal Home Loan Bank stock	29,052	29,048
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of $7,015 and		
$6,857, respectively)	489	648
Bank owned life insurance	38,464	38,117
Mortgage servicing rights	3,442	3,406
Other real estate owned	38,612	37,333
Other assets	31,183	32,069
Total assets	$3,169,056	$3,086,659
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	$508,702	$490,809
Interest bearing	2,021,532	1,971,400
Total deposits	2,530,234	2,462,209
Repurchase agreements	186,894	180,471
Federal funds purchased and other short-term borrowings	17,475	12,205
Advances from Federal Home Loan Bank	20,242	20,671
Long-term debt	61,341	61,341
Other liabilities	27,991	28,305
Total liabilities	2,844,177	2,765,202
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-

Common stock, $5 par value, shares authorized 25,000,000;		
shares outstanding 2010 – 15,217,088 ; 2009 – 15,183,987	76,085	75,920
Capital surplus	153,192	152,484
Retained earnings	91,072	88,840
Accumulated other comprehensive income, net of tax	4,530	4,213
Total shareholders' equity	324,879	321,457
Total liabilities and shareholders' equity	$3,169,056	$3,086,659

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
(in thousands except per share data)	2010	2009
Interest income:		
Interest and fees on loans, including loans held for sale	$35,151	$34,188
Interest and dividends on securities		
Taxable	2,214	2,599
Tax exempt	424	430
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock	619	344
Other, including interest on federal funds sold	89	115
Total interest income	38,497	37,676
Interest expense:		
Interest on deposits	7,596	11,054
Interest on repurchase agreements and other short-term borrowings	535	672
Interest on advances from Federal Home Loan Bank	21	476
Interest on long-term debt	1,000	1,000
Total interest expense	9,152	13,202
Net interest income	29,345	24,474
Provision for loan losses	5,722	1,981
Net interest income after provision for loan losses	23,623	22,493
Noninterest income:		
Service charges on deposit accounts	5,297	4,949
Gains on sales of loans, net	442	1,931
Trust income	1,424	1,162
Loan related fees	840	748
Bank owned life insurance	405	256
Securities gains	0	519
Other	1,333	1,188
Total noninterest income	9,741	10,753
Noninterest expense:		
Salaries and employee benefits	11,445	11,268
Occupancy, net	1,741	1,804
Equipment	983	1,119
Data processing	1,586	1,487
Bank franchise tax	978	910
Legal and professional fees	824	1,070
FDIC insurance	999	1,496
Other real estate owned provision and expense	872	513
Other	4,013	4,130
Total noninterest expense	23,441	23,797

Income before income taxes	9,923	9,449
Income taxes	3,132	2,869
Net income	6,791	6,580
Other comprehensive income, net of tax:		
Unrealized holding gains on securities available-for-sale	317	1,086
Comprehensive income	$7,108	$7,666
Basic earnings per share	$0.45	$0.44
Diluted earnings per share	$0.45	$0.43
Weighted average shares outstanding-basic	15,202	15,076
Weighted average shares outstanding-diluted	15,235	15,193
Dividends per share	$0.30	$0.30

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
(in thousands)	2010	2009
Cash flows from operating activities:		
Net income	$6,791	$6,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,169	1,274
Deferred taxes	(193)	3,191
Stock based compensation	153	147
Excess tax benefits of stock-based compensation	40	149
Provision for loan and other real estate losses	6,051	2,308
Securities gains	0	(519)
Gains on sale of mortgage loans held for sale	(442)	(1,931)
Gains on sale of assets, net	(19)	(11)
Proceeds from sale of mortgage loans held for sale	20,963	96,211
Funding of mortgage loans held for sale	(19,033)	(96,742)
Amortization of securities premiums, net	451	168
Change in cash surrender value of bank owned life insurance	(347)	(209)
Fair value adjustments of mortgage servicing rights	127	274
Changes in:		
Other liabilities	(258)	1,624
Other assets	723	(1,250)
Net cash provided by operating activities	16,176	11,264
Cash flows from investing activities:		
Certificates of deposit in other banks		
Purchase of certificates of deposit	(5,177)	(23,520)
Securities available-for-sale:		
Proceeds from sales	0	37,209
Proceeds from prepayments and maturities	25,175	15,242
Purchase of securities	(65,939)	(49,745)
Securities held-to-maturity:		
Proceeds from prepayments and maturities	4,525	2,283
Purchase of securities	(480)	(480)
Change in loans, net	411	5,387
Purchase of premises and equipment	(927)	(806)
Proceeds from sale of premises and equipment	1	9
Additional investment in equity securities	(4)	(5)
Proceeds from sale of other real estate and other repossessed assets	1,387	460
Additional investment in other real estate owned	(52)	(29)
Additional investment in bank owned life insurance	0	(945)
Net cash used in investing activities	(41,080)	(14,940)
Cash flows from financing activities:		

Change in deposits, net	68,025	51,606
Change in repurchase agreements and other short-term borrowings, net	11,693	6,290
Payments on advances from Federal Home Loan Bank	(429)	(19)
Issuance of common stock	681	333
Excess tax benefits of stock-based compensation	(40)	(149)
Dividends paid	(4,555)	(4,518)
Net cash provided by financing activities	75,375	53,543
Net increase in cash and cash equivalents	50,471	49,867
Cash and cash equivalents at beginning of period	142,129	140,878
Cash and cash equivalents at end of period	$192,600	$190,745
Supplemental disclosures:		
Income taxes paid	$6,695	$52
Interest paid	7,823	15,261
Non-cash activities		
Loans to facilitate the sale of other real estate and other repossessed assets	30	81
Common stock dividends accrued, paid in subsequent quarter	4,560	4,523
Real estate acquired in settlement of loans	2,955	5,535

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 March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and the cash flows for the three months ended March 31, 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 months ended March 31, 2010 and 2009, and the cash flows for the three months ended March 31, 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.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was $77 thousand and $124 thousand, respectively, for the three months ended March 31, 2010 and 2009, respectively. Restricted stock expense for the first three months of 2010 and 2009 was $76 thousand and $23 thousand, respectively. As of March 31, 2010, there was a total of $0.4 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 1.7 years.

There were options to purchase 4,525 shares of CTBI common stock and 44,996 shares of restricted stock granted during the three months ended March 31, 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 three months ended March 31, 2009.

The fair values of options granted during the three months ended March 31, 2010 and 2009, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Three Months Ended March 31	
	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 March 31, 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	$16,992	$31	$(46)	$16,977
State and political subdivisions	41,697	1,233	(52)	42,878
U.S. government sponsored agencies	224,840	5,883	(66)	230,657
Total debt securities	283,529	7,147	(164)	290,512
Marketable equity securities	20,540	134	(148)	20,526
Total available-for-sale securities	$304,069	$7,281	$(312)	$311,038

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored agencies	$1,181	$3	$0	$1,184
Collateralized mortgage obligations	8,630	6	0	8,636
Other debt securities	480	0	0	480
Total held-to-maturity securities	$10,291	$9	$0	$10,300

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 March 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$6,996	$7,086	$0	$0
Due after one through five years	29,686	30,256	0	0
Due after five through ten years	7,981	8,117	0	0
Due after ten years	14,026	14,394	1,181	1,184
U.S. government sponsored agencies	224,840	230,659	8,630	8,636
Other securities	0	0	480	480
Total debt securities	283,529	290,512	10,291	10,300
Marketable equity securities	20,540	20,526	0	0
Total securities	$304,069	$311,038	$10,291	$10,300

There were no pre-tax gains or losses as of March 31, 2010. There was a combined gain of $519 thousand realized in the first three months of 2009 due to sales of five securities; no losses were realized.

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $95.5 million at March 31, 2010 and $89.2 million at December 31, 2009.

The book value of securities sold under agreements to repurchase amounted to $191.1 million at March 31, 2010 and $179.9 million at December 31, 2009.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of March 31, 2010 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of March 31, 2010 was 17.9% 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 March 31, 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			
U.S. Treasury and government agencies	$14,991	$(46)	$14,945

State and political subdivisions	3,997	(52)	3,945
U.S. government sponsored agencies	38,229	(66)	38,163
Total debt securities	57,217	(164)	57,053
Marketable equity securities	540	(148)	392
Total securities	$57,757	$(312)	$57,445

As of March 31, 2010, there were no available-for-sale securities in an unrealized loss position for 12 months or more and no held-to-maturity securities with unrealized losses.

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

Available-for-Sale

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

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

Note 4 – Loans

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

(in thousands)	March 31 2010	December 31 2009
Commercial construction	$144,800	$141,440
Commercial secured by real estate	750,855	707,500
Commercial other	337,783	373,829
Real estate construction	46,333	51,311
Real estate mortgage	611,354	610,727
Consumer	519,195	530,905
Equipment lease financing	18,614	20,048
Total loans	$2,428,934	$2,435,760

Not included in the loan balances above were loans held for sale in the amount of $0.3 million and $1.8 million at March 31, 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 $0.6 million at March 31, 2010 and December 31, 2009.

Total nonperforming loans were as follows:

(in thousands)	March 31 2010	December 31 2009
Homogeneous pools of nonaccrual loans	$6,689	$5,643
Restructured loans not in compliance with modified terms	424	6
Nonaccrual loans individually evaluated for impairment	30,214	26,598
Total nonaccrual loans	37,327	32,247
Loans greater than 90 days past due	17,589	9,067
Restructured loans in compliance with modified terms	528	0
Total nonperforming loans	$55,444	$41,314

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

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

The recorded investments in impaired loans are summarized below:

(in thousands)	March 31 2010	December 31 2009
Impaired loans without specific reserves	$25,203	$12,775
Impaired loans with specific reserves	24,407	19,231
Restructured loans	952	6
Total impaired loans	$50,562	$32,012

Specific reserves for impaired loans totaled $9.1 million at March 31, 2010 compared to $6.6 million at December 31, 2009. The average investment in impaired loans was $37.2 million and $30.2 million at March 31, 2010 and December 31, 2009, respectively.

Cash payments on impaired loans were as follows:

(in thousands)	March 31 2010	December 31 2009
Interest payments on impaired loans	$106	$125
Principal payments on impaired loans	630	757
Total payments	$736	$882

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

	Three Months Ended March 31	
(in thousands)	2010	2009
Allowance balance at January 1	$32,643	$30,821
Additions to allowance charged against operations	5,722	1,981
Recoveries credited to allowance	825	856
Losses charged against allowance	(4,316)	(3,059)
Allowance balance at March 31	$34,874	$30,599

Note 5 – Mortgage Banking and Servicing Rights

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

The following table presents the components of mortgage banking income:

	Three Months Ended March 31	
(in thousands)	2010	2009
Net gain on sale of loans held for sale	$442	$1,931
Net loan servicing income		
Servicing fees	272	238
Late fees	17	18
Ancillary fees	66	226
Fair value adjustments	(127)	(274)
Net loan servicing income	228	208
Mortgage banking income	$670	$2,139

Mortgage loans serviced for others are not included in the accompanying balance sheets. Mortgage loans serviced for the benefit of others (primarily FHLMC) at March 31, 2010, December 31, 2009, and March 31, 2009, were $437 million, $431 million, and $392 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 $815 thousand at March 31, 2010, $556 thousand at December 31, 2009, and $800 thousand at March 31, 2009.

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

	Three Months Ended March 31	
(in thousands)	2010	2009
Fair value, beginning of period	$3,406	$2,168
New servicing assets created	163	581
Change in fair value during the period due to:		
Time decay (1)	(50)	(33)
Payoffs (2)	(62)	(202)
Changes in valuation inputs or assumptions (3)	(15)	(39)
Fair value, end of period	$3,442	$2,475

(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 $3.4 million at March 31, 2010 compared to $3.4 million at December 31, 2009 and $2.5 million at March 31, 2009. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended March 31, 2010, December 31, 2009 and March 31, 2009, and weighted average default rates of 2.0%, 1.9% and 1.6% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 13.0%, 13.6%, and 20.4% at March 31, 2010, December 31, 2009, and March 31, 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 was as follows:

(in thousands)	March 31 2010	March 31 2009
Beginning balance	$37,333	$10,425
New assets acquired	2,955	5,535
Capitalized costs	65	60
Fair value adjustments	(329)	(317)
Sale of assets	(1,412)	(527)
Ending balance	$38,612	$15,176

Carrying costs and fair value adjustments associated with foreclosed properties at March 31, 2010, 2009, and 2008, respectively, were $0.87 million, $0.51 million, and $0.09 million.

Note 7 – Borrowings

Short-term debt consists of the following:

(in thousands)	March 31 2010	December 31 2009
Subsidiaries:		
Repurchase agreements	$186,894	$180,471
Federal funds purchased	17,475	12,205
Total short-term debt	$204,369	$192,676

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

All federal funds purchased and the majority of repurchase agreements mature and reprice daily. The average rates paid for federal funds purchased and repurchase agreements on March 31, 2010 were 0.15% and 1.10%, respectively.

The maximum balance for repurchase agreements at any month-end during the first quarter 2010 occurred at March 31, 2010, with a month-end balance of $186.9 million. The average balance of repurchase agreements for the quarter was $179.4 million.

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

(in thousands)	March 31 2010	December 31 2009
Monthly amortizing	$242	$671
Term	20,000	20,000
Total advances	$20,242	$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 March 31, 2010						
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 3.35%	$242	$190	$8	$8	$8	$8	$20

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

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

Advances totaling $20.2 million at March 31, 2010 were collateralized by FHLB stock of $24.7 million and a blanket lien on qualifying first mortgage loans. As of March 31, 2010, CTBI had a $413.1 million FHLB borrowing capacity with $20.2 million in advances and $98.3 million in letters of credit leaving $294.6 million available for additional advances. The advances had fixed interest rates ranging from 0.32% to 4.00% with a weighted average rate of 0.36%. The advances are subject to restriction or penalties in the event of prepayment.

Long-term debt consists of the following:

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

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

Note 8 – Earnings Per Share

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

	Three Months Ended March 31	
(in thousands)	2010	2009
Numerator:		
Net income	$6,791	$6,580
Denominator:		
Basic earnings per share:		
Weighted average shares	15,202	15,076
Diluted earnings per share:		
Effect of dilutive stock options	33	117
Adjusted weighted average shares	15,235	15,193
Earnings per share:		
Basic earnings per share	$0.45	$0.44
Diluted earnings per share	0.45	0.43

Options to purchase 425,974 common shares were excluded from the diluted calculations above for the three months ended March 31, 2010 because the exercise prices on the options were greater than the average market price for the period. Options to purchase 328,324 common shares were excluded from the diluted calculations above for the three months ended March 31, 2009.

Note 9 – Fair Value of Financial Assets and Liabilities

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

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

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

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

The application of ASC 820 in situations where the market for a financial asset is not active was clarified in October 2008 by the issuance of ASC 820-10-35, formerly FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This clarification was effective for financial statements issued as of September 30, 2008 and thereafter and did not have a material impact on the methods by which CTBI determines the fair values of its financial assets. ASC 820 was also clarified in April 2009 effective for the second quarter 2009 by ASC 820-10-65, formerly FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This section clarifies factors that determine whether transactions are orderly or not in evaluating the reliability of market transactions for fair value estimates. ASC 820-10-15, formerly FSP FAS 157-2, deferred the application of ASC 820 for nonfinancial assets and nonfinancial liabilities that are measured at fair value on a nonrecurring basis to fiscal years beginning after November 15, 2008. CTBI adopted the provisions of this standard with respect to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009.

Assets Measured on a Recurring Basis

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

(in thousands)		Fair Value Measurements at March 31, 2010 Using		
	Fair Value March 31 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	$16,977	$0	$16,977	$ 0
State and political subdivisions	42,878	0	42,878	0
U.S. government sponsored agencies and mortgage-backed pass through certificates	230,657	0	230,657	0
Marketable equity securities	20,526	0	20,315	211
Mortgage servicing rights	3,442	0	0	3,442
Total recurring assets measured at fair value	$314,480	$0	$310,827	$ 3,653

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

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

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

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

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

	Three Months Ended March 31	
Marketable Equity Securities (in thousands)	2010	2009
Beginning balance	$211	$540
Total realized and unrealized gains and losses		
Included in net income	0	0
Transfer of Securities from Level 3 to Level 2	0	0
Purchases	0	0
Issuances	0	0
Settlements	0	(329)
Ending balance	$211	$211

	Three Months Ended March 31	
Mortgage Servicing Rights (in thousands)	2010	2009
Beginning balance	$3,406	$2,168
Total realized and unrealized gains and losses		
Included in net income	(15)	(39)
Transfer of Securities from Level 3 to Level 2	0	0
Purchases	0	0
Issuances	163	581
Settlements	(112)	(235)
Ending balance	$3,442	$2,475