

COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 14, 2014

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

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the fiscal year ended December 31, 2013
Or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from _____ to _____

Commission file number 0-11129
COMMUNITY TRUST BANCORP, INC.
(Exact Name of Registrant as Specified in its Charter)

Kentucky	61-0979818
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
346 North Mayo Trail Pikeville, Kentucky	41501
(Address of Principal Executive Offices)	(Zip Code)
	(606) 432-1414
	(Registrant's Telephone Number)

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

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

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

Yes No

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

Yes

No

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

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

Large accelerated filer Accelerated filer 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

Based upon the closing price of the Common Shares of the Registrant on the NASDAQ-Stock Market LLC – Global Select Market, the aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2013 was \$530.9 million. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates. The number of shares outstanding of the Registrant's Common Stock as of February 28, 2014 was 15,831,847.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

PART I

Item 1. Business

Item 1A. Risk Factors

Item 1B. Unresolved Staff Comments

Selected Statistical Information

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Mine Safety Disclosures

PART II

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

Item 6. Selected Financial Data 2009-2013

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Item 8. Financial Statements and Supplementary Data

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Item 9A. Controls and Procedures

Item 9B. Other Information

PART III

Item 10. Directors, Executive Officers, and Corporate Governance of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Item 13. Certain Relationships, Related Transactions, and Director Independence

Item 14. Principal Accountant Fees and Services

PART IV

Item 15. Exhibits and Financial Statement Schedules

Signatures

Index to Exhibits

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Form 10-K
(1) Proxy statement for the annual meeting of shareholders to be held April 29, 2014	Part III

CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS

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

PART I

Item 1. Business

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

At December 31, 2013, CTBI had total consolidated assets of \$3.6 billion and total consolidated deposits, including repurchase agreements, of \$3.1 billion, making it the largest bank holding company headquartered in the Commonwealth of Kentucky.

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust and wealth management activities, which include accepting time and demand deposits; making secured and unsecured loans to corporations, individuals and others; providing cash management services to corporate and individual customers; issuing letters of credit; renting safe deposit boxes; and providing funds transfer services. The lending activities of our Bank include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit,

revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our corporate subsidiaries act as trustees of personal trusts, as executors of estates, as trustees for employee benefit trusts, as registrars, transfer agents, and paying agents for bond and stock issues, as investment agent, as depositories for securities, and as providers of full service brokerage and insurance services.

COMPETITION

CTBI's subsidiaries face substantial competition for deposit, credit, trust, wealth management, and brokerage relationships in the communities we serve. Competing providers include state banks, national banks, thrifts, trust companies, insurance companies, mortgage banking operations, credit unions, finance companies, brokerage companies, and other financial and non-financial companies which may offer products functionally equivalent to those offered by our subsidiaries. As financial services become increasingly dependent on technology, permitting transactions to be conducted by telephone and the internet, non-bank institutions are able to attract funds and provide lending and other financial services without offices located in our market areas. Many of these providers offer services within and outside the market areas served by our subsidiaries. We strive to offer competitively priced products along with quality customer service to build customer relationships in the communities we serve.

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") may impact our competitive environment. Competition for deposits may be increasing as a consequence of FDIC assessments shifting from deposits to an asset based formula, as larger banks may move away from non-deposit funding sources. Moreover, the Dodd-Frank Act's interstate branching provisions permit banks to establish de novo branches at a location where a bank based in that state could establish a branch.

No material portion of our business is seasonal. We are not dependent upon any one customer or a few customers, and the loss of any one or a few customers would not have a material adverse effect on us. See note 18 to the consolidated financial statements for additional information regarding concentrations of credit.

We do not engage in any operations in foreign countries.

EMPLOYEES

As of December 31, 2013, CTBI and subsidiaries had 1,022 full-time equivalent employees. Our employees are provided with a variety of employee benefits. A retirement plan, an employee stock ownership plan, group life insurance, major medical insurance, a cafeteria plan, and management and employee incentive compensation plans are available to all eligible personnel.

SUPERVISION AND REGULATION

General

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

Community Trust Bank, Inc. ("CTB") is a state-chartered bank subject to state and federal banking laws and regulations and periodic examination by the Kentucky Department of Financial Institutions and the restrictions, including dividend restrictions, thereunder. Our Bank is also a member of the Federal Reserve System and is subject to certain restrictions imposed by and to examination and supervision under the Federal Reserve Act. Community Trust and Investment Company is also regulated by the Kentucky Department of Financial Institutions and the Federal Reserve.

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

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

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

Community Trust Bancorp, Inc.
Jean R. Hale
Chairman, President and CEO
P.O. Box 2947
Pikeville, KY 41502-2947

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. This law has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act has required various federal agencies to adopt a broad range of implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown.

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

- Broadened the base for FDIC insurance assessments, eliminated the ceiling and increased the size of the floor of the Deposit Insurance Fund, and offset the impact of the minimum floor on institutions with less than \$10 billion in assets. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution.
- Removed the federal prohibition on payment of interest on demand deposits, thereby permitting businesses to have interest bearing checking accounts.
- Required capital regulations which call for higher levels of capital. The same leverage and risk based capital requirements that apply to depository institutions now apply to holding companies. New issuances of trust preferred securities are no longer eligible to qualify as Tier 1 capital. However, CTBI's currently outstanding trust preferred securities are grandfathered and are still considered in Tier 1 capital under the regulations. Under Dodd-Frank, and previously under Federal Reserve policy, we are required to act as a source of financial strength for our bank subsidiary and to commit sufficient resources to support it.
- Created an agency, the Consumer Financial Protection Bureau (Bureau), responsible for the implementation of federal consumer protection laws. The Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Although insured depository institutions with assets of \$10 billion or less (such as CTB) will continue to be supervised and examined by their primary federal regulators, rather than the Bureau, with respect to compliance with federal consumer protection laws, any change in regulatory environment may have a negative impact on all financial institutions. The full reach and the impact of the Bureau's inquiries and rulemaking powers on the operations of financial institutions are currently unknown.
- Permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, with noninterest bearing transaction accounts and IOLTA accounts having unlimited deposit insurance through December 31, 2012. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but are FDIC-insured up to the legal maximum of \$250,000 for each ownership category.
- Increased the authority of the Federal Reserve Board to examine CTBI and its non-bank subsidiaries. In addition, it gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The Federal Reserve interchange fee regulations are the subject of litigation brought by certain merchants. If the merchants prevail, the Federal Reserve might be required to provide more stringent caps on debit interchange fees, which could adversely impact all banks that issue debit cards, including us, and which could result in an industry-wide retraction of debit card products.
- Restricted proprietary trading by banks, bank holding companies and others, and their acquisition and retention of ownership interests in and sponsorship of hedge funds and private equity funds, subject to an exception allowing a bank to organize and offer hedge funds and private equity funds to customers if certain conditions are met, including, among others, a requirement that the bank limit its ownership interest in any single fund to 3%, and its aggregate investment in all funds to 3%, of Tier 1 capital, with no director or employee of the bank holding an ownership interest in the fund unless he or she provides services directly to the funds.

- Required publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments in mergers and acquisitions. The legislation also directed the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.
- Imposed restrictions related to mortgage lending, such as minimum underwriting standards, requiring certain loan provision qualifications, limitations on mortgage terms, and additional disclosures to mortgage borrowers and prohibiting certain yield-spread compensation to mortgage originators. New rules under this requirement went into effect on January 17, 2014.
- Permitted banks to establish de novo interstate branches at a location where a bank based in that state could establish a branch, and requires banks and bank holding companies to be well-capitalized and well-managed in order to acquire banks outside their home state.

With the appointment of a director for the Consumer Financial Protection Bureau (“CFPB”) in January 2012, the CFPB began to exercise its full authority under the Dodd-Frank Act. For example, the CFPB completed its first public enforcement actions regarding unfair, deceptive, or abusive practices in connection with marketing, sales, and operations of certain add-on products offered in connection with credit cards. Furthermore, in 2012 the CFPB issued its first major regulation, which covers remittance transfers (international wire transfers) by consumers.

In January 2013, the CFPB finalized a number of significant rules which will impact nearly every aspect of the lifecycle of a residential mortgage. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new “reasonable ability to repay” test and identify whether a loan meets a new definition for a “qualified mortgage;” (ii) implement new or revised disclosures, policies, and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower’s principal residence; (iii) comply with additional restrictions on mortgage loan originator compensation; and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for “higher priced mortgage loans.” These new rules which were effective in June 2013 and January 2014 create operational and strategic challenges. A rule integrating disclosures required by the Truth in Lending Act and the Real Estate Settlement and Procedures Act will be effective August 2015. Achieving full compliance in the relatively short timeframe provided for certain of the new rules has resulted in increased regulatory and compliance costs. We continue to analyze the impact that such rules may have on our business.

Basel III

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC has subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016,

as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes CTBI and CTB. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. Based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements upon the effectiveness of the final rule.

Item 1A. Risk Factors

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

Economic Risk

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

Since 2008 the U.S. economy has faced a severe economic crisis including a major recession from which it is slowly recovering. Commerce and business growth across a wide range of industries and regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. While reflecting some improvement in many parts of the country and in parts of our own service area, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. In addition, ongoing federal budget negotiations, the implementation of the Patient Protection and Affordable Care Act and the level of U.S. debt may have a destabilizing effect on financial markets.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, in the states of Kentucky, West Virginia, and Tennessee and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of our loans and our business, financial condition, and results of operations.

Economy of Our Markets

Our business may continue to be adversely affected by ongoing weaknesses in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Our profits depend on providing products and services to clients in these local regions. Although some of these regions have experienced decreases in unemployment and improved real estate values, unemployment rates remain high and real estate values remain depressed. Recent economic conditions in the coal industry are resulting in increased unemployment in the markets we serve where coal is a major contributor to the economy. Further increases in unemployment, decreases in real estate values, or increases in interest rates could weaken the local economies in which we operate. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. A continuation of high levels of unemployment and depressed real estate asset values in the markets we serve would likely prolong the economic recovery period in our market area. Weakness in our market area could depress our earnings and consequently our financial condition because:

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

Interest Rate Risk

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

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

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

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

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

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

Liquidity Risk

CTBI is subject to liquidity risk.

CTBI requires liquidity to meet its deposit and debt obligations as they come due and to fund loan demands. CTBI's access to funding sources in amounts adequate to finance its activities or on terms that are acceptable to it could be impaired by factors that affect it specifically or the financial services industry or economy in general. Factors that could reduce its access to liquidity sources include a downturn in the market, difficult credit markets, or adverse regulatory actions against CTBI. CTBI's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of CTBI's liabilities are demand, savings, interest checking, and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. To the extent that consumer confidence in other investment vehicles, such as the stock market, increases, customers may move funds from bank deposits and

products into such other investment vehicles. Although CTBI historically has been able to replace maturing deposits and advances as necessary, it might not be able to replace such funds in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could have a material adverse effect on our financial condition and results of operations.

Banking Reform

Our business may be adversely affected by “banking reform” legislation.

On July 21, 2010, the Dodd-Frank Act was signed into law. This law has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act has required the adoption of a broad range of implementing rules and regulations and preparation of numerous studies and reports for Congress. Significant discretion has been given in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown. This legislation includes, among other things: (i) changes in the manner in which the FDIC deposit insurance assessments are computed and an increase in the minimum designated reserve ratio for the Deposit Insurance Fund; (ii) authorization of interest-bearing demand deposits; (iii) requirements for capital regulations applicable to banks and bank holding companies which call for higher levels of capital; (iv) creation of the Consumer Financial Protection Bureau, responsible for the drafting of regulations for the implementation of federal consumer protection laws which affect banks and bank holding companies; (v) a permanent increase in the maximum amount of deposit insurance for banks; (vi) a prohibition of certain proprietary trading and equity investment activities by banks; (vii) restrictions related to mortgage lending; (viii) allowance of de novo interstate branching; and (ix) additional corporate governance provisions relating to non-binding shareholder votes on executive compensation and rules prohibiting incentive compensation that encourages inappropriate risks.

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

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC has subsequently approved these rules. The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes “capital” for purposes of calculating those ratios. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015.

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. Based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements upon the effectiveness of the final rule.

Government Policies and Oversight

Our business may be adversely affected by changes in government policies and oversight.

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

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

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

From time to time, CTBI and/or its subsidiaries may be involved in information requests, reviews, investigations, and proceedings (both formal and informal) by various governmental agencies and law enforcement authorities regarding our respective businesses. Any of these matters may result in material adverse consequences to CTBI and its subsidiaries, including adverse judgements, findings, limitations on merger and acquisition activity, settlements, fines, penalties, orders, injunctions, and other actions. Such adverse consequences may be material to the financial position of CTBI or its results of operations.

Credit Risk

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

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

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

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

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

- **Commercial Real Estate Loans.** Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. As of December 31, 2013, commercial real estate loans, including multi-family loans, comprised approximately 38% of our total loan portfolio.

- Other Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2013, other commercial loans comprised approximately 15% of our total loan portfolio.
- Construction and Development Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2013, construction and development loans comprised approximately 6% of our total loan portfolio.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans, particularly when the consumer loan is unsecured. Repayment of a consumer loan typically depends on the borrower's financial stability, and it is more likely to be affected adversely by job loss, illness, or personal bankruptcy. Economic conditions in the coal industry are resulting in increases in unemployment in many of our market areas, which is likely to impact the repayment risk associated with our consumer loans. In addition, federal and state bankruptcy, insolvency, and other laws may limit the amount we can recover when a consumer client defaults. As of December 31, 2013, consumer loans comprised approximately 16% of our total loan portfolio.

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

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

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

As of December 31, 2013, approximately 70% of our loan portfolio is secured by real estate, 38% of which is commercial real estate. High levels of commercial and consumer delinquencies or declines in real estate market values could require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition, and results of operations and prospects.

While we have seen a decline in our level of other real estate owned, it still remains above our historical norm, primarily as a result of foreclosures. To the extent that we continue to hold a higher level of real estate owned, related real estate expense would likely increase.

During the recent economic downturn, we experienced an increase in nonperforming real estate loans. As a result, we have experienced, and we continue to experience, an increase in the level of foreclosed properties. Foreclosed real estate expense consists of maintenance costs, taxes, valuation adjustments to appraisal values, and gains or losses on disposition. The amount that we may realize after a default is dependent upon factors outside of our control, including but not limited to: (i) general and local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations, and fiscal policies; (x) potential vandalism; and (xi) acts of God. Expenditures associated with the ownership of real estate, such

as real estate taxes, insurance, and maintenance costs, may adversely affect income from the real estate. The cost of operating real property may exceed the income earned from the property, and we may need to advance funds in order to protect our investment in the property, or we may be required to dispose of the property at a loss. If our levels of other real estate owned increase or are sustained and local real estate values decline, our foreclosed real estate expense will increase, which would adversely impact our results of operations.

Environmental Liability Risk

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

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

Competition

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

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

Acquisition Risk

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

We may experience difficulty in making acquisitions on acceptable terms due to the decreasing number of suitable acquisition targets, competition for attractive acquisitions, regulatory impediments, and certain limitations on interstate acquisitions.

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

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

- protection laws and other laws relating to discriminatory business practices; and
- Anti-competitive concerns with the proposed transaction.

If the banking regulators or a commenter on our regulatory application raise concerns about any of these criteria at the time a regulatory application is filed, the banking regulators may deny, delay, or condition their approval of a proposed transaction. As more fully described under “Results of Operations and Financial Condition” in Item 7, we understand that the resolution of a pending Federal Reserve investigation will likely result in impediments to CTBI’s merger and acquisition activity for an unspecified period of time.

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

Integration Risk

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

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

Operational Risk

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

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

Third party vendors provide key components of our business infrastructure, such as processing, internet connections, and network access. While CTBI has selected these third party vendors carefully, it does not control their actions. Any problems caused by third parties or arising from their services, such as disruption in service, negligence in the performance of services or a breach of customer data security with regard to the third parties’ systems, could adversely affect our ability to deliver services, negatively impact our business reputation, cause a loss of customers, or result in increased expenses, regulatory fines and sanctions, or litigation.

Market Risk

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

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

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

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

Technology Risk

CTBI continually encounters technological change.

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

Counterparty Risk

The soundness of other financial institutions could adversely affect CTBI.

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

Item 1B. Unresolved Staff Comments

None.

SELECTED STATISTICAL INFORMATION

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

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

(in thousands)	2013			2012			2011		
	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	\$2,579,805	\$132,087	5.12%	\$2,549,459	\$138,172	5.42%	\$2,580,351	\$145,178	5.63%
Loans held for sale	3,894	223	5.73	1,434	198	13.81	749	112	14.95
Securities:									
U.S. Treasury and agencies	487,650	9,910	2.03	480,562	10,292	2.14	350,612	8,992	2.56
Tax exempt state and political subdivisions									
(3)	80,694	3,460	4.29	69,773	3,191	4.57	51,565	2,634	5.11
Other securities	90,178	2,515	2.79	54,664	1,717	3.14	30,492	1,141	3.74
Federal Reserve Bank and Federal Home Loan Bank stock	30,559	1,367	4.47	30,557	1,433	4.69	30,412	1,374	4.52
Federal funds sold	3,207	11	0.34	3,372	11	0.33	31,000	84	0.27
Interest bearing deposits	97,492	228	0.23	155,233	379	0.24	132,269	315	0.24
Other investments	8,886	87	0.98	10,229	91	0.89	12,342	87	0.70
Investment in unconsolidated subsidiaries	1,846	35	1.90	1,851	72	3.89	1,856	120	6.47
Total earning assets	3,384,211	\$149,923	4.43%	3,357,134	\$155,556	4.63%	3,221,648	\$160,037	4.97%
Allowance for loan and lease losses	(34,159)			(33,781)			(35,808)		
	3,350,052			3,323,353			3,185,840		
Nonearning assets:									
Cash and due from banks	55,405			62,807			70,239		
Premises and equipment, net	52,825			54,962			55,445		

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

Other assets	193,259			200,538				194,379		
Total assets	\$3,651,541			\$3,641,660				\$3,505,903		
Interest bearing liabilities:										
Deposits:										
Savings and demand deposits										
	\$911,473	\$2,281	0.25 %	\$878,825	\$2,894	0.33 %	\$777,639	\$2,824	0.36 %	
Time deposits	1,384,500	9,032	0.65	1,445,018	15,017	1.04	1,460,627	18,458	1.26	
Repurchase agreements and federal funds purchased										
	221,266	940	0.42	222,872	1,240	0.56	219,040	1,625	0.74	
Advances from Federal Home Loan Bank										
	1,921	26	1.35	2,439	34	1.39	21,670	99	0.46	
Long-term debt	61,341	1,161	1.89	61,341	2,403	3.92	61,341	3,999	6.52	
Total interest bearing liabilities	2,580,501	\$13,440	0.52 %	2,610,495	\$21,588	0.83 %	2,540,317	\$27,005	1.06 %	
Noninterest bearing liabilities:										
Demand deposits										
	624,646			604,736			573,067			
Other liabilities	37,612			37,052			36,746			
Total liabilities	3,242,759			3,252,283			3,150,130			
Shareholders' equity	408,782			389,377			355,773			
Total liabilities and shareholders' equity	\$3,651,541			\$3,641,660			\$3,505,903			
Net interest income, tax equivalent										
		\$136,483			\$133,968			\$133,032		
Less tax equivalent interest income										
		1,796			1,834			1,577		
Net interest income		\$134,687			\$132,134			\$131,455		
Net interest spread										
			3.91 %			3.80 %			3.91 %	
Benefit of interest free funding										
			0.12			0.19			0.22	

Net interest margin	4.03 %	3.99 %	4.13 %
---------------------	--------	--------	--------

(1) Interest includes fees on loans of \$1,848, \$1,954, and \$1,889 in 2013, 2012, and 2011, respectively.

(2) Loan balances include deferred loan origination costs and principal balances on nonaccrual loans.

(3) Tax exempt income on securities and loans is reported on a fully taxable equivalent basis using a 35% rate.

Net Interest Differential

The following table illustrates the approximate effect of volume and rate changes on net interest differentials between 2013 and 2012 and also between 2012 and 2011.

(in thousands)	Total Change 2013/2012	Change Due to Volume	Change Due to Rate	Total Change 2012/2011	Change Due to Volume	Change Due to Rate
Interest income:						
Loans	\$(6,085)	\$1,629	\$(7,714)	\$(7,006)	\$(1,754)	\$(5,252)
Loans held for sale	25	191	(166)	86	95	(9)
U.S. Treasury and agencies	(382)	150	(532)	1,300	2,952	(1,652)
Tax exempt state and political subdivisions	269	477	(208)	557	855	(298)
Other securities	798	1,009	(211)	576	784	(208)
Federal Reserve Bank and Federal Home Loan Bank stock	(66)	0	(66)	59	7	52
Federal funds sold	0	(1)	1	(73)	(62)	(11)
Interest bearing deposits	(151)	(146)	(5)	64	56	8
Other investments	(4)	(11)	7	4	(13)	17
Investment in unconsolidated subsidiaries	(37)	0	(37)	(48)	0	(48)
Total interest income	(5,633)	3,298	(8,931)	(4,481)	2,920	(7,401)
Interest expense:						
Savings and demand deposits	(613)	104	(717)	70	348	(278)
Time deposits	(5,985)	(653)	(5,332)	(3,441)	(199)	(3,242)
Repurchase agreements and federal funds purchased	(300)	(9)	(291)	(385)	28	(413)
Advances from Federal Home Loan Bank	(8)	(7)	(1)	(65)	(33)	(32)
Long-term debt	(1,242)	0	(1,242)	(1,596)	0	(1,596)
Total interest expense	(8,148)	(565)	(7,583)	(5,417)	144	(5,561)
Net interest income	\$2,515	\$3,863	\$(1,348)	\$936	\$2,776	\$(1,840)

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

Investment Portfolio

The maturity distribution and weighted average interest rates of securities at December 31, 2013 are as follows:

Available-for-sale

Estimated Maturity at December 31, 2013											
(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Cost
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$1,069	1.31%	\$42,848	2.44%	\$117,255	1.66%	\$278,748	2.41%	\$439,920	2.21%	\$448,698
State and political subdivisions	2,859	3.38	18,111	3.55	64,596	3.96	31,137	4.44	116,703	4.01	118,055
Other securities	0	0.00	0	0.00	0	0.00	52,782	2.15	52,782	2.15	55,000
Total	\$3,928	2.82%	\$60,959	2.77%	\$181,851	2.48%	\$362,667	2.55%	\$609,405	2.55%	\$621,753

Held-to-maturity

Estimated Maturity at December 31, 2013											
(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$480	2.48%	\$480	2.48%	\$418
State and political subdivisions	0	0.00	0	0.00	1,182	4.30	0	0.00	1,182	4.30	1,183
Total	\$0	0.00%	\$0	0.00%	\$1,182	4.30%	\$480	2.48%	\$1,662	3.78%	\$1,601

Total Securities

Estimated Maturity at December 31, 2013											
(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Book Value		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Total	\$3,928	2.82%	\$60,959	2.77%	\$183,033	2.49%	\$363,147	2.55%	\$611,067	2.55%	\$611,006

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

Excluding those holdings of the investment portfolio in U.S. Treasury securities, government agencies, and government sponsored agency mortgage-backed securities, there were no securities of any one issuer that exceeded

10% of our shareholders' equity at December 31, 2013.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2013 and 2012 are presented in note 3 to the consolidated financial statements.

The book value of securities at December 31, 2011 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	\$ 32,077	\$ 480
State and political subdivisions	68,358	1,182
U.S. government sponsored agency mortgage-backed securities	390,714	0
Total debt securities	491,149	1,662
Marketable equity securities	20,582	0
Total securities	\$ 511,731	\$ 1,662

Loan Portfolio

(in thousands)	2013	2012	2011	2010	2009
Commercial:					
Construction	\$ 110,779	\$ 119,447	\$ 120,577	\$ 135,091	\$ 141,440
Secured by real estate	872,542	807,213	798,887	807,049	707,500
Equipment lease financing	8,840	9,246	9,706	14,151	20,048
Commercial other	374,881	376,348	374,597	388,746	373,829
Total commercial	1,367,042	1,312,254	1,303,767	1,345,037	1,242,817
Residential:					
Real estate construction	56,075	55,041	53,534	56,910	51,311
Real estate mortgage	697,601	696,928	650,075	623,851	528,592
Home equity	84,880	82,292	84,841	85,103	82,135
Total residential	838,556	834,261	788,450	765,864	662,038
Consumer:					
Consumer direct	122,215	122,581	123,949	126,046	115,555
Consumer indirect	287,541	281,477	340,382	368,233	415,350
Total consumer	409,756	404,058	464,331	494,279	530,905
Total loans	\$2,615,354	\$2,550,573	\$2,556,548	\$2,605,180	\$2,435,760

Percent of total year-end loans

Commercial:	2013		2012		2011		2010		2009	
Construction	4.24	%	4.68	%	4.72	%	5.19	%	5.80	%
Secured by real estate	33.36		31.65		31.25		30.98		29.05	
Equipment lease financing	0.34		0.36		0.38		0.54		0.82	
Commercial other	14.33		14.76		14.65		14.92		15.35	
Total commercial	52.27		51.45		51.00		51.63		51.02	
Residential:										
Real estate construction	2.15		2.16		2.09		2.18		2.11	
Real estate mortgage	26.67		27.32		25.43		23.95		21.70	
Home equity	3.25		3.23		3.32		3.27		3.37	
Total residential	32.07		32.71		30.84		29.40		27.18	

Consumer:										
Consumer direct	4.67		4.80		4.85		4.84		4.74	
Consumer indirect	10.99		11.04		13.31		14.13		17.06	
Total consumer	15.66		15.84		18.16		18.97		21.80	
Total loans	100.00	%	100.00	%	100.00	%	100.00	%	100.00	%

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

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

(in thousands)	Maturity at December 31, 2013			
	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	\$253,892	\$225,519	\$768,012	\$1,247,423
Commercial and real estate construction	97,892	18,547	50,415	166,854
	\$351,784	\$244,066	\$818,427	\$1,414,277

Rate sensitivity:				
Fixed rate	\$62,107	\$57,577	\$21,999	\$141,683
Adjustable rate	289,677	186,489	796,428	1,272,594
	\$351,784	\$244,066	\$818,427	\$1,414,277

Nonperforming Assets

(in thousands)	2013	2012	2011	2010	2009
Nonaccrual loans	\$19,958	\$16,791	\$25,753	\$45,021	\$32,247
90 days or more past due and still accruing interest	23,599	19,215	11,515	17,014	9,067
Total nonperforming loans	43,557	36,006	37,268	62,035	41,314
Other repossessed assets	0	5	58	129	276
Foreclosed properties	39,188	46,986	56,545	42,935	37,333
Total nonperforming assets	\$82,745	\$82,997	\$93,871	\$105,099	\$78,923

Nonperforming assets to total loans and foreclosed properties	3.12	%	3.20	%	3.59	%	3.97	%	3.19	%
Allowance to nonperforming loans	78.08	%	92.33	%	89.01	%	56.10	%	79.01	%

Nonaccrual and Past Due Loans

(in thousands)	Nonaccrual loans	As a % of Loan Balances by Category	Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category	Balances
December 31, 2013					

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

Commercial construction	\$4,519	4.08	% \$1,673	1.51	% \$110,779
Commercial secured by real estate	6,576	0.75	12,403	1.42	872,542
Equipment lease financing	0	0.00	0	0.00	8,840
Commercial other	2,801	0.75	3,723	0.99	374,881
Real estate construction	481	0.86	213	0.38	56,075
Real estate mortgage	5,152	0.74	4,847	0.69	697,601
Home equity	429	0.51	324	0.38	84,880
Consumer direct	0	0.00	119	0.10	122,215
Consumer indirect	0	0.00	297	0.10	287,541
Total	\$19,958	0.76	% \$23,599	0.90	% \$2,615,354
December 31, 2012					
Commercial construction	\$5,955	4.99	% \$3,778	3.16	% \$119,447
Commercial secured by real estate	5,572	0.69	5,943	0.74	807,213
Equipment lease financing	0	0.00	0	0.00	9,246
Commercial other	1,655	0.44	3,867	1.03	376,348
Real estate construction	315	0.57	196	0.36	55,041
Real estate mortgage	3,153	0.45	4,511	0.65	696,928
Home equity	141	0.17	441	0.54	82,292
Consumer direct	0	0.00	98	0.08	122,581
Consumer indirect	0	0.00	381	0.14	281,477
Total	\$16,791	0.66	% \$19,215	0.75	% \$2,550,573

Discussion of the Nonaccrual Policy

The accrual of interest income on loans is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Any loans greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. See note 1 for further discussion on our nonaccrual policy.

Potential Problem Loans

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

Foreign Outstandings

None

Loan Concentrations

We had no concentration of loans exceeding 10% of total loans at December 31, 2013. See note 18 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2013	2012	2011	2010	2009
Allowance for loan and lease losses, beginning of year	\$33,245	\$33,171	\$34,805	\$32,643	\$30,821

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

Loans charged off:					
Commercial construction	1,135	1,034	2,510	1,695	3,435
Commercial secured by real estate	1,607	2,035	4,018	3,826	3,192
Commercial other	2,265	3,233	4,092	5,184	4,342
Real estate construction	89	189	319	22	330
Real estate mortgage	744	1,123	1,589	684	858
Home equity	241	248	171	358	223
Consumer direct	1,166	1,245	961	1,256	1,892
Consumer indirect	3,802	3,483	3,874	4,611	4,587
Total charge-offs	11,049	12,590	17,534	17,636	18,859
Recoveries of loans previously charged off:					
Commercial construction	309	35	30	6	204
Commercial secured by real estate	163	303	140	163	415
Commercial other	557	764	441	688	350
Real estate construction	4	28	26	19	7
Real estate mortgage	56	151	82	99	132
Home equity	11	11	16	23	18
Consumer direct	495	538	452	635	792
Consumer indirect	1,649	1,384	1,451	1,681	1,295
Total recoveries	3,244	3,214	2,638	3,314	3,213
Net charge-offs:					
Commercial construction	826	999	2,480	1,689	3,231
Commercial secured by real estate	1,444	1,732	3,878	3,663	2,777
Commercial other	1,708	2,469	3,651	4,496	3,992
Real estate construction	85	161	293	3	323
Real estate mortgage	688	972	1,507	585	726
Home equity	230	237	155	335	205
Consumer direct	671	707	509	621	1,100
Consumer indirect	2,153	2,099	2,423	2,930	3,292
Total net charge-offs	7,805	9,376	14,896	14,322	15,646
Provisions charged against operations	8,568	9,450	13,262	16,484	17,468
Balance, end of year	\$34,008	\$33,245	\$33,171	\$34,805	\$32,643
Allocation of allowance, end of year:					
Commercial construction	\$3,396	\$4,033	\$4,023	\$4,332	\$3,381
Commercial secured by real estate	14,535	13,541	11,753	12,327	10,961
Equipment lease financing	121	126	112	148	221
Commercial other	5,238	5,469	5,608	7,392	7,472
Real estate construction	397	376	354	271	291
Real estate mortgage	4,939	4,767	4,302	2,982	3,041
Home equity	601	563	562	407	455
Consumer direct	1,127	1,102	917	1,169	1,258
Consumer indirect	3,654	3,268	5,540	5,777	5,563
Balance, end of year	\$34,008	\$33,245	\$33,171	\$34,805	\$32,643
	\$2,579,805	\$2,549,459	\$2,580,351	\$2,461,225	\$2,383,875

Average loans outstanding, net of
deferred loan costs and fees

Loans outstanding at end of year, net of deferred loan costs and fees	\$2,615,354	\$2,550,573	\$2,556,548	\$2,605,180	\$2,435,760
--------------------------------------------------------------------------	-------------	-------------	-------------	-------------	-------------

Net charge-offs to average loan type:

Commercial construction	0.77	%	0.86	%	1.93	%	1.20	%	2.22	%
Commercial secured by real estate	0.17		0.21		0.48		0.48		0.40	
Commercial other	0.46		0.64		0.95		1.24		1.07	
Real estate construction	0.16		0.30		0.58		0.01		0.64	
Real estate mortgage	0.10		0.15		0.24		0.11		0.14	
Home equity	0.28		0.28		0.18		0.40		0.25	
Consumer direct	0.55		0.57		0.41		0.53		0.95	
Consumer indirect	0.75		0.67		0.68		0.75		0.84	
Total	0.30	%	0.37	%	0.58	%	0.58	%	0.66	%

Other ratios:

Allowance to net loans, end of year	1.30	%	1.30	%	1.30	%	1.34	%	1.34	%
Provision for loan losses to average loans	0.33	%	0.37	%	0.51	%	0.67	%	0.73	%

The allowance for loan and lease losses balance is maintained at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. See notes 1, 4, and 7 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	2013	2012	2011
Deposits:			
Noninterest bearing deposits	\$624,646	\$604,736	\$573,067
NOW accounts	27,888	23,678	21,622
Money market accounts	569,717	568,217	500,179
Savings accounts	313,868	286,930	255,838
Certificates of deposit of \$100,000 or more	635,502	648,035	632,961
Certificates of deposit < \$100,000 and other time deposits	748,998	796,983	827,666
Total deposits	2,920,619	2,928,579	2,811,333
Other borrowed funds:			
Repurchase agreements and federal funds purchased	221,266	222,872	219,040
Advances from Federal Home Loan Bank	1,921	2,439	21,670
Long-term debt	61,341	61,341	61,341
Total other borrowed funds	284,528	286,652	302,051
Total deposits and other borrowed funds	\$3,205,147	\$3,215,231	\$3,113,384

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2013 occurred at October 31, 2013, with a month-end balance of \$230.4 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2012 occurred at March 31, 2012, with a month-end balance of \$246.1 million. The maximum balance for federal funds purchased and repurchase agreements at any

month-end during 2011 occurred at September 30, 2011, with a month-end balance of \$245.3 million.

Maturities and/or repricing of time deposits of \$100,000 or more outstanding at December 31, 2013 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	\$ 132,371	\$ 8,275	\$ 140,646
Over three through six months	120,075	7,869	127,944
Over six through twelve months	274,953	14,879	289,832
Over twelve through sixty months	86,232	15,258	104,490
Over sixty months	104	0	104
	\$ 613,735	\$ 46,281	\$ 660,016

Item 2. Properties

Our main office, which is owned by Community Trust Bank, Inc., is located at 346 North Mayo Trail, Pikeville, Kentucky 41501. Following is a schedule of properties owned and leased by CTBI and its subsidiaries as of December 31, 2013:

Location	Owned	Leased	Total
Banking locations:			
Community Trust Bank, Inc.			
* Pikeville Market (lease land to 3 owned locations) 10 locations in Pike County, Kentucky	9	1	10
Floyd/Knott/Johnson Market (lease land to 1 owned location) 2 locations in Floyd County, Kentucky, 1 location in Knott County, Kentucky, and 1 location in Johnson County, Kentucky	3	1	4
Tug Valley Market (lease land to 1 owned location) 1 location in Pike County, Kentucky, 1 location in Mingo County, West Virginia	2	0	2
Whitesburg Market (lease land to 1 owned location) 5 locations in Letcher County, Kentucky	4	1	5
Hazard Market (lease land to 2 owned locations) 4 locations in Perry County, Kentucky	4	0	4
* Lexington Market (lease land to 3 owned locations) 6 locations in Fayette County, Kentucky	4	2	6
Winchester Market 2 locations in Clark County, Kentucky	2	0	2
Richmond Market (lease land to 1 owned location) 3 locations in Madison County, Kentucky	3	0	3
Mt. Sterling Market 2 locations in Montgomery County, Kentucky	2	0	2
* Versailles Market (lease land to 1 owned location) 2 locations in Woodford County, Kentucky, 2 locations in Franklin County, Kentucky, and 1 location in Scott County, Kentucky	2	3	5

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

Danville Market (lease land to 1 owned location)	3	0	3
2 locations in Boyle County, Kentucky and 1 location in Mercer County, Kentucky			
* Ashland Market (lease land to 1 owned location)	5	0	5
4 locations in Boyd County, Kentucky and 1 location in Greenup County, Kentucky			
Flemingsburg Market	3	0	3
3 locations in Fleming County, Kentucky			
Advantage Valley Market	3	1	4
2 locations in Lincoln County, West Virginia, 1 location in Wayne County, West Virginia, and 1 location in Cabell County, West Virginia			
Summersville Market	1	0	1
1 location in Nicholas County, West Virginia			
Middlesboro Market (lease land to 1 owned location)	3	0	3
3 locations in Bell County, Kentucky			
Williamsburg Market	5	0	5
2 locations in Whitley County, Kentucky and 3 locations in Laurel County, Kentucky			
Campbellsville Market (lease land to 2 owned locations)	8	0	8
2 locations in Taylor County, Kentucky, 2 locations in Pulaski County, Kentucky, 1 location in Adair County, Kentucky, 1 location in Green County, Kentucky, 1 location in Russell County, Kentucky, and 1 location in Marion County, Kentucky			
Mt. Vernon Market	2	0	2
2 locations in Rockcastle County, Kentucky			
* LaFollette Market	3	1	4
3 locations in Campbell County, Tennessee and 1 location in Anderson County, Tennessee			
Total banking locations	71	10	81
Operational locations:			
Community Trust Bank, Inc.			
Pikeville (Pike County, Kentucky) (lease land to 1 owned location)	1	0	1
Total operational locations	1	0	1
Total locations	72	10	82

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

See notes 8 and 15 to the consolidated financial statements included herein for the year ended December 31, 2013, for additional information relating to lease commitments and amounts invested in premises and equipment.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock is listed on The NASDAQ-Stock Market LLC – Global Select Market under the symbol CTBI. As of February 28, 2014, there were approximately 3,800 holders of record of our outstanding common shares.

Dividends

The annual dividend paid to our stockholders was increased from \$1.25 per share to \$1.27 per share during 2013. We have adopted a conservative policy of cash dividends by maintaining an average annual cash dividend ratio of less than 45%, with periodic stock dividends. The current year cash dividend ratio was 43.79%. Dividends are typically paid on a quarterly basis. Future dividends are subject to the discretion of CTBI's Board of Directors, cash needs, general business conditions, dividends from our subsidiaries, and applicable governmental regulations and policies. For information concerning restrictions on dividends from the subsidiary bank to CTBI, see note 20 to the consolidated financial statements included herein for the year ended December 31, 2013.

Stock Repurchases

CTBI did not acquire any shares of common stock through the stock repurchase program during the years 2013 and 2012. There are 288,519 shares remaining under CTBI's current repurchase authorization. For further information, see the Stock Repurchase Program section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Common Stock Performance

The following graph shows the cumulative return experienced by CTBI's shareholders during the last five years compared to the NASDAQ Stock Market (U.S.) and the NASDAQ Bank Stock Index. The graph assumes the investment of \$100 on December 31, 2008 in CTBI's common stock and in each index and the reinvestment of all dividends paid during the five-year period.

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

and NASDAQ Bank Stocks

Fiscal Year Ending December 31 (\$)

	2008	2009	2010	2011	2012	2013
Community Trust Bancorp, Inc.	100.00	69.80	86.12	91.15	105.43	149.34
NASDAQ Stock Market (U.S.)	100.00	143.74	170.17	171.08	202.40	281.91
NASDAQ Bank Stocks	100.00	84.30	100.68	90.16	105.38	150.84

As a result of a change in the total return data made available to us through our vendor provider, our performance graphs going forward will be using a comparable index provided by NASDAQ OMS Global Indexes. The preceding graph was prepared using the CRSP Index which was discontinued on NASDAQ Online after December 31, 2013. The following graph has been prepared using the new NASDAQ OMS Global Indexes.

Fiscal Year Ending December 31 (\$)

	2008	2009	2010	2011	2012	2013
Community Trust Bancorp, Inc.	100.00	69.80	86.12	91.15	105.43	149.34
NASDAQ Stock Market (U.S.)	100.00	129.26	151.94	152.42	177.46	236.88
NASDAQ Bank Stocks	100.00	98.65	109.85	81.92	110.37	150.79

Item 6. Selected Financial Data 2009-2013

(in thousands except ratios, per share amounts and # of employees)

Year Ended December 31	2013	2012	2011	2010	2009
Interest income	\$148,127	\$153,722	\$158,460	\$154,511	\$153,050
Interest expense	13,440	21,588	27,005	35,257	47,540
Net interest income	134,687	132,134	131,455	119,254	105,510
Provision for loan losses	8,568	9,450	13,262	16,484	17,468
Noninterest income	49,304	45,957	43,832	40,926	41,420
Noninterest expense	110,251	103,554	106,387	96,050	93,801
Income before income taxes	65,172	65,087	55,638	47,646	35,661
Income taxes	20,000	20,225	16,811	14,612	10,602
Net income	\$45,172	\$44,862	\$38,827	\$33,034	\$25,059

Per common share:

Basic earnings per share	\$2.90	\$2.90	\$2.54	\$2.17	\$1.66
Diluted earnings per share	\$2.88	\$2.89	\$2.53	\$2.16	\$1.65
Cash dividends declared-	\$1.27	\$1.25	\$1.23	\$1.21	\$1.20
as a % of net income	43.79	% 43.10	% 48.43	% 55.76	% 72.29
Book value, end of year	\$26.07	\$25.64	\$23.78	\$22.08	\$21.15
Market price, end of year	\$45.16	\$32.78	\$29.42	\$28.96	\$24.45
Market to book value, end of year	1.73	x 1.28	x 1.24	x 1.31	x 1.16
Price/earnings ratio, end of year	15.57	x 11.30	x 11.58	x 13.35	x 14.73
Cash dividend yield, end of year	2.81	% 3.81	% 4.18	% 4.18	% 4.91

At year-end:

Total assets	\$3,581,716	\$3,635,664	\$3,591,179	\$3,355,872	\$3,086,659
Long-term debt	61,341	61,341	61,341	61,341	61,341

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

Shareholders' equity	412,492	400,344	366,866	338,638	321,457
Averages:					
Assets	\$3,651,541	\$3,641,660	\$3,505,903	\$3,220,087	\$3,047,100
Deposits	3,127,709	2,928,579	2,811,333	2,574,961	2,409,848
Earning assets	3,384,211	3,357,134	3,221,648	2,961,971	2,830,701
Loans	2,579,805	2,549,459	2,580,351	2,461,225	2,383,875
Shareholders' equity	408,782	389,377	355,773	333,645	317,711
Profitability ratios:					
Return on average assets	1.24	% 1.23	% 1.11	% 1.03	% 0.82
Return on average equity	11.05	11.52	10.91	9.90	7.89
Capital ratios:					
Equity to assets, end of year	11.52	% 11.01	% 10.22	% 10.09	% 10.41
Average equity to average assets	11.19	10.69	10.15	10.36	10.43
Risk based capital ratios:					
Tier 1 capital (to average assets)	11.51	% 10.65	% 9.89	% 10.16	% 10.38
Tier 1 capital (to risk weighted assets)	16.15	15.23	13.88	12.90	12.90
Total capital (to risk weighted assets)	17.40	16.49	15.14	14.10	14.15
Other significant ratios:					
Allowance to net loans, end of year	1.30	% 1.30	% 1.30	% 1.34	% 1.34
Allowance to nonperforming loans, end of year	78.08	92.33	89.01	56.10	79.01
Nonperforming assets to loans and foreclosed properties, end of year	3.12	3.20	3.59	3.97	3.19
Net interest margin	4.03	3.99	4.13	4.07	3.77
Efficiency ratio	59.33	57.93	60.23	59.45	63.56
Other statistics:					
Average common shares outstanding	15,598	15,466	15,313	15,234	15,129
Number of full-time equivalent employees, end of year	1,022	1,035	1,015	1,041	982

Quarterly Financial Data
(Unaudited)

(in thousands except ratios and per share amounts)

Three Months Ended	December 31	September 30	June 30	March 31
2013				
Net interest income	\$33,998	\$34,150	\$33,342	\$33,197
Net interest income, taxable equivalent basis	34,452	34,600	33,789	33,642
Provision for loan losses	1,219	2,129	3,661	1,559
Noninterest income	12,039	12,071	13,274	11,920

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

Noninterest expense	32,374	25,591	25,987	26,299
Net income	8,757	12,653	11,942	11,820
Per common share:				
Basic earnings per share	\$0.56	\$0.81	\$0.77	\$0.76
Diluted earnings per share	0.55	0.81	0.76	0.76
Dividends declared	0.32	0.32	0.315	0.315
Common stock price:				
High	\$46.28	\$41.54	\$36.60	\$35.00
Low	38.09	35.80	32.15	32.27
Last trade	45.16	40.59	35.62	34.03
Selected ratios:				
Return on average assets, annualized	0.95	% 1.38	% 1.31	% 1.31
Return on average common equity, annualized	8.33	12.39	11.76	11.82
Net interest margin, annualized	4.05	4.07	3.99	4.02

Three Months Ended	December 31	September 30	June 30	March 31
2012				
Net interest income	\$33,763	\$33,046	\$32,319	\$33,006
Net interest income, taxable equivalent basis	34,221	33,518	32,785	33,444
Provision for loan losses	2,946	2,919	2,425	1,160
Noninterest income	11,943	10,838	11,989	11,187
Noninterest expense	27,843	25,813	24,148	25,750
Net income	10,552	10,209	12,232	11,869
Per common share:				
Basic earnings per share	\$0.68	\$0.66	\$0.79	\$0.77
Diluted earnings per share	0.68	0.66	0.79	0.77
Dividends declared	0.315	0.315	0.31	0.31
Common stock price:				
High	\$36.40	\$36.92	\$33.68	\$32.67
Low	29.60	33.15	30.25	29.13
Last trade	32.78	35.53	33.49	32.07
Selected ratios:				
Return on average assets, annualized	1.15	% 1.11	% 1.35	% 1.32
Return on average common equity, annualized	10.47	10.26	12.77	12.72
Net interest margin, annualized	4.03	3.96	3.93	4.05

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Community Trust Bancorp, Inc., our operations, and our present business environment. The MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated

financial statements and the accompanying notes thereto contained in Item 8 of this annual report. The MD&A includes the following sections:

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

Our Business

Community Trust Bancorp, Inc. (“CTBI”) is a bank holding company headquartered in Pikeville, Kentucky. Currently, we own one commercial bank and one trust company. Through our subsidiaries, we have eighty-one banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee, four trust offices across Kentucky, and one trust office in northeastern Tennessee. At December 31, 2013, we had total consolidated assets of \$3.6 billion and total consolidated deposits, including repurchase agreements, of \$3.1 billion, making us the largest bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders’ equity at December 31, 2013 was \$412.5 million.

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

Financial Goals and Performance

The following table shows the primary measurements used by management to assess annual performance. The goals in the table below should not be viewed as a forecast of our performance for 2014. Rather, the goals represent a range of target performance for 2014. There is no assurance that any or all of these goals will be achieved. See “Cautionary Statement Regarding Forward Looking Statements.”

2013 Goals	Variance	2014 Goals
------------	----------	------------

2013 Performance				
Earnings per share	\$2.98	\$2.90	(\$0.08)	\$2.90 - \$3.06
Net income	\$46.6 million	\$45.2 million	(\$1.4 million)	\$45.5 - \$48.3 million
ROAA	1.25%	1.24%	(0.01%)	1.25% - 1.31%
ROAE	11.18%	11.05%	(0.13%)	10.79% - 11.85%
				\$179.3 - \$189.3
Revenues	\$185.6 million	\$184.0 million	(\$1.6 million)	million
Noninterest revenue as of % of total revenue	24.3%	26.8%	2.5%	22.2% - 27.2%
Assets	\$3.75 billion	\$3.58 billion	(\$0.17 billion)	\$3.65 - \$3.75 billion
Loans	\$2.66 billion	\$2.62 billion	(\$0.04 billion)	\$2.65 - \$2.80 billion
Deposits, including repurchase agreements	\$3.20 billion	\$3.06 billion	(\$0.14 billion)	\$3.10 - \$3.20 billion
Shareholders' equity	\$428.3 million	\$412.5 million	(\$15.8 million)	\$440 - \$446 million

Results of Operations and Financial Condition

For the year ended December 31, 2013, we reported earnings of \$45.2 million, or \$2.90 per basic share, compared to \$44.9 million, or \$2.90 per basic share for the year ended December 31, 2012. Earnings for the year ended December 31, 2011 were \$38.8 million or \$2.54 per basic share.

On November 15, 2013, CTBI reported, in a current report on Form 8-K, that the completion of a Federal Reserve investigation was expected to result in an accrual against our earnings in the fourth quarter of 2013. The Federal Reserve has informed us that they have identified an error in the manner in which we process certain non-PIN based point-of-sale transactions. As a result, we will be required to modify our processing of overdraft transactions, revise our disclosures related to these transactions, and provide restitution to accountholders charged these fees from June 28, 2010 to the date our methodology is revised. We understand that such determination will likely result in impediments to CTBI's merger and acquisition activity for an unspecified period of time. While the final determination of costs, including customer refunds, has not occurred, management has developed an estimated range of outcomes, including a maximum and minimum exposure and has accrued \$6.2 million, the amount within this range that was considered the most likely cost.

2013 Highlights

- v Basic earnings per share for the year remained flat to prior year.
- v Net interest income for the year ended December 31, 2013 increased 1.9% from prior year.
- v Our nonperforming loans at \$43.6 million increased \$7.6 million from December 31, 2012. Nonperforming assets at \$82.7 million were a \$0.3 million decrease from prior year.
- v Net loan charge-offs for the year 2013 were \$7.8 million, or 0.30% of average loans, compared to \$9.4 million, or 0.37% of average loans, for the year 2012.
- v Our loan loss provision for the year 2013 of \$8.6 million was \$0.9 million less than 2012.

v Our loan loss reserve as a percentage of total loans outstanding remained at 1.30% from December 31, 2012 to December 31, 2013. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) at December 31, 2013 was 78.1% compared to 92.3% at December 31, 2012.

v Noninterest income for the year ended December 31, 2013 increased 7.3%. The increase year over year included increases in gains on sales of loans, deposit service charges, trust and wealth management revenue, loan related fees, net gains on other real estate owned, and bank owned life insurance income, offset slightly by a decrease in securities gains.

v Noninterest expense for the year ended December 31, 2013 increased 6.5% from prior year. Noninterest expense was impacted by increased personnel expense, increased data processing expense, and \$6.2 million in accrued expenses related to the Federal Reserve investigation discussed above.

v Our loan portfolio increased \$64.8 million from December 31, 2012.

v Our investment portfolio increased \$6.1 million from December 31, 2012.

v Deposits, including repurchase agreements, declined \$50.8 million from December 31, 2012.

v Our tangible common equity/tangible assets ratio remains strong at 9.85%.

Income Statement Review

(dollars in thousands)				Change 2013 vs. 2012	
Year Ended December 31	2013	2012	2011	Amount	Percent
Net interest income	\$ 134,687	\$ 132,134	\$ 131,455	\$ 2,553	1.9 %
Provision for loan losses	8,568	9,450	13,262	(882)	(9.3)
Noninterest income	49,304	45,957	43,832	3,347	7.3
Noninterest expense	110,251	103,554	106,387	6,697	6.5
Income taxes	20,000	20,225	16,811	(225)	(1.1)
Net income	\$ 45,172	\$ 44,862	\$ 38,827	\$ 310	0.7 %
Average earning assets	\$ 3,384,211	\$ 3,357,134	\$ 3,221,648	\$ 27,077	0.8 %
Yield on average earnings assets	4.43 %	4.63 %	4.97 %	(0.20)%	(4.4)%
Cost of interest bearing funds	0.52 %	0.83 %	1.06 %	(0.31)%	(37.0)%
Net interest margin	4.03 %	3.99 %	4.13 %	0.04 %	1.1 %

Net Interest Income

Net interest income for the year ended December 31, 2013 increased 1.9% from prior year with average earning assets increasing 0.8% and our net interest margin increasing 4 basis points. Our yield on average earning assets decreased 20 basis points from prior year. Loans represented 76.2% of our average earning assets for the year ended December 31, 2013, compared to 75.9% for the year ended December 31, 2012. Our cost of interest bearing funds decreased 31 basis points from prior year.

Net interest income for the year 2012 increased \$0.7 million as our net interest margin declined 14 basis points and average earning assets increased 4.2%. Our yield on average earning assets decreased 34 basis points from prior year. Loans represented 75.9% of our average earning assets for the year ended December 31, 2012, compared to

80.1% for the year ended December 31, 2011. Our cost of interest bearing funds decreased 23 basis points from prior year. The increased cost of our Hoops CD product resulting from the University of Kentucky's national championship win increased our cost of interest bearing funds and decreased our net interest margin by approximately 4 basis points for the year.

Provision for Loan Losses

The provision for loan losses that was added to the allowance for 2013 of \$8.6 million was a \$0.9 million decrease from prior year. This provision represented a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section.

The provision for loan losses that was added to the allowance for 2012 of \$9.5 million was a \$3.8 million decrease from prior year.

Noninterest Income

Noninterest income for the year ended December 31, 2013 increased 7.3% from prior year. The year over year increase was a result of increased gains on sales of loans, deposit service charges, trust and wealth management revenue, loan related fees, and bank owned life insurance income, offset slightly by a decrease in securities gains. The increase in noninterest income included a \$0.9 million increase in bank owned life insurance as a result of death benefits received. Loan related fees were impacted by a \$0.8 million positive variance year over year in fair value adjustments to our mortgage servicing rights. Deposit related fees are expected to decrease in the year 2014 by approximately \$0.9 million as a result of a change in our overdraft processing.

Noninterest income for the year ended December 31, 2012 increased 4.8% from prior year. The year over year increase was a result of increased gains on sales of loans, trust and wealth management revenue, and loan related fees, partially offset by a decline in deposit service charges.

Noninterest Expense

Noninterest expense for the year ended December 31, 2013 increased 6.5% from prior year. Noninterest expense was impacted by increased personnel expense of \$1.0 million for the year, increased data processing expense of \$0.9 million for the year, and \$6.2 million in accrued expenses related to the Federal Reserve investigation discussed above.

Noninterest expense for the year ended December 31, 2012 decreased 2.7% from prior year as a result of decreases in FDIC insurance premiums, legal fees, other real estate owned expense, and repossession expense, partially offset by an increase in personnel expense associated with our employee incentive accrual of \$3.0 million.

Balance Sheet Review

CTBI's total assets at \$3.6 billion decreased \$53.9 million, or 1.5%, from December 31, 2012. Loans outstanding at December 31, 2013 were \$2.6 billion, increasing \$64.8 million, or 2.5%, year over year. We experienced loan growth during the year of \$54.8 million in the commercial loan portfolio, \$4.3 million in the residential loan portfolio, and \$5.7 million in the consumer loan portfolio. The increase in consumer loans was primarily in indirect lending. During 2013, we initiated a new pricing program designed to be more competitive and to be more uniform in the manner in which we compensate our dealers. CTBI's investment portfolio increased \$6.1 million, or 1.0%, from December 31, 2012. Deposits, including repurchase agreements, at \$3.1 billion decreased \$50.8 million, or 1.6%, from December 31, 2012.

Shareholders' equity at December 31, 2013 was \$412.5 million compared to \$400.3 million at December 31, 2012. CTBI's annualized dividend yield to shareholders as of December 31, 2013 was 2.83%.

Loans

(in thousands)	December 31, 2013				
	Balance	Variance from Prior Year	Net Charge-Offs	Nonperforming	ALLL
Commercial:					
Construction	\$ 110,779	(7.3)%	\$ 826	\$ 6,192	\$ 3,396
Secured by real estate	872,542	8.1	1,444	18,979	14,535
Equipment lease financing	8,840	(4.4)	0	0	121
Other commercial	374,881	(0.4)	1,708	6,524	5,238
Total commercial	1,367,042	4.2	3,978	31,695	23,290
Residential:					
Real estate construction	56,075	1.9	85	694	397
Real estate mortgage	697,601	0.1	688	9,999	4,939
Home equity	84,880	3.1	230	753	601
Total residential	838,556	0.5	1,003	11,446	5,937
Consumer:					
Consumer direct	122,215	(0.3)	671	119	1,127
Consumer indirect	287,541	2.2	2,153	297	3,654
Total consumer	409,756	1.4	2,824	416	4,781
Total loans	\$ 2,615,354	2.5 %	\$ 7,805	\$ 43,557	\$ 34,008

Asset Quality

CTBI's total nonperforming loans were \$43.6 million at December 31, 2013, a 21.0% increase from the \$36.0 million at December 31, 2012. The increase for the year included a \$3.2 million increase in nonaccrual loans and a \$4.4 million increase in the 90+ days past due category. Loans 30-89 days past due at \$16.0 million is a decrease of \$11.1 million from December 31, 2012. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss. Our loan risk management processes include weekly delinquent loan review meetings at the market levels and monthly delinquent loan review meetings involving senior corporate management to review all nonaccrual loans and loans 30 days or more past due. Any activity regarding a criticized/classified loan (i.e. problem loan) must be approved by CTB's Watch List Asset Committee (i.e. Problem Loan Committee). CTB's Watch List Asset Committee also meets on a quarterly basis and reviews every criticized/classified loan of \$100,000 or greater. We also have a Loan Review Department that reviews every market within CTB annually and performs extensive testing of the loan portfolio to assure the accuracy of loan grades and classifications for delinquency, troubled debt restructuring, impaired status, impairment, nonaccrual status, and adequate loan loss reserves. The Loan Review Department has annually reviewed on average 94% of the outstanding commercial loan portfolio for the past three years. The average annual review percentage of the consumer and residential loan portfolio for the past three years was 87% based on the loan production during the number of months included in the review scope which is generally four to six months.

Impaired loans, loans not expected to meet contractual principal and interest payments, at December 31, 2013 totaled \$65.3 million compared to \$62.5 million at December 31, 2012. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2013, CTBI had \$22.4 million in

commercial loans secured by real estate, \$7.8 million in commercial real estate construction loans, \$9.9 million in commercial other loans, and \$1.0 million in real estate mortgage loans that were modified in troubled debt restructurings and impaired. Management evaluates all impaired loans for impairment and records a direct charge-off or provides specific reserves when necessary.

For further information regarding nonperforming and impaired loans, see note 4 to the consolidated financial statements.

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

Our level of foreclosed properties at \$39.2 million at December 31, 2013 was a decrease from \$47.0 million at December 31, 2012. Sales of foreclosed properties for the year ended December 31, 2013 totaled \$12.7 million while new foreclosed properties totaled \$7.4 million. At December 31, 2013, the book value of properties under contracts to sell was \$6.8 million; however, the closings had not occurred at year-end.

When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Charges to earnings in 2013 to reflect the decrease in current market values of foreclosed properties totaled \$2.5 million. There were 97 properties reappraised during 2013. Of these, 44 were written down by a total of \$1.8 million. Charges during the year ended December 31, 2012 were \$2.7 million. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. Management anticipates that our foreclosed properties will remain elevated as we work through weak market conditions.

The major classifications of foreclosed properties are shown in the following table:

(in thousands)	2013	2012
December 31		
1-4 family	\$8,640	\$12,381
Agricultural/farmland	792	653
Construction/land development/other	20,278	23,823
Multifamily	1,456	1,281
Non-farm/non-residential	8,022	8,848
Total foreclosed properties	\$39,188	\$46,986

The appraisal aging analysis of foreclosed properties, as well as the holding period, at December 31, 2013 is shown below:

(in thousands)		Appraisal Aging Analysis		Holding Period Analysis	
Days Since Last Appraisal	Current Book Value	Holding Period	Current Book Value		
Up to 3 months	\$1,984	Less than one year	\$5,290		
3 to 6 months	1,524	1 to 2 years	5,013		
6 to 9 months	4,814	2 to 3 years	13,553		
9 to 12 months	3,999	3 to 4 years	2,765		
12 to 24 months	21,576	4 to 5 years	11,565		

Over 24 months	5,291	Over 5 years	1,002
Total	\$39,188	Total	\$39,188

Net loan charge-offs for the year were \$7.8 million, or 0.30% of average loans annualized, a decrease from prior year's \$9.4 million, or 0.37% of average loans annualized. Of the total net charge-offs, \$4.0 million were in commercial loans, \$2.2 million were in indirect auto loans, and \$0.8 million were in residential real estate mortgage loans.

Our loan loss reserve as a percentage of total loans outstanding at December 31, 2013 remained at 1.30% from December 31, 2012. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) was 78.1% at December 31, 2013 compared to 92.3% at December 31, 2012. The decline in our reserve coverage is the result of our nonaccrual loans increasing while the specific reserves allocated to this pool of loans declined, and our 90+ days and still accruing loans, which have no specific reserves assigned to them, also increased year over year. The increase in our 90+ days and still accruing loans at December 31, 2013 was primarily the result of one credit which was not included in this pool at December 31, 2012 but was included in our impaired loan total with no impairment. We consider all of our nonperforming loans to be impaired and as such, they are subjected to measurement for impairment. At December 31, 2013, the actual impairment estimated to be inherent in our impaired loan pool had decreased by \$1.0 million from prior year-end. It is CTBI's policy not to allow a loan to be classified as 90+ days past due and still accruing unless it is considered to be adequately collateralized providing for the collection of both principal and interest and in the process of collection. As a result of this policy and the determination that these loans are adequately collateralized, no specific reserves are assigned to this pool of loans.

Contractual Obligations and Commitments

As disclosed in the notes to the consolidated financial statements, we have certain obligations and commitments to make future payments under contracts. At December 31, 2013, the aggregate contractual obligations and commitments are:

Contractual Obligations: (in thousands)	Payments Due by Period			
	Total	1 Year	2-5 Years	After 5 Years
Deposits without stated maturity	\$1,527,245	\$1,527,245	\$0	\$0
Certificates of deposit and other time deposits	1,327,829	1,144,975	182,503	351
Repurchase agreements and other short-term borrowings	220,532	220,532	0	0
Advances from Federal Home Loan Bank	1,286	126	727	433
Interest on advances from Federal Home Loan Bank*	76	24	51	1
Long-term debt	61,341	0	0	61,341
Interest on long-term debt*	58,474	1,163	10,916	46,395
Annual rental commitments under leases	8,699	1,867	4,016	2,816
Total contractual obligations	\$3,205,482	\$2,895,932	\$198,213	\$111,337

*The amounts provided as interest on advances from Federal Home Loan Bank and interest on long-term debt assume the liabilities will not be prepaid and interest is calculated to their individual maturities.

The interest on \$61.3 million in long-term debt is calculated based on the three-month LIBOR plus 1.59% until its maturity of June 1, 2037. The three-month LIBOR rate is projected using the most likely rate forecast from assumptions incorporated in the interest rate risk model and is determined two business days prior to the interest payment date. These assumptions are uncertain, and as a result, the actual payments will differ from the projection due to changes in economic conditions.

Other Commitments: (in thousands)	Amount of Commitment - Expiration by Period		
	Total	1 Year	2-5 Years

				After 5 Years
Standby letters of credit	\$34,861	\$27,969	\$6,892	\$0
Commitments to extend credit	410,803	321,207	77,504	12,092
Total other commitments	\$445,664	\$349,176	\$84,396	\$12,092

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Refer to note 17 to the consolidated financial statements for additional information regarding other commitments.

Liquidity and Market Risk

The objective of CTBI's Asset/Liability management function is to maintain consistent growth in net interest income within our policy limits. This objective is accomplished through management of our consolidated balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates, and customer preferences. The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or deposit withdrawals. This is accomplished by maintaining liquid assets in the form of cash and cash equivalents and investment securities, sufficient unused borrowing capacity, and growth in core deposits. As of December 31, 2013, we had approximately \$106.6 million in cash and cash equivalents and approximately \$609.4 million in securities valued at estimated fair value designated as available-for-sale and available to meet liquidity needs on a continuing basis compared to \$207.6 million and \$603.3 million at December 31, 2012. Additional asset-driven liquidity is provided by the remainder of the securities portfolio and the repayment of loans. In addition to core deposit funding, we also have a variety of other short-term and long-term funding sources available. We also rely on Federal Home Loan Bank advances for both liquidity and management of our asset/liability position. Federal Home Loan Bank advances were \$1.3 million at December 31, 2013 compared to \$1.4 million at December 31, 2012. As of December 31, 2013, we had a \$342.6 million available borrowing position with the Federal Home Loan Bank compared to \$320.9 million at December 31, 2012. We generally rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for our investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering, use of short-term borrowing facilities such as repurchase agreements and federal funds purchased, and issuance of long-term debt. At December 31, 2013 and December 31, 2012, we had \$44 million in lines of credit with various correspondent banks available to meet any future cash needs. Our primary investing activities include purchases of securities and loan originations. We do not rely on any one source of liquidity and manage availability in response to changing consolidated balance sheet needs. At December 31, 2013, federal funds sold were \$8.6 million compared to \$6.7 million at December 31, 2012, and deposits with the Federal Reserve were \$28.5 million compared to \$123.9 million at December 31, 2012. Additionally, we project cash flows from our investment portfolio to generate additional liquidity over the next 90 days.

The investment portfolio consists of investment grade short-term issues suitable for bank investments. The majority of the investment portfolio is in U.S. government and government sponsored agency issuances. The average life of the portfolio is 4.83 years. At the end of 2013, available-for-sale ("AFS") securities comprised approximately 99.7% of the total investment portfolio, and the AFS portfolio was approximately 148% of equity capital. Eighty-four percent of the pledge eligible portfolio was pledged.

Interest Rate Risk

We consider interest rate risk one of our most significant market risks. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of our net interest revenue is largely dependent upon the effective management of interest rate risk. We employ a variety of measurement techniques to identify and manage our interest rate risk including the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics for

on and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain, and as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

CTBI's Asset/Liability Management Committee (ALCO), which includes executive and senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk within Board-approved policy limits. Our current exposure to interest rate risks is determined by measuring the anticipated change in net interest income spread evenly over the twelve-month period.

The following table shows our estimated earnings sensitivity profile as of December 31, 2013:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	2.27%
+300	1.39%
+200	0.66%
+100	0.28%
-25	(0.26)%

The following table shows our estimated earnings sensitivity profile as of December 31, 2012:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	3.28%
+300	2.02%
+200	0.95%
+100	0.40%
-25	(0.16)%

The simulation model used the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2013 estimates that our net interest income in an up-rate environment would increase by 2.27% at a 400 basis point change, 1.39% increase at a 300 basis point change, 0.66% increase at a 200 basis point change, and a 0.28% increase at a 100 basis point change. In a down-rate environment, a 25 basis point decrease in interest rates would decrease net interest income by 0.26% over one year. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, we have developed sale procedures for several types of interest-sensitive assets. Virtually all long-term, fixed rate single family residential mortgage loans underwritten according to Federal Home Loan Mortgage Corporation guidelines are sold for cash upon origination or originated under terms where they could be sold. Periodically, additional assets such as commercial loans are also sold. In 2013 and 2012, \$134.7 million and \$113.6 million, respectively, was realized on the sale of fixed rate residential mortgages. We focus our efforts on consistent net interest revenue and net interest margin growth through each of the retail and wholesale business lines. We do not currently engage in trading activities.

The preceding analysis was prepared using a rate ramp analysis which attempts to spread changes evenly over a specified time period as opposed to a rate shock which measures the impact of an immediate change. Had these measurements been prepared using the rate shock method, the results would vary.

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

Our Static Repricing GAP as of December 31, 2013 is presented below. In the 12 month repricing GAP, rate sensitive liabilities (“RSL”) exceeded rate sensitive assets (“RSA”) by \$238.5 million.

(dollars in thousands)	1-3 Months	4-6 Months	7-9 Months	10-12 Months	2-3 Years	4-5 Years	> 5 Years
Assets	\$1,402,802	\$205,824	\$194,047	\$139,878	\$519,838	\$362,777	\$757,852
Liabilities and Equity	841,436	355,071	406,003	578,498	896,441	59,387	446,182
Repricing difference	561,365	(149,247)	(211,956)	(438,620)	(376,602)	303,390	311,670
Cumulative GAP	561,365	412,118	200,162	(238,458)	(615,060)	(311,670)	0
RSA/RSL	1.67	x 0.58	x 0.48	x 0.24	x 0.58	x 6.11	x 1.70
Cumulative GAP to total assets	15.67	% 11.50	% 5.59	% (6.66)	% (17.17)	% (8.70)	% 0.00

Capital Resources

We continue to grow our shareholders’ equity while also providing an annual dividend yield for the year 2013 of 2.81% to shareholders. Shareholders’ equity increased 3.0% from December 31, 2012 to \$412.5 million at December 31, 2013. Our primary source of capital growth is the retention of earnings. Cash dividends were \$1.27 per share for 2013 and \$1.25 per share for 2012. We retained 56.2% of our earnings in 2013 compared to 56.9% in 2012.

Regulatory guidelines require bank holding companies, commercial banks, and savings banks to maintain certain minimum capital ratios and define companies as “well-capitalized” that sufficiently exceed the minimum ratios. The banking regulators may alter minimum capital requirements as a result of revising their internal policies and their ratings of individual institutions. To be “well-capitalized” banks and bank holding companies must maintain a Tier 1 leverage ratio of no less than 5.0%, a Tier 1 risk based ratio of no less than 6.0%, and a total risk based ratio of no less than 10.0%. Our ratios as of December 31, 2013 were 11.51%, 16.15%, and 17.40%, respectively, all exceeding the threshold for meeting the definition of “well-capitalized.” See note 20 to the consolidated financial statements for further information.

As of December 31, 2013, we are not aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have, or are reasonably likely to have, a material adverse impact on our liquidity, capital resources, or operations, except as provided for in the Dodd-Frank Act which is discussed in the Supervision and Regulation section of Item 1. Business, the Basel III Proposal which is discussed below, and the investigation by the Federal Reserve which is discussed in the Results of Operations and Financial Condition above.

Basel III

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC has subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released

by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes CTBI and CTB. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. Based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements upon the effectiveness of the final rule.

Deposit Insurance

Substantially all of the deposits of CTBI are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by seven basis points for the first quarter of 2009 assessment, which resulted in annualized assessment rates for institutions in the highest risk category ("Risk Category 1 institutions") ranging from 12 to 14 basis points (basis points representing cents per \$100 of assessable deposits). In February 2009, the FDIC issued final rules to amend the DIF restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. For Risk Category 1 institutions that have long-term debt issuer ratings, the FDIC determines the initial base assessment rate using a combination of weighted average CAMELS component ratings, long-term debt issuer ratings (converted to numbers and averaged) and the financial ratios method assessment rate (as defined), each equally weighted. The initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates range from 7 to 24 basis points. The potential adjustments to a Risk Category 1 institution's initial base assessment rate include (i) a potential decrease of up to five basis points for long-term unsecured debt, including senior and subordinated debt and (ii) a potential increase of up to eight basis points for secured liabilities in excess of 25% of domestic deposits.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling five basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC's efforts to rebuild the DIF. Deposit insurance expense during 2009 included \$1.3 million recognized in the second quarter related to the special assessment.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. In December 2009, CTBI paid \$14.2 million in prepaid risk-based assessment, which included \$0.9 million related to the fourth quarter of 2009 that would have otherwise been payable in the first quarter of 2010. This amount was included in deposit insurance expense for 2009. The remaining \$13.3 million in prepaid deposit insurance was included in other assets on the consolidated balance sheet as of December 31, 2009. During 2010, \$3.9 million was expensed as a component of FDIC insurance and \$0.9 million in prepaid deposit insurance was acquired from LaFollette, leaving \$10.3 million in the prepaid. During 2011, \$2.9 million was expensed as a component of FDIC insurance, leaving \$7.4 million in the prepaid. During 2012, \$2.4 million was expensed as a component of FDIC insurance, leaving \$5.0 million in the prepaid. During 2013, we received a refund of \$4.4 million for overpayment of prepaid premiums and expensed the remaining \$0.6 million from the prepaid.

FDIC insurance expense totaled \$2.4 million, \$2.6 million, and \$3.2 million in 2013, 2012, and 2011. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments.

On July 21, 2010, the Dodd-Frank Act was signed into law. This law has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still unknown.

Among many other provisions, the Dodd-Frank Act broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The

Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and noninterest bearing transaction accounts and IOLTA accounts had unlimited deposit insurance through December 31, 2012. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but will be FDIC-insured up to the legal maximum of \$250,000 for each ownership category. See the Supervision and Regulation section of Item 1. Business for further information on the provisions of the Dodd-Frank Act.

Impact of Inflation, Changing Prices, and Economic Conditions

The majority of our assets and liabilities are monetary in nature. Therefore, CTBI differs greatly from most commercial and industrial companies that have significant investment in nonmonetary assets, such as fixed assets and inventories. However, inflation does have an important impact on the growth of assets in the banking industry and on the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation also affects other expenses, which tend to rise during periods of general inflation.

We believe one of the most significant impacts on financial and operating results is our ability to react to changes in interest rates. We seek to maintain an essentially balanced position between interest rate sensitive assets and liabilities in order to protect against the effects of wide interest rate fluctuations.

Since 2008 the U.S. economy has faced a severe economic crisis including a major recession from which it is slowly recovering. Commerce and business growth across a wide range of industries and regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. While reflecting some improvement in many parts of the country and in parts of our own service area, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. Regionally, recent economic conditions in the coal industry are resulting in increased unemployment in the markets we serve where coal is a major contributor to the economy. In addition, ongoing federal budget negotiations, the implementation of the Patient Protection and Affordable Care Act, the Federal Open Market Committee's plan for economic easing, and the level of U.S. debt may have a destabilizing effect on financial markets.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, in the states of Kentucky, West Virginia, and Tennessee and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of our loans and our business, financial condition, and results of operations.

Stock Repurchase Program

CTBI's stock repurchase program began in December 1998 with the authorization to acquire up to 500,000 shares and was increased by an additional 1,000,000 shares in July 2000 and in May 2003. We have not repurchased any shares

of our common stock since February 2008. There are currently 288,519 shares remaining under CTBI's current repurchase authorization. As of December 31, 2013, a total of 2,211,481 shares have been repurchased through this program. The following table shows Board authorizations and repurchases made through the stock repurchase program for the years 1998 through 2013:

	Board	Repurchases*		Shares Available
	Authorizations	Average Price (\$)	# of Shares	for Repurchase
1998	500,000	-	0	
1999	0	15.89	131,517	
2000	1,000,000	11.27	694,064	
2001	0	14.69	444,945	
2002	0	19.48	360,287	
2003	1,000,000	21.58	235,668	
2004	0	25.45	55,000	
2005	0	-	0	
2006	0	-	0	
2007	0	31.42	196,500	
2008	0	28.08	93,500	
2009	0	-	0	
2010	0	-	0	
2011	0	-	0	
2012	0	-	0	
2013	0	-	0	
Total	2,500,000	17.52	2,211,481	288,519

*Repurchased shares and average prices have been restated to reflect stock dividends that have occurred; however, board authorized shares have not been adjusted.

Critical Accounting Policies and Estimates

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

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

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

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

statement of financial position:

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

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

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

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

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

Loans – Loans with the ability and the intent to be held until maturity and/or payoff are reported at the carrying value of unpaid principal reduced by unearned interest, an allowance for loan and lease losses, and unamortized deferred fees or costs. Income is recorded on the level yield basis. Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments remain current for a period of time, generally six months, and future payments appear reasonably certain. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

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

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

estimate within the range of potential credit loss to determine the appropriate ALLL. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310-35, Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

A loan is considered impaired when, based on current information and events, it is probable that CTBI will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ALLL for these loans is measured under ASC 450, Contingencies.

When any secured commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. If the balance of the loan exceeds the fair value of the collateral, the loan is placed on non-accrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to CTBI, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell of the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off no later than 120 days (5 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to CTBI, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. While we generally review the historical loss rates over eight quarters and four quarters on a rolling average basis, recognizing the slow pace of economic recovery and the currently unknown impact of recent layoffs in coal-related employment in our geographic footprint, at December 31, 2013, management expanded our historical loss rate analysis to twelve rolling quarters. Had we maintained our eight quarter and four quarter rolling average review periods, the "most likely" scenario would have been decreased by \$5.9 million. Factors

that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge-offs, trends in loan losses, industry concentrations and their relative strengths, amount of unsecured loans, and underwriting exceptions. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted accordingly to approximate the most likely scenario. Management continually reevaluates the other subjective factors included in its ALLL analysis.

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

CTBI currently does not engage in any hedging activity or any derivative activity which management considers material. Analysis of CTBI's interest rate sensitivity can be found in the Interest Rate Risk section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

Community Trust Bancorp, Inc.
Consolidated Balance Sheets

(dollars in thousands)		
December 31	2013	2012
Assets:		
Cash and due from banks	\$64,828	\$73,451
Interest bearing deposits	33,200	127,438
Federal funds sold	8,613	6,671
Cash and cash equivalents	106,641	207,560
Certificates of deposit in other banks	9,568	5,336
Securities available-for-sale at fair value (amortized cost of \$621,753 and \$583,858, respectively)	609,405	603,343
Securities held-to-maturity at amortized cost (fair value of \$1,601 and \$1,659, respectively)	1,662	1,662
Loans held for sale	828	22,486
Loans	2,615,354	2,550,573
Allowance for loan and lease losses	(34,008)	(33,245)
Net loans	2,581,346	2,517,328
Premises and equipment, net	52,000	54,321
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,886	4,885
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$7,925 and \$7,712, respectively)	690	904
Bank owned life insurance	53,687	44,893
Mortgage servicing rights	3,424	2,364
Other real estate owned	39,188	47,537
Other assets	27,228	31,882
Total assets	\$3,581,716	\$3,635,664
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$621,321	\$606,448
Interest bearing	2,233,753	2,297,400
Total deposits	2,855,074	2,903,848
Repurchase agreements	208,067	210,120
Federal funds purchased and other short-term borrowings	12,465	12,314
Advances from Federal Home Loan Bank	1,286	1,429
Long-term debt	61,341	61,341
Other liabilities	30,991	46,268
Total liabilities	3,169,224	3,235,320

Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2013 – 15,821,304; 2012 – 15,612,935	79,107	78,065
Capital surplus	167,122	160,670
Retained earnings	174,289	148,944
Accumulated other comprehensive income (loss), net of tax	(8,026)	12,665
Total shareholders' equity	412,492	400,344
Total liabilities and shareholders' equity	\$3,581,716	\$3,635,664

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

(in thousands except per share data)			
Year Ended December 31	2013	2012	2011
Interest income:			
Interest and fees on loans, including loans held for sale	\$ 131,725	\$ 137,653	\$ 144,635
Interest and dividends on securities:			
Taxable	12,425	12,009	10,133
Tax exempt	2,249	2,074	1,712
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	1,367	1,433	1,374
Other, including interest on federal funds sold	361	553	606
Total interest income	148,127	153,722	158,460
Interest expense:			
Interest on deposits	11,313	17,911	21,282
Interest on repurchase agreements and other short-term borrowings	940	1,240	1,625
Interest on advances from Federal Home Loan Bank	26	34	99
Interest on long-term debt	1,161	2,403	3,999
Total interest expense	13,440	21,588	27,005
Net interest income	134,687	132,134	131,455
Provision for loan losses	8,568	9,450	13,262
Net interest income after provision for loan losses	126,119	122,684	118,193
Noninterest income:			
Service charges on deposit accounts	24,650	23,996	25,576
Gains on sales of loans, net	3,098	2,562	1,749
Trust and wealth management income	8,199	6,918	6,354
Loan related fees	4,697	4,042	2,372
Bank owned life insurance	2,747	1,760	1,721
Brokerage revenue	2,245	2,209	2,667
Securities gains (losses)	(45)	1,155	218
Other noninterest income	3,713	3,315	3,175
Total noninterest income	49,304	45,957	43,832
Noninterest expense:			
Officer salaries and employee benefits	10,432	10,561	8,379
Other salaries and employee benefits	42,411	41,327	40,416
Occupancy, net	7,804	7,546	7,929
Equipment	3,865	3,876	3,750
Data processing	7,308	6,394	6,495
Bank franchise tax	4,493	4,571	4,290
Legal fees	2,392	2,154	2,644
Professional fees	1,790	1,545	1,256
FDIC insurance	2,442	2,553	3,192
Other real estate owned provision and expense	5,154	5,267	8,604
Repossession expense	1,522	1,707	3,733
Other noninterest expense	20,638	16,053	15,699

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

Total noninterest expense	110,251	103,554	106,387
Income before income taxes	65,172	65,087	55,638
Income taxes	20,000	20,225	16,811
Net income	\$45,172	\$44,862	\$38,827
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains (losses) arising during the period	(31,878)	4,973	9,868
Less: Reclassification adjustments for realized (gains) losses included in net income	45	(1,155)	(218)
Tax (benefit) expense	(11,142)	1,336	3,378
Other comprehensive income (loss), net of tax	(20,691)	2,482	6,272
Comprehensive income	\$24,481	\$47,344	\$45,099
Basic earnings per share	\$2.90	\$2.90	\$2.54
Diluted earnings per share	\$2.88	\$2.89	\$2.53
Weighted average shares outstanding-basic	15,598	15,466	15,313
Weighted average shares outstanding-diluted	15,673	15,521	15,364
Dividends declared per share	\$1.27	\$1.25	\$1.23

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance, January 1, 2011	15,334,410	\$76,673	\$154,615	\$103,439	\$ 3,911	\$338,638
Net income				38,827		38,827
Net change in unrealized gain/loss on securities available-for-sale, net of tax of (\$3,378)					6,272	6,272
Cash dividends declared (\$1.23 per share)				(18,835)		(18,835)
Issuance of common stock	50,256	251	1,040			1,291
Issuance of restricted stock	45,542	228	(228)			0
Forfeiture of restricted stock	(216)	(1)	1			0
Stock-based compensation and related excess tax benefits			673			673
Balance, December 31, 2011	15,429,992	77,151	156,101	123,431	10,183	366,866
Net income				44,862		44,862
Net change in unrealized gain/loss on securities available-for-sale, net of tax of (\$1,336)					2,482	2,482
Cash dividends declared (\$1.25 per share)				(19,349)		(19,349)
Issuance of common stock	182,612	912	3,483			4,395
Issuance of restricted stock	331	2	(2)			0
Stock-based compensation and related excess tax benefits			1,088			1,088
Balance, December 31, 2012	15,612,935	78,065	160,670	148,944	12,665	400,344
Net income				45,172		45,172
Net change in unrealized gain/loss on securities available-for-sale, net of tax of \$11,142					(20,691)	(20,691)
Cash dividends declared (\$1.27 per share)				(19,827)		(19,827)
Issuance of common stock	207,506	1,038	5,310			6,348
Issuance of restricted stock	863	4	(4)			0
Stock-based compensation and related excess tax benefits			1,146			1,146
Balance, December 31, 2013	15,821,304	\$79,107	\$167,122	\$174,289	\$ (8,026)	\$412,492

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)			
Year Ended December 31	2013	2012	2011
Cash flows from operating activities:			
Net income	\$45,172	\$44,862	\$38,827
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,562	4,324	4,216
Deferred taxes	582	5,441	(94)
Stock-based compensation	698	592	650
Excess tax benefits of stock-based compensation	572	496	23
Provision for loan losses	8,568	9,450	13,262
Write-downs of other real estate owned and other repossessed assets	2,480	2,704	6,464
Securities (gains) losses	45	(1,155)	(218)
Gains on sale of mortgage loans held for sale	(3,098)	(2,562)	(1,749)
(Gains)/losses on sale of assets, net	(19)	328	(34)
Proceeds from sale of mortgage loans held for sale	134,695	113,632	81,095
Funding of mortgage loans held for sale	(109,939)	(133,021)	(79,427)
Amortization of securities premiums and discounts, net	3,976	5,375	3,719
Change in cash surrender value of bank owned life insurance	(1,488)	(1,410)	(1,407)
Death benefits received on bank owned life insurance	0	0	79
Mortgage servicing rights:			
Fair value adjustments	(206)	559	1,405
New servicing assets created	(854)	(641)	(526)
Changes in:			
Other assets	4,647	1,792	(746)
Other liabilities	323	7,130	(1,213)
Net cash provided by operating activities	90,716	57,896	64,326
Cash flows from investing activities:			
Certificates of deposit in other banks:			
Purchase of certificates of deposit	(4,472)	0	0
Maturity of certificates of deposit	240	6,539	2,887
Securities available-for-sale (AFS):			
Purchase of AFS securities	(197,264)	(285,795)	(312,615)
Proceeds from sales of AFS securities	42,936	39,856	12,045
Proceeds from prepayments and maturities of AFS securities	112,412	169,592	117,996
Securities held-to-maturity (HTM):			
Purchase of HTM securities	0	0	(480)
Proceeds from prepayments and maturities of HTM securities	0	0	480
Change in loans, net	(76,442)	(7,664)	4,632
Purchase of premises and equipment	(2,105)	(4,301)	(3,116)
Proceeds from sale of premises and equipment	48	108	271
Asset retirement	0	167	0
Additional investment in Federal Reserve Bank stock	(1)	(2)	(449)
Proceeds from sale of other real estate owned and repossessed assets	9,914	11,082	9,258
Additional investment in other real estate owned	(6)	(545)	(744)
Additional investment in bank owned life insurance	(7,306)	0	(2,458)

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

Net cash used in investing activities	(122,046)	(70,963)	(172,293)
Cash flows from financing activities:			
Change in deposits, net	(48,774)	25,489	172,242
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	(1,902)	(7,847)	32,326
Advances from Federal Home Loan Bank	30,000	0	571
Payments on advances from Federal Home Loan Bank	(30,143)	(20,180)	(200)
Issuance of common stock	6,348	4,395	1,291
Excess tax benefits of stock-based compensation	(572)	(496)	(23)
Dividends paid	(24,546)	(19,215)	(18,742)
Net cash provided by (used in) financing activities	(69,589)	(17,854)	187,465
Net increase (decrease) in cash and cash equivalents	(100,919)	(30,921)	79,498
Cash and cash equivalents at beginning of year	207,560	238,481	158,983
Cash and cash equivalents at end of year	\$ 106,641	\$ 207,560	\$ 238,481
Supplemental disclosures:			
Income taxes paid	\$ 20,339	\$ 11,325	\$ 13,680
Interest paid	13,717	22,451	27,682
Non-cash activities:			
Loans to facilitate the sale of other real estate owned and other repossessed assets	3,528	7,768	2,517
Common stock dividends accrued, paid in subsequent quarter	167	4,887	4,753
Real estate acquired in settlement of loans	7,384	12,031	31,536

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies

Basis of Presentation – The consolidated financial statements include Community Trust Bancorp, Inc. (“CTBI”) and its subsidiaries, including its principal subsidiary, Community Trust Bank, Inc. (“CTB”). Intercompany transactions and accounts have been eliminated in consolidation.

Nature of Operations – Substantially all assets, liabilities, revenues, and expenses are related to banking operations, including lending, investing of funds, obtaining of deposits, trust and wealth management operations, full service brokerage operations, and other financing activities. All of our business offices and the majority of our business are located in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee.

Use of Estimates – In preparing the consolidated financial statements, management must make certain estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues, and expenses, as well as affecting the disclosures provided. Future results could differ from the current estimates. Such estimates include, but are not limited to, the allowance for loan and lease losses, valuation of other real estate owned, fair value of securities and mortgage servicing rights, goodwill, and valuation of deferred tax assets.

The accompanying financial statements have been prepared using values and information currently available to CTBI.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan and lease losses, and capital.

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

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

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

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

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

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

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

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

Loans – Loans with the ability and the intent to be held until maturity and/or payoff are reported at the carrying value of unpaid principal reduced by unearned interest, an allowance for loan and lease losses, and unamortized deferred fees or costs. Income is recorded on the level yield basis. Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments remain current for a period of time, generally six months, and future payments appear reasonably certain. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

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

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

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310-35, Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss

ratios.

A loan is considered impaired when, based on current information and events, it is probable that CTBI will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ALLL for these loans is measured under ASC 450, Contingencies.

When any secured commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. If the balance of the loan exceeds the fair value of the collateral, the loan is placed on non-accrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to CTBI, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell of the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off no later than 120 days (5 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to CTBI, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. While we generally review the historical loss rates over eight quarters and four quarters on a rolling average basis, recognizing the slow pace of economic recovery and the currently unknown impact of recent layoffs in coal-related employment in our geographic footprint, at December 31, 2013, management expanded our historical loss rate analysis to twelve rolling quarters. Had we maintained our eight quarter and four quarter rolling average review periods, the "most likely" scenario would have been decreased by \$5.9 million. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge-offs, trends in loan losses, industry concentrations and their relative strengths, amount of unsecured loans, and underwriting exceptions. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted accordingly to approximate the most likely scenario. Management continually reevaluates the other subjective factors included in its ALLL analysis.

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

income. Gains and losses on loan sales are recorded in noninterest income.

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

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

Federal Home Loan Bank and Federal Reserve Stock – CTB is a member of the Federal Home Loan Bank (“FHLB”) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest on additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

CTB is also a member of its regional Federal Reserve Bank. Federal Reserve Bank stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon ASC 350, Intangibles-Goodwill and Other, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

The activity to goodwill and core deposit intangible for the years ended December 31, 2013, 2012, and 2011 are shown below.

Goodwill:

(in thousands)	2013	2012	2011
Beginning balance, January 1	\$65,490	\$65,490	\$65,499
Acquisition adjustments	0	0	(9)
Ending balance, December 31	\$65,490	\$65,490	\$65,490

Core Deposit Intangible:

(in thousands)	2013	2012	2011
Beginning balance, January 1	\$904	\$1,117	\$1,342
Amortization	(214)	(213)	(213)
Acquisition adjustments	0	0	(12)
Ending balance, December 31	\$690	\$904	\$1,117

Amortization of core deposit intangible is estimated at approximately \$0.2 million annually for years one through three and \$0.1 million for year four, at which time core deposit intangible will be fully amortized.

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

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

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

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

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

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

Mortgage Servicing Rights – Mortgage servicing rights (“MSRs”) are carried at fair market value following the accounting guidance in ASC 860-50, Servicing Assets and Liabilities. MSRs are valued using Level 3 inputs as defined in ASC 820, Fair Value Measurements. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The system used in this evaluation, Compass Point, attempts to quantify loan level idiosyncratic risk by calculating a risk derived value. As a result, each loan’s unique characteristics determine the valuation assumptions ascribed to that loan. Additionally, the computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, 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.

Share-Based Compensation – CTBI has a share-based employee compensation plan, which is described more fully in note 14 to the consolidated financial statements. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, Share-Based Payment.

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

Transfers between Fair Value Hierarchy Levels – Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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

New Accounting Standards –

Ø Amounts Reclassified Out of Other Comprehensive Income – In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. The adoption of ASU No. 2013-02 did not have a material impact on CTBI's consolidated financial statements. See note 23 for additional information.

Ø Accounting for Investments in Qualified Affordable Housing Projects – In January 2014, the FASB issued ASU No. 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, which enables companies that invest in affordable housing projects that qualify for the low-income housing tax credit (LIHTC) to elect to use the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial investment cost of the project is amortized in proportion to the amount of tax credits and benefits received, with the results of the investment presented on a net basis as a component of income tax expense (benefit). ASU 2014-01 is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. We are currently evaluating the impact of adopting ASU 2014-01, but we do not expect the adoption to have a material effect on CTBI's financial condition or results of operations.

Ø Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure – In January 2014, the FASB also issued ASU No. 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, which clarifies when an in-substance foreclosure or repossession of residential real estate property occurs, requiring a creditor to reclassify the loan to other real estate. According to ASU 2014-04, a consumer mortgage loan should be reclassified to other real estate either upon the creditor obtaining legal title to the real estate collateral or when the borrower voluntarily conveys all interest in the real estate property to the creditor through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also clarifies that a creditor should not delay reclassification when a borrower has a legal right of redemption. Our current practice is consistent with the new guidance. We expect to adopt ASU 2014-04 in the first quarter 2015 and do not expect the adoption to have a material effect on CTBI's financial condition or results of operations.

2. Cash and Due from Banks and Interest Bearing Deposits

Included in cash and due from banks and interest bearing deposits are amounts required to be held at the Federal Reserve or maintained in vault cash in accordance with regulatory reserve requirements. The balance requirements were \$60.0 million and \$56.8 million at December 31, 2013 and 2012, respectively.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2013, CTBI had cash accounts which exceeded federally insured limits with \$28.5 million in deposits with the Federal Reserve, \$23.9 million in deposits with Fifth Third Bank, and \$4.7 million in deposits with the Federal Home Loan Bank which are not subject to FDIC insurance.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest bearing transaction accounts December 31, 2010 through December 31, 2012, at all FDIC insured institutions. Effective January 1, 2013, money in noninterest-bearing transaction accounts (including IOLTA/IOLA) no longer receive unlimited deposit insurance coverage from the FDIC, but are FDIC-insured up to the legal maximum of \$250,000 for each ownership category.

3. Securities

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

The amortized cost and fair value of securities at December 31, 2013 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$65,524	\$225	\$(5,139)	\$60,610
State and political subdivisions	118,055	1,907	(3,259)	116,703
U.S. government sponsored agency mortgage-backed securities	383,174	4,325	(8,189)	379,310
Total debt securities	566,753	6,457	(16,587)	556,623
Marketable equity securities	55,000	0	(2,218)	52,782
Total available-for-sale securities	\$621,753	\$6,457	\$(18,805)	\$609,405

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$480	\$0	\$(62)	\$418
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	\$1,662	\$1	\$(62)	\$1,601

The amortized cost and fair value of securities at December 31, 2012 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$60,625	\$463	\$(173)	\$60,915
State and political subdivisions	107,987	5,369	(135)	113,221
U.S. government sponsored agency mortgage-backed securities	370,246	13,347	(12)	383,581
Total debt securities	538,858	19,179	(320)	557,717
Marketable equity securities	45,000	791	(165)	45,626
Total available-for-sale securities	\$583,858	\$19,970	\$(485)	\$603,343

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$480	\$0	\$(4)	\$476
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	\$1,662	\$1	\$(4)	\$1,659

The amortized cost and fair value of securities at December 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$3,844	\$3,863	\$0	\$0
Due after one through five years	29,673	30,137	0	0
Due after five through ten years	117,690	112,175	1,182	1,183
Due after ten years	32,372	31,138	480	418
U.S. government sponsored agency mortgage-backed securities	383,174	379,310	0	0
Total debt securities	566,753	556,623	1,662	1,601
Marketable equity securities	55,000	52,782	0	0
Total securities	\$621,753	\$609,405	\$1,662	\$1,601

There was a combined loss of \$45 thousand due to sales of seven mortgage-backed securities and an agency security and partial calls of two municipal securities. A pre-tax gain of \$612 thousand and a pre-tax loss of \$657 thousand were realized during the year. There was a combined gain of \$1.2 million realized in 2012 due to sales of four agency securities, one mortgage-backed security, and five auction rate securities and a call of a municipal security. A pre-tax gain of \$2.4 million and a pre-tax loss of \$1.2 million were realized in 2012. There was a pre-tax gain of \$218 thousand realized in 2011 due to the sale of an agency security.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$257.5 million at December 31, 2013 and \$262.4 million at December 31, 2012.

The amortized cost of securities sold under agreements to repurchase amounted to \$255.4 million at December 31, 2013 and \$237.3 million at December 31, 2012.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical costs. CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of December 31, 2013 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of December 31, 2013 was 67.8% compared to 14.8% as of December 31, 2012 as a result of changes in the market rates during 2013. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2013 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	\$21,750	\$(1,617)	\$20,133
State and political subdivisions	57,165	(2,789)	54,376
U.S. government sponsored agency mortgage-backed securities	248,705	(8,182)	240,523
Total debt securities	327,620	(12,588)	315,032
Marketable equity securities	55,000	(2,218)	52,782
Total <12 months temporarily impaired AFS securities	382,620	(14,806)	367,814
12 Months or More			
U.S. Treasury and government agencies	35,750	(3,522)	32,228
State and political subdivisions	7,639	(470)	7,169
U.S. government sponsored agency mortgage-backed securities	6,579	(7)	6,572
Total debt securities	49,968	(3,999)	45,969
Marketable equity securities	0	0	0
Total ≥12 months temporarily impaired AFS securities	49,968	(3,999)	45,969
Total			
U.S. Treasury and government agencies	57,500	(5,139)	52,361
State and political subdivisions	64,804	(3,259)	61,545
U.S. government sponsored agency mortgage-backed securities	255,284	(8,189)	247,095
Total debt securities	377,588	(16,587)	361,001
Marketable equity securities	55,000	(2,218)	52,782
Total temporarily impaired AFS securities	\$432,588	\$(18,805)	\$413,783

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
12 Months or More			
U.S. Treasury and government agencies	\$480	\$(62)	\$418
Total temporarily impaired HTM securities	\$480	\$(62)	\$418

U.S. Treasury and Government Agencies

The unrealized losses in U.S. Treasury and government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost. Because CTBI does not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost, which may be maturity, CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

State and Political Subdivisions

The unrealized losses in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost. Because CTBI does not intend to sell the investments before recovery of their amortized cost, which may be maturity, CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

U.S. Government Sponsored Agency Mortgage-Backed Securities

The unrealized losses in U.S. government sponsored agency mortgage-backed securities were caused by interest rate increases. CTBI expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because CTBI does not intend to sell the investments and it is not more likely than not we will be required to sell the investments before recovery of their amortized cost, which may be maturity, CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

Marketable Equity Securities

CTBI's investments in marketable equity securities consist primarily of investments in fixed income mutual funds (\$52.8 million of the total fair value and \$2.2 million of the total unrealized losses in common stock investments). Within CTBI's fixed income mutual funds is a fund that invests in mortgages which is approximately 54% of the total fair value and 68% of CTBI's total unrealized losses and a fund that invests in CRA eligible investments which is approximately 46% of the total fair value and 32% of CTBI's total unrealized losses. The severity of the impairment (fair value is approximately 2.8% to 5.0% less than cost) and the duration of the impairment (less than twelve months) correlates with the rise in interest rates during the latter half of 2013. CTBI evaluated the near-term prospects of these funds in relation to the severity and duration of the impairment. Based on that evaluation, CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

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

Available-for-Sale

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

Held-to-Maturity

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

4. Loans

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

(in thousands)	December 31 2013	December 31 2012
Commercial construction	\$110,779	\$119,447
Commercial secured by real estate	872,542	807,213
Equipment lease financing	8,840	9,246
Commercial other	374,881	376,348
Real estate construction	56,075	55,041
Real estate mortgage	697,601	696,928
Home equity	84,880	82,292
Consumer direct	122,215	122,581
Consumer indirect	287,541	281,477
Total loans	\$2,615,354	\$2,550,573

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

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

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

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

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

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

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

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

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

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

Not included in the loan balances above were loans held for sale in the amount of \$0.8 million at December 31, 2013 and \$22.5 million at December 31, 2012, respectively. The amount of capitalized fees and costs under ASC 310-20, included in the above loan totals were \$3 thousand and \$0.4 million at December 31, 2013 and 2012, respectively.

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

	December 31 2013	December 31 2012
(in thousands)		
Commercial:		

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

Commercial construction	\$4,519	\$5,955
Commercial secured by real estate	6,576	5,572
Commercial other	2,801	1,655
Residential:		
Real estate construction	481	315
Real estate mortgage	5,152	3,153
Home equity	429	141
Total nonaccrual loans	\$19,958	\$16,791

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

December 31, 2013							
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	\$250	\$166	\$6,012	\$6,428	\$104,351	\$110,779	\$1,673
Commercial secured by real estate	3,703	1,982	16,660	22,345	850,197	872,542	12,403
Equipment lease financing	0	0	0	0	8,840	8,840	0
Commercial other	344	422	6,156	6,922	367,959	374,881	3,723
Residential:							
Real estate construction	81	383	694	1,158	54,917	56,075	213
Real estate mortgage	1,274	4,419	9,346	15,039	682,562	697,601	4,847
Home equity	786	330	737	1,853	83,027	84,880	324
Consumer:							
Consumer direct	1,063	291	119	1,473	120,742	122,215	119
Consumer indirect	2,750	668	297	3,715	283,826	287,541	297
Total	\$10,251	\$8,661	\$40,021	\$58,933	\$2,556,421	\$2,615,354	\$23,599

December 31, 2012							
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	\$1,413	\$312	\$9,598	\$11,323	\$108,124	\$119,447	\$3,778
Commercial secured by real estate	9,733	1,633	10,456	21,822	785,391	807,213	5,943
Equipment lease financing	0	0	0	0	9,246	9,246	0
Commercial other	259	1,142	5,164	6,565	369,783	376,348	3,867
Residential:							
Real estate construction	248	572	511	1,331	53,710	55,041	196

Real estate mortgage	2,765	4,029	7,138	13,932	682,996	696,928	4,511
Home equity	921	102	565	1,588	80,704	82,292	441
Consumer:							
Consumer direct	1,360	336	98	1,794	120,787	122,581	98
Consumer indirect	2,772	907	381	4,060	277,417	281,477	381
Total	\$19,471	\$9,033	\$33,911	\$62,415	\$2,488,158	\$2,550,573	\$19,215

*90+ and Accruing are also included in 90+ Days Past Due column.

The risk characteristics of CTBI's material portfolio segments are as follows:

Commercial construction loans generally are made to customers for the purpose of building income-producing properties. Personal guarantees of the principals are generally required. Such loans are made on a projected cash flow basis and are secured by the project being constructed. Construction loan draw procedures are included in each specific loan agreement, including required documentation items and inspection requirements. Construction loans may convert to term loans at the end of the construction period, or may be repaid by the take-out commitment from another financing source. If the loan is to convert to a term loan, the repayment ability is based on the borrower's projected cash flow. Risk is mitigated during the construction phase by requiring proper documentation and inspections whenever a draw is requested. Loans in amounts greater than \$500,000 generally require a performance bond to be posted by the general contractor to assure completion of the project.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria.

Equipment lease financing is underwritten by our commercial lenders using the same underwriting standards as would be applied to a secured commercial loan requesting 100% financing. The pricing for equipment lease financing is comparable to that of borrowers with similar quality commercial credits with similar collateral. Maximum terms of equipment leasing are determined by the type and expected life of the equipment to be leased. Residual values are determined by appraisals or opinion letters from industry experts. Leases must be in conformity with our consolidated annual tax plan. As we underwrite our equipment lease financing in a manner similar to our commercial loan portfolio described below, the risk characteristics for this portfolio mirror that of the commercial loan portfolio.

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, CTBI generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Residential construction loans are handled through the home mortgage area of the bank. The repayment ability of the borrower and the maximum loan-to-value ratio are calculated using the normal mortgage lending criteria. Draws are processed based on percentage of completion stages including normal inspection procedures. Such loans generally convert to

term loans after the completion of construction.

Consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Our determination of a borrower's ability to repay these loans is primarily dependent on the personal income and credit rating of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The indirect lending area of the bank generally deals with purchasing/funding consumer contracts with new and used automobile dealers. The dealers generate consumer loan applications which are forwarded to the indirect loan processing area for approval or denial. Loan approvals or denials are based on the creditworthiness and repayment ability of the borrower, and on the collateral value. The dealers may have recourse agreements with the Bank.

Credit Quality Indicators:

CTBI categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CTBI also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). CTBI analyzes commercial loans individually by classifying the loans as to credit risk. Loans classified as loss, doubtful, substandard, or special mention are reviewed quarterly by CTBI for further deterioration or improvement to determine if appropriately classified and valued if deemed impaired. All other commercial loan reviews are completed every 12 to 18 months. In addition, during the renewal process of any loan, as well as if a loan becomes past due or if other information becomes available, CTBI will evaluate the loan grade. CTBI uses the following definitions for risk ratings:

Ø Pass grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from loans that have no chance of resulting in a loss to loans that have a limited chance of resulting in a loss. Customers in this grade have excellent to fair credit ratings. The cash flows are adequate to meet required debt repayments.

Ø Watch graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the watch list may be potential troubled credits or may warrant "watch" status for a reason not directly related to the asset quality of the credit. The watch grade is a management tool to identify credits which may be candidates for future classification or may temporarily warrant extra management monitoring.

Ø Other assets especially mentioned (OAEM) reflects loans that are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of circumstances surrounding a specific asset. Loans in this grade display potential weaknesses which may, if unchecked or uncorrected, inadequately protect CTBI's credit position at some future date. The loans may be adversely affected by economic or market conditions.

Ø Substandard grading indicates that the loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These loans have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility that CTBI will sustain some loss if the deficiencies are not corrected.

Ø Doubtful graded loans have the weaknesses inherent in the substandard grading with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to CTBI's advantage or strengthen the asset(s), its classification

as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

The following tables present the credit risk profile of CTBI's commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of December 31, 2013 and 2012:

(in thousands)	Commercial				Total
	Commercial Construction	Commercial Secured by Real Estate	Equipment Leases	Commercial Other	
December 31, 2013					
Pass	\$ 85,699	\$ 746,202	\$ 8,840	\$ 321,819	\$ 1,162,559
Watch	13,519	77,561	0	32,800	123,880
OAEM	0	6,639	0	6,200	12,839
Substandard	7,208	37,334	0	11,772	56,314
Doubtful	4,353	4,806	0	2,291	11,450
Total	\$ 110,779	\$ 872,542	\$ 8,840	\$ 374,881	\$ 1,367,042
December 31, 2012					
Pass	\$ 92,140	\$ 665,764	\$ 9,246	\$ 328,646	\$ 1,095,796
Watch	12,915	79,517	0	28,760	121,192
OAEM	1,054	16,532	0	2,816	20,402
Substandard	7,383	40,021	0	14,878	62,282
Doubtful	5,955	5,379	0	1,248	12,582
Total	\$ 119,447	\$ 807,213	\$ 9,246	\$ 376,348	\$ 1,312,254

The following tables present the credit risk profile of CTBI's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of December 31, 2013 and 2012:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
	December 31, 2013					
Performing	\$ 55,381	\$ 687,602	\$ 84,127	\$ 122,096	\$ 287,244	\$ 1,236,450
Nonperforming (1)	694	9,999	753	119	297	11,862
Total	\$ 56,075	\$ 697,601	\$ 84,880	\$ 122,215	\$ 287,541	\$ 1,248,312
December 31, 2012						
Performing	\$ 54,530	\$ 689,264	\$ 81,710	\$ 122,483	\$ 281,096	\$ 1,229,083
Nonperforming (1)	511	7,664	582	98	381	9,236
Total	\$ 55,041	\$ 696,928	\$ 82,292	\$ 122,581	\$ 281,477	\$ 1,238,319

(1) A loan is considered nonperforming if it is 90 days or more past due or on nonaccrual.

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.

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

The following table presents impaired loans, the average investment in impaired loans, and interest income recognized on impaired loans for the years ended December 31, 2013, 2012, and 2011:

December 31, 2013					
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$5,457	\$5,458	\$0	\$5,595	\$240
Commercial secured by real estate	35,258	36,173	0	32,472	1,231
Commercial other	14,839	16,435	0	15,396	568
Real estate mortgage	1,024	1,024	0	934	43
Loans with a specific valuation allowance:					
Commercial construction	4,353	4,359	1,189	4,935	0
Commercial secured by real estate	4,039	4,326	1,005	5,033	1
Commercial other	330	453	102	525	0
Totals:					
Commercial construction	9,810	9,817	1,189	10,530	240
Commercial secured by real estate	39,297	40,499	1,005	37,505	1,232
Commercial other	15,169	16,888	102	15,921	568
Real estate mortgage	1,024	1,024	0	934	43
Total	\$65,300	\$68,228	\$2,296	\$64,890	\$2,083

December 31, 2012					
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$3,692	\$4,146	\$0	\$4,249	\$97
Commercial secured by real estate	35,046	35,818	0	35,542	1,337
Commercial other	13,285	15,484	0	11,083	416
Real estate mortgage	695	695	0	481	30
Loans with a specific valuation allowance:					
Commercial construction	5,703	6,933	1,820	6,585	0
Commercial secured by real estate	3,067	3,189	1,090	3,243	0
Commercial other	1,010	2,331	338	1,441	0
Commercial construction	9,395	11,079	1,820	10,834	97
Commercial secured by real estate	38,113	39,007	1,090	38,785	1,337
Commercial other	14,295	17,815	338	12,524	416
Real estate mortgage	695	695	0	481	30
Total	\$62,498	\$68,596	\$3,248	\$62,624	\$1,880

December 31, 2011					
(in thousands)	Recorded Balance	Unpaid Contractual	Specific Allowance	Average Investment	*Interest Income

		Principal Balance		in Impaired Loans	Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$4,778	\$4,778	\$0	\$8,992	\$252
Commercial secured by real estate	27,811	29,765	0	31,480	1,543
Commercial other	1,770	2,501	0	3,392	143
Loans with a specific valuation allowance:					
Commercial construction	5,794	6,643	2,203	7,681	0
Commercial secured by real estate	3,525	3,669	1,156	4,747	23
Commercial other	3,432	6,022	1,310	5,071	22
Commercial construction	10,572	11,421	2,203	16,673	252
Commercial secured by real estate	31,336	33,434	1,156	36,227	1,566
Commercial other	5,202	8,523	1,310	8,463	165
Total	\$47,110	\$53,378	\$4,669	\$61,363	\$1,983

*Cash basis interest is substantially the same as interest income recognized.

Included in certain loan categories of impaired loans are certain loans and leases that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve either an increase or reduction of the interest rate, extension of the term of the loan, or deferral of principal and/or interest payments, regardless of the period of the modification. All of the loans identified as troubled debt restructuring were modified due to financial stress of the borrower. In order to determine if a borrower is experiencing financial difficulty, an evaluation is performed to determine the probability that the borrower will be in payment default on any of its debt in the foreseeable future with the modification. This evaluation is performed under CTBI's internal underwriting policy.

When we modify loans and leases in a troubled debt restructuring, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determined that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all troubled debt restructuring, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

During 2013, certain loans were modified in troubled debt restructurings, where economic concessions were granted to borrowers consisting of reductions in the interest rates, payment extensions, forgiveness of principal, and forbearances. Presented below, segregated by class of loans, are troubled debt restructurings that occurred during the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013				Post-Modification Outstanding Balance
	Number of Loans	Term Modification	Rate Modification	Combination	
(in thousands)					
Commercial:					

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

Commercial construction	6	\$ 2,603	\$ 0	\$ 0	\$ 2,603
Commercial secured by real estate	27	2,568	0	2,920	5,488
Commercial other	30	6,471	0	152	6,623
Residential:					
Real estate mortgage	1	373	0	0	373
Total troubled debt restructurings	64	\$ 12,015	\$ 0	\$ 3,072	\$ 15,087

Year Ended December 31, 2012					
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	5	\$ 557	\$ 0	\$ 0	\$ 557
Commercial secured by real estate	11	3,624	0	882	4,506
Commercial other	22	3,217	0	11	3,228
Residential:					
Real estate mortgage	1	0	391	0	391
Total troubled debt restructurings	39	\$ 7,398	\$ 391	\$ 893	\$ 8,682

No charge-offs have resulted from modifications for any of the presented periods.

Loans retain their accrual status at the time of their modification. As a result, if a loan is on nonaccrual at the time it is modified, it stays as nonaccrual, and if a loan is on accrual at the time of the modification, it generally stays on accrual. Commercial and consumer loans modified in a troubled debt restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a troubled debt restructuring subsequently default, CTBI evaluates the loan for possible further impairment. The allowance for loan and lease losses may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Presented below, segregated by class of loans, are loans that were modified as troubled debt restructurings within the past twelve months which have subsequently defaulted. CTBI considers a loan in default when it is 90 days or more past due or transferred to nonaccrual.

(in thousands)	Year Ended December 31, 2013	
	Number of Loans	Recorded Balance
Commercial:		
Commercial secured by real estate	2	\$89
Commercial other	6	596
Residential:		
Real estate mortgage	1	373
Total defaulted restructured loans	9	\$1,058

(in thousands)	Year Ended December 31, 2012	
	Number of Loans	Recorded Balance
Commercial:		
Commercial secured by real estate	1	\$344
Commercial other	6	83
Total defaulted restructured loans	7	\$427

5. Mortgage Banking and Servicing Rights

Mortgage banking activities primarily include residential mortgage originations and servicing. As discussed in note 1 above, 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 system used in this evaluation, Compass Point, attempts to quantify loan level idiosyncratic risk by calculating a risk derived value. As a result, each loan’s unique characteristics determine the valuation assumptions ascribed to that loan. Additionally, the computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, 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)	2013	2012	2011
Year Ended December 31			
Net gain on sale of loans held for sale	\$3,098	\$2,562	\$1,749
Net loan servicing income (expense)			
Servicing fees	1,121	1,083	1,072
Late fees	98	83	77
Ancillary fees	368	382	278
Fair value adjustments	206	(559)	(1,405)
Net loan servicing income	1,793	989	22
Mortgage banking income	\$4,891	\$3,551	\$1,771

Mortgage loans serviced for others are not included in the accompanying balance sheets. Loans serviced for the benefit of others (primarily FHLMC) totaled \$440 million, \$419 million, and \$425 million at December 31, 2013, 2012 and 2011, 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 \$855 thousand, \$673 thousand, and \$579 thousand at December 31, 2013, 2012, and 2011, respectively.

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

(in thousands)	2013	2012	2011
Fair value of MSRs, beginning of period	\$2,364	\$2,282	\$3,161
New servicing assets created	854	641	526
Change in fair value during the period due to:			
Time decay (1)	(159)	(116)	(124)
Payoffs (2)	(423)	(478)	(439)
Changes in valuation inputs or assumptions (3)	788	35	(842)
Fair value of MSRs, end of period	\$3,424	\$2,364	\$2,282

(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.

The fair values of capitalized mortgage servicing rights were \$3.4 million, \$2.4 million, and \$2.3 million at December 31, 2013, 2012, and 2011, respectively. Fair values were determined by third-party valuations using a discount rate of 10.0%, 10.5%, and 10.0%, for the years ended December 31, 2013, 2012, and 2011, respectively, and weighted average default rates of 3.36%, 2.65%, and 2.61%, respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 9.7%, 16.3%, and 19.2% at December 31, 2013, 2012, and 2011, respectively. These assumptions are prepared by the third party provider and reviewed and approved by management prior to final determination of the fair value. 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.

6. Related Party Transactions

In the ordinary course of business, CTB has made extensions of credit and had transactions with certain directors and executive officers of CTBI or our subsidiaries, including their associates (as defined by the Securities and Exchange Commission). We believe such extensions of credit and transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the same time for comparable transactions with other persons.

Activity for related party extensions of credit during 2013 and 2012 is as follows:

(in thousands)	2013	2012
Related party extensions of credit, beginning of period	\$33,038	\$22,860
New loans and advances on lines of credit	8,305	466
Repayments	(8,237)	(2,141)
Increase/(decrease) due to changes in related parties	(3)	11,853
Related party extensions of credit, end of period	\$33,103	\$33,038

The aggregate balances of related party deposits at December 31, 2013 and 2012 were \$13.3 million and \$17.2 million, respectively.

A director of CTBI, is a shareholder in a law firm that provided services to CTBI and its subsidiaries during the years 2013, 2012, and 2011. Approximately \$1.1 million in legal fees and \$0.2 million in expenses paid on behalf of CTBI, \$1.3 million total, were paid to this law firm during 2013. Approximately \$1.3 million in legal fees and \$0.2 million in expenses, \$1.5 million total, were paid during 2012, and approximately \$1.2 million in legal fees and \$0.2 million in expenses, \$1.4 million in total, were paid during 2011.

7. Allowance for Loan and Lease Losses

The following tables present the balance in the allowance for loan and lease losses (“ALLL”) and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2013, 2012, and 2011:

2013										
(in thousands)	Commercial			Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
	Construction	Secured by Real Estate	Lease Financing							
ALLL										
Balance, beginning	\$4,033	\$13,541	\$126	\$5,469	\$376	\$4,767	\$563	\$1,102	\$3,268	\$33,245

of year											
Provision charged to expense	189	2,438	(5)	1,477	106	860	268	696	2,539	8,568	
Losses charged off	1,135	1,607	0	2,265	89	744	241	1,166	3,802	11,049	
Recoveries	309	163	0	557	4	56	11	495	1,649	3,244	
Balance, end of year	\$3,396	\$14,535	\$121	\$5,238	\$397	\$4,939	\$601	\$1,127	\$3,654	\$34,008	
Ending balance:											
Individually evaluated for impairment	\$1,189	\$1,005	\$0	\$102	\$0	\$0	\$0	\$0	\$0	\$2,296	
Collectively evaluated for impairment	\$2,207	\$13,530	\$121	\$5,136	\$397	\$4,939	\$601	\$1,127	\$3,654	\$31,712	
Loans											
Ending balance:											
Individually evaluated for impairment	\$9,810	\$39,297	\$0	\$15,169	\$0	\$1,024	\$0	\$0	\$0	\$65,300	
Collectively evaluated for impairment	\$100,969	\$833,245	\$8,840	\$359,712	\$56,075	\$696,577	\$84,880	\$122,215	\$287,541	\$2,550,054	
2012											
(in thousands)											
	Commercial Construction	Commercial by Real Estate	Secured Equipment Lease Financing	Real Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total	
ALLL											
Balance, beginning of year	\$4,023	\$11,753	\$112	\$5,608	\$354	\$4,302	\$562	\$917	\$5,540	\$33,171	
Provision charged to expense	1,009	3,520	14	2,330	183	1,437	238	892	(173)	9,450	
Losses charged off	1,034	2,035	0	3,233	189	1,123	248	1,245	3,483	12,590	
Recoveries	35	303	0	764	28	151	11	538	1,384	3,214	
Balance, end of year	\$4,033	\$13,541	\$126	\$5,469	\$376	\$4,767	\$563	\$1,102	\$3,268	\$33,245	

Ending balance:										
Individually evaluated for impairment	\$1,820	\$1,090	\$0	\$338	\$0	\$0	\$0	\$0	\$0	\$3,248
Collectively evaluated for impairment	\$2,213	\$12,451	\$126	\$5,131	\$376	\$4,767	\$563	\$1,102	\$3,268	\$29,997

Loans										
Ending balance:										
Individually evaluated for impairment	\$9,395	\$38,113	\$0	\$14,295	\$0	\$695	\$0	\$0	\$0	\$62,498
Collectively evaluated for impairment	\$110,052	\$769,100	\$9,246	\$362,053	\$55,041	\$696,233	\$82,292	\$122,581	\$281,477	\$2,488,075

2011										
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
ALLL Balance, beginning of year	\$4,332	\$12,327	\$7,392	\$148	\$271	\$2,982	\$407	\$1,169	\$5,777	\$34,805
Provision charged to expense	2,171	3,304	1,867	(36)	376	2,827	310	257	2,186	13,262
Losses charged off	2,510	4,018	4,092	0	319	1,589	171	961	3,874	17,534
Recoveries	30	140	441	0	26	82	16	452	1,451	2,638
Balance, end of year	\$4,023	\$11,753	\$5,608	\$112	\$354	\$4,302	\$562	\$917	\$5,540	\$33,171

Ending balance:										
Individually evaluated for impairment	\$2,203	\$1,156	\$1,310	\$0	\$0	\$0	\$0	\$0	\$0	\$4,669
Collectively evaluated for impairment	\$1,820	\$10,597	\$4,298	\$112	\$354	\$4,302	\$562	\$917	\$5,540	\$28,502

Loans										
Ending balance:										
Individually evaluated for impairment	\$10,572	\$31,336	\$5,202	\$0	\$0	\$0	\$0	\$0	\$0	\$47,110
Collectively evaluated for impairment	\$110,005	\$767,551	\$369,395	\$9,706	\$53,534	\$650,075	\$84,841	\$123,949	\$340,382	\$2,509,438

8. Premises and Equipment

Premises and equipment are summarized as follows:

(in thousands)		
December 31	2013	2012
Land and buildings	\$76,313	\$75,918
Leasehold improvements	4,778	4,778
Furniture, fixtures, and equipment	32,237	46,680
Construction in progress	971	847
Total premises and equipment	114,299	128,223
Less accumulated depreciation and amortization	(62,299)	(73,902)
Premises and equipment, net	\$52,000	\$54,321

Depreciation and amortization of premises and equipment for 2013, 2012, and 2011 was \$4.3 million, \$4.1 million, and \$4.0 million, respectively.

9. Other Real Estate Owned

Activity for other real estate owned was as follows:

(in thousands)	2013	2012
Beginning balance of other real estate owned	\$47,537	\$56,965
New assets acquired	7,429	12,031
Capitalized costs	6	545
Fair value adjustments	(2,480)	(2,704)
Sale of assets	(13,304)	(19,300)
Ending balance of other real estate owned	\$39,188	\$47,537

Foreclosed properties at December 31, 2013 and 2012 were \$39.2 million and \$47.0 million, respectively. In 2012, included in other real estate owned are two properties totaling \$0.6 million which were not acquired through foreclosure. Carrying costs and fair value adjustments associated with foreclosed properties were \$5.2 million, \$5.3 million, and \$8.6 million for 2013, 2012, and 2011, respectively. See note 1 for a description of our accounting policies relative to foreclosed properties and other real estate owned.

10. Deposits

Major classifications of deposits are categorized as follows:

(in thousands)	2013	2012
December 31		
Noninterest bearing deposits	\$621,321	\$606,448
NOW accounts	31,017	28,717
Money market deposits	554,072	560,855
Savings	320,835	292,861
Certificates of deposit and other time deposits of \$100,000 or more	660,016	692,667
Certificates of deposit and other time deposits less than \$100,000	667,813	722,300
Total deposits	\$2,855,074	\$2,903,848

Interest expense on deposits is categorized as follows:

(in thousands)	2013	2012	2011
Savings, NOW, and money market accounts	\$2,281	\$2,894	\$2,824
Certificates of deposit and other time deposits of \$100,000 or more	4,863	7,378	8,778
Certificates of deposit and other time deposits less than \$100,000	4,169	7,639	9,680
Total interest expense on deposits	\$11,313	\$17,911	\$21,282

Maturities of certificates of deposits and other time deposits are presented below:

Maturities by Period at December 31, 2013							
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Certificates of deposit and other time deposits of \$100,000 or more	\$660,016	\$558,422	\$50,122	\$18,288	\$19,449	\$13,631	\$104
Certificates of deposit and other time deposits less than \$100,000	667,813	586,553	39,882	17,626	11,479	12,026	247
Total maturities	\$1,327,829	\$1,144,975	\$90,004	\$35,914	\$30,928	\$25,657	\$351

11. Advances from Federal Home Loan Bank

The advances from the FHLB that require monthly principal payments were due for repayment as follows:

Principal Payments Due by Period at December 31, 2013							
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 1.84%	\$1,286	\$126	\$114	\$111	\$98	\$404	\$433

At December 31, 2012, CTBI had monthly amortizing FHLB advances totaling \$1.4 million at a weighted average interest rate of 2.00%.

Advances totaling \$1.3 million at December 31, 2013 were collateralized by FHLB stock of \$25.7 million and a blanket lien on qualifying first mortgage loans. As of December 31, 2013, CTBI had a \$458.5 million FHLB borrowing capacity with \$1.3 million in advances and \$114.6 million in letters of credit used for public fund pledging leaving \$342.6 million available for additional advances. The advances had fixed interest rates ranging from 0.00% to 7.42% with a weighted average rate of 1.84%. The advances are subject to restrictions or penalties in the event of prepayment. There were no term advances at December 31, 2013 and 2012.

12. Borrowings

Short-term debt is categorized as follows:

(in thousands) December 31	2013	2012
Repurchase agreements	\$208,067	\$210,120
Federal funds purchased	12,465	12,314
Total short-term debt	\$220,532	\$222,434

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 December 31, 2013 were 0.15% and 0.38%, respectively.

The maximum balance for repurchase agreements at any month-end during 2013 occurred at October 31, 2013, with a month-end balance of \$217.2 million. The average balance of repurchase agreements for the year was \$207.1 million.

Long-term debt is categorized as follows:

(in thousands) December 31	2013	2012
Junior subordinated debentures, 1.83%, 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.

On December 2, 2013, the coupon rate was set at 1.83% for the March 3, 2014 distribution date, which was based on the three-month LIBOR rate as of November 27, 2013 of 0.24% plus 1.59%.

On October 25, 2013, 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, with an unused commitment fee of 0.15%. Currently, all \$12 million remain available for general corporate purposes. The agreement, which was effective October 25, 2013, replaced the agreement dated October 26, 2012, and will mature on October 24, 2014.

13. Income Taxes

The components of the provision for income taxes, exclusive of tax effect of unrealized securities gains and losses, are as follows:

(in thousands)	2013	2012	2011
Current income tax expense	\$19,418	\$14,784	\$16,905
Deferred income tax expense (benefit)	582	5,441	(94)
Total income tax expense	\$20,000	\$20,225	\$16,811

A reconciliation of income tax expense at the statutory rate to our actual income tax expense is shown below:

(in thousands)	2013			2012			2011		
Computed at the statutory rate	\$22,810	35.00	%	\$22,781	35.00	%	\$19,602	35.23	%
Adjustments resulting from:									
Tax-exempt interest	(1,126)	(1.73)	)	(1,278)	(1.96)	)	(948)	(1.70))
Housing and new markets credits	(996)	(1.52)	)	(704)	(1.08)	)	(1,007)	(1.81))
Dividends received deduction	(291)	(0.45)	)	(202)	(0.31)	)	(183)	(0.33))
Bank owned life insurance	(791)	(1.22)	)	(470)	(0.72)	)	(470)	(0.85))
ESOP dividend deduction	(281)	(0.43)	)	(271)	(0.42)	)	(262)	(0.47))
Other, net	675	1.04	)	369	0.56	)	79	0.14)
Total	\$20,000	30.69	%	\$20,225	31.07	%	\$16,811	30.21	%

The components of the net deferred tax liability as of December 31 are as follows:

(in thousands)	2013	2012
Deferred tax assets:		
Allowance for loan and lease losses	\$11,820	\$11,561
Interest on nonperforming loans	732	841
Accrued expenses	3,370	1,456
Allowance for other real estate owned	2,232	3,269
Unrealized losses on available-for-sale securities	3,717	0
Other	232	663
Total deferred tax assets	22,103	17,790
Deferred tax liabilities:		
Depreciation and amortization	(18,717)	(18,091)
FHLB stock dividends	(4,956)	(4,956)
Loan fee income	(724)	(842)
Mortgage servicing rights	(1,198)	(827)
Capitalized lease obligations	(1,145)	(850)
Unrealized gains on AFS securities	0	(7,424)
Other	(1,015)	(1,077)
Total deferred tax liabilities	(27,755)	(34,067)
Net deferred tax liability	\$(5,652)	\$(16,277)

CTBI accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. CTBI determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in

deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

With a few exceptions, CTBI is no longer subject to U.S. federal tax examinations by tax authorities for years before 2010, and state and local income tax examinations by tax authorities for years before 2009. For federal tax purposes, CTBI recognizes interest and penalties on income taxes as a component of income tax expense.

CTBI files consolidated income tax returns with its subsidiaries.

14. Employee Benefits

CTBI maintains two separate retirement savings plans, a 401(k) Plan and an Employee Stock Ownership Plan ("ESOP").

The 401(k) Plan is available to all employees (age 21 and over) with one year of service and who work at least 1,000 hours per year. Participants in the plan have the option to contribute from 1% to 15% of their annual compensation. CTBI matches 50% of participant contributions up to 4% of gross pay. CTBI may at its discretion, contribute an additional percentage of covered employees' compensation. CTBI's matching contributions were \$1.0 million for the years ended December 31, 2013 and 2012 and \$0.9 million for the year ended December 31, 2011. The 401(k) Plan owned 443,027, 501,388, and 531,361 shares of CTBI's common stock at December 31, 2013, 2012, and 2011, respectively. Substantially all shares owned by the 401(k) were allocated to employee accounts on those dates. The market price of the shares at the date of allocation is essentially the same as the market price at the date of purchase.

The ESOP Plan has the same entrance requirements as the 401(k) Plan above. CTBI currently contributes 4% of covered employees' gross compensation to the ESOP. The ESOP uses the contributions to acquire shares of CTBI's common stock. CTBI's contributions to the ESOP were \$1.5 million for the year ended December 31, 2013 and \$1.4 million for the years 2012 and 2011. The ESOP owned 678,418, 680,613, and 661,691 shares of CTBI's common stock at December 31, 2013, 2012, and 2011, respectively. Substantially all shares owned by the ESOP were allocated to employee accounts on those dates. The market price of the shares at the date of allocation is essentially the same as the market price at the date of purchase.

Stock-Based Compensation:

CTBI currently maintains one active and one inactive incentive stock option plan covering key employees. The 2006 Stock Ownership Incentive Plan ("2006 Plan") was approved by the Board of Directors and the Shareholders in 2006. The 1998 Stock Option Plan ("1998 Plan") was approved by the Board of Directors and the Shareholders in 1998. The 1998 Plan was rendered inactive as of April 26, 2006. The 2006 Plan had 1,500,000 shares authorized, 1,232,867 of which were available at December 31, 2013 for future grants. In addition, any shares reserved for issuance under the 1998 Stock Option Plan ("1998 Plan") in excess of the number of shares as to which options or other benefits are awarded thereunder, plus any shares as to which options or other benefits granted under the 1998 Plan

may lapse, expire, terminate or be canceled, shall also be reserved and available for issuance or reissuance under the 2006 Plan. As of December 31, 2013, the 1998 Plan had 1,046,831 shares authorized, 198,024 of which were transferred to the 2006 Plan. The total shares available for issuance under the 2006 Plan as of December 31, 2013 was 1,430,891. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all of CTBI's equity compensation plans as of December 31, 2013:

Plan Category (shares in thousands)	Number of Shares to Be Issued Upon Exercise	Weighted Average Price	Shares Available for Future Issuance
Equity compensation plans approved by shareholders:			
Stock options	159	\$33.86	1,431 (a)
Restricted stock	(c)	(b)	(a)
Performance units	(d)	(b)	(a)
Stock appreciation rights ("SARs")	(e)	(b)	(a)
Total			1,431

(a) Under the 2006 Plan, 1.5 million shares (plus any shares reserved for issuance under the 1998 Stock Option Plan) were authorized for issuance as nonqualified and incentive stock options, SARS, restricted stock and performance units. As of December 31, 2013, the above shares remained available for issuance.

(b) Not applicable

(c) The maximum number of shares of restricted stock that may be granted is 400,000 shares, and the maximum that may be granted to a participant during any calendar year is 40,000 shares.

(d) No performance units had been issued as of December 31, 2013. The maximum payment that can be made pursuant to performance units granted to any one participant in any calendar year shall be \$250,000.

(e) No SARS have been issued. The maximum number of shares with respect to which SARs may be granted to a participant during any calendar year shall be 100,000 shares.

The following table details the shares available for future issuance under the 2006 Plan at December 31, 2013.

Plan Category	Shares Available for Future Issuance
Shares available at January 1, 2013	1,443,213
1998 Plan forfeitures in 2013	0
2006 Plan stock option issuances for 2013	(1,500)
2006 Plan restricted stock issuances in 2013	(10,822)
2006 Plan forfeitures in 2013	0
Shares available for future issuance	1,430,891

CTBI uses a Black-Scholes option pricing model with the following weighted average assumptions, which are evaluated and revised as necessary, in estimating the grant-date fair value of each option grant for the year end:

	2013	2012	2011
Expected option life (in years)	7.5	--	--
Expected volatility	39.11 %	--	--
Expected dividend yield	3.74 %	--	--
Risk-free interest rate	1.331 %	--	--

The expected option life is derived from the “safe-harbor” rules for estimating option life in ASC 718, Share-Based Payment. The expected volatility is based on historical volatility of the stock using a historical look back that approximates the expected life of the option grant. The interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. CTBI’s stock-based compensation expense for the years 2013, 2012, and 2011 was \$0.7 million, \$0.6 million, and \$0.7 million, respectively. Included in stock-based compensation expense were dividends paid on restricted stock shares in the amount of \$124 thousand, \$121 thousand, and \$120 thousand, respectively, for the same periods.

CTBI’s stock option activity for the 2006 Plan for the years ended December 31, 2013, 2012, and 2011 is summarized as follows:

December 31	2013		2012		2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	148,658	\$34.72	152,571	\$34.57	177,125	\$34.61
Granted	1,500	33.70	0	--	0	--
Exercised	(61,933)	33.57	(3,188)	28.51	0	--
Forfeited/expired	0	--	(725)	30.05	(24,554)	34.84
Outstanding at end of year	88,225	\$35.52	148,658	\$34.72	152,571	\$34.57
Exercisable at end of year	84,543	\$35.82	102,323	\$37.69	101,092	\$37.81

A summary of the status of CTBI’s 2006 Plan for nonvested options as of December 31, 2013, and changes during the year ended December 31, 2013, is presented as follows:

	Options	Weighted Average Grant Date Fair Value
Nonvested Options		
Nonvested at January 1, 2013	46,335	\$6.48
Granted	1,500	9.05
Vested	(44,153)	6.48
Forfeited	0	--
Nonvested at December 31, 2013	3,682	\$7.56

The 2006 Plan had options with the following remaining lives at December 31, 2013:

2006 Option Plan		
Remaining Life	Outstanding Options	Weighted Average Price
Three years	59,563	\$38.95
Four years	18,700	28.32
Five years	4,500	29.82
Six years	3,962	25.09
Nine years	1,500	33.70
Total outstanding	88,225	
Weighted average price		\$35.52

The weighted-average fair value of options granted from the 2006 Plan during the year 2013 was \$0.01 million or \$9.05 per share. No stock options were granted during 2012 or 2011.

The following table shows the intrinsic values of options exercised, exercisable, and outstanding for the 2006 Plan for the years ended December 31, 2013, 2012, and 2011:

(in thousands)	2013	2012	2011
Options exercised	\$477	\$22	\$0
Options exercisable	790	88	43
Outstanding options	849	388	345

The following table shows restricted stock activity for the years ended December 31, 2013, 2012, and 2011:

December 31	2013		2012		2011	
	Grants	Weighted Average Fair Value at Grant	Grants	Weighted Average Fair Value at Grant	Grants	Weighted Average Fair Value at Grant
Outstanding at beginning of year	96,874	\$27.92	96,543	\$27.91	52,834	\$26.10
Granted	10,822	33.70	331	30.92	45,542	30.09
Vested	(9,959)	28.46	0	--	(1,617)	30.09
Forfeited	0	--	0	--	(216)	30.09
Outstanding at end of year	97,737	\$28.50	96,874	\$27.92	96,543	\$27.91

During 2011, the Compensation Committee of the Board of Directors approved the accelerated vesting of restricted stock grants of certain employees who had retired. The total amount of restricted stock grants for which vesting was accelerated during the year 2011 was 1,617 shares at a weighted average fair value of \$30.09.

CTBI's stock option activity for the 1998 Plan for the years ended December 31, 2013, 2012, and 2011 is summarized as follows:

December 31	2013		2012		2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	177,526	\$30.89	321,540	\$26.85	371,077	\$27.07
Granted	0	--	0	--	0	--
Exercised	(106,557)	30.29	(143,914)	21.83	(6,824)	19.63
Forfeited/expired	0	--	(100)	32.44	(42,713)	29.94
Outstanding at end of year	70,969	\$31.80	177,526	\$30.89	321,540	\$26.85
Exercisable at end of year	70,969	\$31.80	177,526	\$30.89	321,540	\$26.85

The 1998 Plan had options with the following remaining lives at December 31, 2013:

1998 Option Plan			
Remaining Life	Options	Weighted Average	
	Outstanding	Options	Weighted Average

		Price
One year or less	28,971	\$30.88
Two years	41,998	32.44
Total outstanding	70,969	
Weighted average price		\$31.80

The following table shows the intrinsic values of options exercised, exercisable, and outstanding for the 1998 Plan for the years ended December 31, 2013, 2012, and 2011:

(in thousands)	2013	2012	2011
Options exercised	\$1,175	\$690	\$27
Options exercisable	948	1,517	833
Outstanding options	948	1,517	833

There were no nonvested options in the 1998 Plan shares as of December 31, 2013 and December 31, 2012.

The following table shows the unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans at December 31, 2013, 2012, and 2011 and the total grant-date fair value of shares vested, cash received from option exercises under all share-based payment arrangements, and the actual tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements for the years ended December 31, 2013, 2012, and 2011.

(in thousands)	2013	2012	2011
Unrecognized compensation cost of unvested share-based compensation arrangements granted under the plan at year-end	\$1,366	\$1,133	\$1,729
Grant date fair value of shares vested for the year	521	34	284
Cash received from option exercises under all share-based payment arrangements for the year	5,306	3,137	134
Tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements for the year	303	496	23

The unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans at December 31, 2013 is expected to be recognized over a weighted-average period of 1.98 years.

15. Operating Leases

Certain premises and equipment are leased under operating leases. Additionally, certain premises are leased or subleased to third parties. These leases generally contain renewal options and require CTBI to pay all executory costs, such as taxes, maintenance fees, and insurance. Minimum non-cancellable rental payments and rental receipts are as follows:

(in thousands)	Payments	Receipts
2014	\$1,867	\$601
2015	1,452	401
2016	1,242	332
2017	836	204
2018	486	72
Thereafter	2,816	0
Total	\$8,699	\$1,610

Rental expense net of rental income under operating leases was \$1.2 million for 2013, \$0.8 million for 2012, and \$0.9 million for 2011.

16. Fair Market Value of Financial Assets and Liabilities

Fair Value Measurements

ASC 820, 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. 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.

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)	Fair Value	Fair Value Measurements at December 31, 2013 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	\$60,610	\$0	\$60,610	\$ 0
State and political subdivisions	116,703	0	116,703	0
U.S. government sponsored agency mortgage-backed securities	379,310	0	379,310	0
Marketable equity securities	52,782	52,782	0	0
Mortgage servicing rights	3,424	0	0	3,424
(in thousands)		Fair Value Measurements at		

	December 31, 2012 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	\$60,915	\$0	\$60,915	\$ 0
State and political subdivisions	113,221	0	113,221	0
U.S. government sponsored agency mortgage-backed securities	383,581	0	383,581	0
Marketable equity securities	45,626	45,626	0	0
Mortgage servicing rights	2,364	0	0	2,364

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. These valuation methodologies were applied to all of CTBI's financial assets carried at fair value. CTBI had no liabilities measured at fair value as of December 31, 2013 and December 31, 2012. There have been no significant changes in the valuation techniques during the year ended December 31, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Securities classified as available-for-sale are reported at fair value on a recurring basis. CTBI's CRA investment funds and Federated GNMA trust fund (included in marketable equity securities) are classified as Level 1 of the valuation hierarchy where quoted market prices are available in the active market on which the individual securities are traded.

If quoted market prices are not available, CTBI obtains fair value measurements from an independent pricing service, such as Interactive Data, which utilizes pricing models to determine fair value measurement. CTBI reviews the pricing quarterly to verify the reasonableness of the pricing. 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 factors. U.S. Treasury and government agencies, state and political subdivisions, and U.S. government sponsored agency mortgage-backed securities are classified as Level 2 inputs.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Fair value determinations for Level 3 measurements are estimated on a quarterly basis where assumptions used are reviewed to ensure the estimated fair value complies with accounting standards generally accepted in the United States. As of December 31, 2013, CTBI does not own any securities classified as Level 3 inputs.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. CTBI reports mortgage servicing rights 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. Accordingly, fair value is determined by the independent third party by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy. Fair value determinations for Level 3 measurements of mortgage servicing rights are tested for impairment on a quarterly basis where assumptions used are reviewed to ensure the estimated fair value complies with accounting standards generally accepted in the United States. See the table below for inputs and valuation techniques used for Level 3 mortgage servicing rights.

Transfers between Levels

There were no transfers between Levels 1, 2, and 3 as of December 31, 2013. Transfers between Levels 1, 2, and 3 during the year 2012 and the reasons for those transfers are as follows:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reason for Transfer
Transfers from level:				
U.S. government sponsored agency mortgage-backed securities	\$464	\$0	\$ 0	Quoted prices in exact security not available on the measurement date
Marketable equity securities	0	323	0	Quoted prices available on the measurement date
Total transfers from level	\$464	\$323	\$ 0	
Transfers to level:				
U.S. government sponsored agency mortgage-backed securities	\$0	\$464	\$0	Quoted prices in exact security not available on the measurement date
Marketable equity securities	323	0	0	Quoted prices available on the measurement date
Total transfers to level	\$323	\$464	\$0	

Level 3 Reconciliation

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

(in thousands)	2013		2012	
	Marketable Equity Securities	Mortgage Servicing Rights	Marketable Equity Securities	Mortgage Servicing Rights
Beginning balance	\$0	\$2,364	\$211	\$2,282
Total recognized gains (losses)				

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

Included in net income	0	788	(41)	35
Issues	0	854	0	641
Sales	0	0	(170)	0
Settlements	0	(582)	0	(594)
Ending balance	\$0	\$3,424	\$0	\$2,364

Total gains (losses) for the period included in net income attributable to the change in unrealized gains or losses related to assets still held at the reporting date	\$0	\$788	\$0	\$35
------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----	-------	-----	------

Realized and unrealized gains and losses for items reflected in the table above are included in net income in the consolidated statements of income as follows:

(in thousands)	2013		2012	
	Noninterest Income	Noninterest Expense	Noninterest Income	Noninterest Expense
Total gains	\$60	\$0	\$(600)	\$0

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a nonrecurring basis as of December 31, 2013 and December 31, 2012 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)	Fair Value	Fair Value Measurements at December 31, 2013 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – nonrecurring basis				
Impaired loans (collateral dependent)	\$6,830	\$0	\$0	\$ 6,830
Other real estate/assets owned	11,111	0	0	11,111

(in thousands)	Fair Value	Fair Value Measurements at December 31, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – nonrecurring basis				
Impaired loans (collateral dependent)	\$5,465	\$0	\$0	\$ 5,465
Other real estate/assets owned	13,892	0	0	13,892

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

CTBI considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Chief Credit Officer. Appraisals are reviewed for accuracy and consistency by the Chief Credit Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Chief Credit Officer by comparison to historical results.

Loans considered impaired under ASC 310-35, Impairment of a Loan, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect subsequent (1) partial write-downs that are based on the observable market price or current appraised value of the collateral or (2) the full charge-off of the loan carrying value. Fair value adjustments on impaired loans were \$0.6 million and \$1.2 million for the years ended December 31, 2013 and December 31, 2012, respectively.

Other Real Estate Owned

In accordance with the provisions of ASC 360, Property, Plant, and Equipment, other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Long-lived assets are subject to nonrecurring fair value adjustments to reflect subsequent partial write-downs that are based on the observable market price or current appraised value of the collateral. Fair value adjustments on other real estate/assets owned were \$2.5 million and \$2.7 million for the years ended December 31, 2013 and December 31, 2012, respectively.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the Chief Credit Officer. Appraisers are selected from the list of approved appraisers maintained by management.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2013 and December 31, 2012.

(in thousands)				
Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at December 31, 2013	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
	\$3,424		Constant prepayment rate	

Mortgage servicing rights		Discount cash flows, computer pricing model		4.3% - 23.6% (9.7%)
				0.00% - 33.33%
			Probability of default	(3.36%)
				Not applicable
			Discount rate	(10.0%)

Impaired loans (collateral-dependent)	\$6,830	Market comparable properties	Marketability discount	5.0% - 10.0% (7.0%)
---------------------------------------	---------	------------------------------	------------------------	---------------------

Other real estate/assets owned	\$11,111	Market comparable properties	Comparability adjustments (%)	5.0% - 38.0% (9.0%)
--------------------------------	----------	------------------------------	-------------------------------	---------------------

(in thousands) Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at December 31, 2012	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	\$2,364	Discount cash flows, computer pricing model	Constant prepayment rate	8.5% - 25.0% (16.3%)
				1.02% - 4.81%
			Probability of default	(2.65%)
				Not applicable
			Discount rate	(10.5%)

Impaired loans (collateral-dependent)	\$5,465	Market comparable properties	Marketability discount	5.0% - 10.0% (7.0%)
---------------------------------------	---------	------------------------------	------------------------	---------------------

Other real estate/assets owned	\$13,892	Market comparable properties	Comparability adjustments (%)	5.0% - 35.0% (13.0%)
--------------------------------	----------	------------------------------	-------------------------------	----------------------

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Mortgage Servicing Rights

Market value for mortgage servicing rights is derived based on unobservable inputs, such as prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, the

weighted-average life of the loan, the discount rate, the weighted average coupon, and the weighted average default rate. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for prepayment speeds is accompanied by a directionally opposite change in the assumption for interest rates.

Fair Value of Financial Instruments

The following table presents estimated fair value of CTBI's financial instruments as of December 31, 2013 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)	Fair Value Measurements at December 31, 2013 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	\$ 106,641	\$ 106,641	\$ 0	\$ 0
Certificates of deposit in other banks	9,568	0	9,582	0
Securities available-for-sale	609,405	52,782	556,623	0
Securities held-to-maturity	1,662	0	1,601	0
Loans held for sale	828	845	0	0
Loans, net	2,581,346	0	0	2,589,811
Federal Home Loan Bank stock	25,673	0	25,673	0
Federal Reserve Bank stock	4,886	0	4,886	0
Accrued interest receivable	12,886	0	12,886	0
Mortgage servicing rights	3,424	0	0	3,424
Financial liabilities:				
Deposits	\$ 2,855,074	\$ 621,321	\$ 2,230,608	\$ 0
Repurchase agreements	208,067	0	0	207,992
Federal funds purchased	12,465	0	12,465	0
Advances from Federal Home Loan Bank	1,286	0	1,531	0
Long-term debt	61,341	0	0	31,362
Accrued interest payable	1,032	0	1,032	0
Unrecognized financial instruments:				
Letters of credit	\$ 0	\$ 0	\$ 0	\$ 0
Commitments to extend credit	0	0	0	0
Forward sale commitments	0	0	0	0

The following table presents estimated fair value of CTBI's financial instruments as of December 31, 2012 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)	Fair Value Measurements at December 31, 2012 Using			
	Carrying Amount	Quoted Prices in	Significant Other	Significant Unobservable

		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	\$207,560	\$207,560	\$0	\$ 0
Certificates of deposit in other banks	5,336	0	5,370	0
Securities available-for-sale	603,343	45,626	557,717	0
Securities held-to-maturity	1,662	0	1,659	0
Loans held for sale	22,486	22,960	0	0
Loans, net	2,517,328	0	0	2,540,272
Federal Home Loan Bank stock	25,673	0	25,673	0
Federal Reserve Bank stock	4,885	0	4,885	0
Accrued interest receivable	12,970	0	12,790	0
Mortgage servicing rights	2,364	0	0	2,364
Financial liabilities:				
Deposits	\$2,903,848	\$606,448	\$2,297,632	\$ 0
Repurchase agreements	210,120	0	0	210,008
Federal funds purchased	12,314	0	12,314	0
Advances from Federal Home Loan Bank	1,429	0	1,719	0
Long-term debt	61,341	0	0	31,185
Accrued interest payable	1,309	0	1,309	0
Unrecognized financial instruments:				
Letters of credit	\$0	\$0	\$0	\$ 0
Commitments to extend credit	0	0	0	0
Forward sale commitments	0	0	0	0

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

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

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

Securities held-to-maturity – Fair values are based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities. The fair value estimate is provided to management from a third party using modeling assumptions specific to each type of security that are reviewed and approved by management. Quarterly sampling of fair values provided by additional third parties supplement the fair value review process.

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

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

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

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

Accrued interest receivable – The carrying amount approximates fair value.

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

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

Federal funds purchased – The carrying amount approximates fair value.

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

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

Accrued interest payable – The carrying amount approximates fair value.

Commitments to originate loans, forward sale commitments, letters of credit, and lines of credit – The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair values of these commitments are not material.

17. Off-Balance Sheet Transactions and Guarantees

CTBI is a party to transactions with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit and commitments to extend credit in the form of unused lines of credit. CTBI uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, CTBI had the following off-balance sheet financial instruments, whose approximate contract amounts represent additional credit risk to CTBI:

(in thousands)	2013	2012
Standby letters of credit	\$34,861	\$41,207
Commitments to extend credit	410,803	386,293
Total off-balance sheet financial instruments	\$445,664	\$427,500

Standby letters of credit represent conditional commitments to guarantee the performance of a third party. The credit risk involved is essentially the same as the risk involved in making loans. At December 31, 2013, we maintained a credit loss reserve of approximately \$5 thousand relating to these financial standby letters of credit. The reserve coverage calculation was determined using essentially the same methodology as used for the allowance for loan and

lease losses. Approximately 79% of the total standby letters of credit are secured, with \$25.0 million of the total \$34.9 million secured by cash. Collateral for the remaining secured standby letters of credit varies but is comprised primarily of accounts receivable, inventory, property, equipment, and income-producing properties.

Commitments to extend credit are agreements to originate loans to customers as long as there is no violation of any condition of the contract. At December 31, 2013, a credit loss reserve of \$207 thousand was maintained relating to these commitments. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. A portion of the commitments is to extend credit at fixed rates. Fixed rate loan commitments at December 31, 2013 of \$33.8 million had interest rates and terms ranging predominantly from 4.25% to 5.00% and 6 months to 1 year, respectively. These credit commitments were based on prevailing rates, terms, and conditions applicable to other loans being made at December 31, 2013.

Included in our commitments to extend credit are mortgage loans in the process of origination which are intended for sale to investors in the secondary market. These forward sale commitments are on an individual loan basis that CTBI originates as part of its mortgage banking activities. CTBI commits to sell the loans at specified prices in a future period, typically within 60 days. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since CTBI is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Total mortgage loans in the process of origination amounted to \$1.6 million and \$2.6 million at December 31, 2013 and 2012, respectively, and mortgage loans held for sale amounted to \$0.8 million and \$22.5 million at both December 31, 2013 and 2012, respectively.

18. Concentrations of Credit Risk

CTBI's banking activities include granting commercial, residential, and consumer loans to customers primarily located in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. CTBI is continuing to manage all components of its portfolio mix in a manner to reduce risk from changes in economic conditions. Concentrations of credit, as defined for regulatory purposes, are reviewed quarterly by management to ensure that internally established limits based on Tier 1 Capital plus the allowance for loan and lease losses are not exceeded. At December 31, 2013 and 2012, our concentrations of lessors of residential buildings and dwellings credits were 34% and 32% of Tier 1 Capital plus the allowance for loan and lease losses, respectively. Hotel/motel industry credits were 33% and 35%, respectively. Lessors of non-residential buildings were 33% and 30%, respectively. Agriculture credits were 16% and 17%, respectively. Coal mining and related support industries credits were 14% and 16%, respectively. These percentages are within our internally established limits regarding concentrations of credit.

19. Commitments and Contingencies

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

On November 15, 2013, CTBI reported, in a current report on Form 8-K, an ongoing investigation by the Federal Reserve that we expected to result in an accrual against earnings in the fourth quarter of 2013. While the final determination of costs, including customer refunds, has not occurred, management has developed an estimated range of outcomes, including a maximum exposure of \$6.7 million and a minimum exposure of \$5.8 million and has accrued

\$6.2 million, the amount within this range that was considered the most likely cost.

20. Regulatory Matters

CTBI's principal source of funds is dividends received from our subsidiary bank, Community Trust Bank, Inc. ("CTB"). Regulations limit the amount of dividends that may be paid by CTB without prior approval. During 2014, approximately \$59.4 million plus any 2014 net profits can be paid by CTB without prior regulatory approval.

The Federal Reserve Bank adopted quantitative measures which assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements (risk based capital ratios). All banks are required to have a minimum Tier 1 (core capital) leverage ratio of 4% of adjusted quarterly average assets, Tier 1 capital of at least 4% of risk-weighted assets, and total capital of at least 8% of risk-weighted assets. Tier 1 capital consists principally of shareholders' equity including capital-qualifying subordinated debt but excluding unrealized gains and losses on securities available-for-sale, less goodwill and certain other intangibles. Total capital consists of Tier 1 capital plus certain debt instruments and the reserve for credit losses, subject to limitation. Failure to meet certain capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. The regulations also define well-capitalized levels of Tier 1 leverage, Tier 1, and total capital as 5%, 6%, and 10%, respectively. We had Tier 1 leverage, Tier 1, and total capital ratios above the well-capitalized levels at December 31, 2013 and 2012. We believe, as of December 31, 2013, CTBI meets all capital adequacy requirements for which it is subject to be defined as well-capitalized under the regulatory framework for prompt corrective action.

Under the current Federal Reserve Board's regulatory framework, certain capital securities offered by wholly owned unconsolidated trust preferred entities of CTBI are included as Tier 1 regulatory capital. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the Tier 1 capital of bank holding companies ("BHCs"). Under the final rule, trust preferred securities and other restricted core capital elements are subject to stricter quantitative limits. The Board's final rule limits restricted core capital elements to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provided a five-year transition period, which ended March 31, 2009, for application of the quantitative limits. The requirement for trust preferred securities to include a call option has been eliminated, and standards for the junior subordinated debt underlying trust preferred securities eligible for Tier 1 capital treatment have been clarified. The final rule addresses supervisory concerns, competitive equity considerations, and the accounting for trust preferred securities. The final rule also strengthens the definition of regulatory capital by incorporating longstanding Board policies regarding the acceptable terms of capital instruments included in banking organizations' Tier 1 or Tier 2 capital. The final rule did not have a material impact on our regulatory ratios.

Consolidated Capital Ratios

(in thousands)	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
As of December 31, 2013:				
Tier 1 capital (to average assets)	\$412,053	11.51	% \$143,198	4.00 %
Tier 1 capital (to risk weighted assets)	412,053	16.15	102,056	4.00
Total capital (to risk weighted assets)	443,875	17.40	204,080	8.00
As of December 31, 2012:				
Tier 1 capital (to average assets)	\$380,549	10.65	% \$142,929	4.00 %
Tier 1 capital (to risk weighted assets)	380,549	15.23	99,947	4.00
Total capital (to risk weighted assets)	412,014	16.49	199,886	8.00

Community Trust Bank, Inc.'s Capital Ratios

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Tier 1 capital (to average assets)	\$392,932	11.03	% \$142,496	4.00	% \$178,120	5.00
Tier 1 capital (to risk weighted assets)	392,932	15.45	101,730	4.00	152,595	6.00
Total capital (to risk weighted assets)	424,754	16.70	203,475	8.00	254,344	10.00
As of December 31, 2012:						
Tier 1 capital (to average assets)	\$363,331	10.21	% \$142,343	4.00	% \$177,929	5.00
Tier 1 capital (to risk weighted assets)	363,331	14.58	99,679	4.00	149,519	6.00
Total capital (to risk weighted assets)	394,796	15.84	199,392	8.00	249,240	10.00

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC has subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes CTBI and CTB. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as

certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. Based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements upon the effectiveness of the final rule.

21. Parent Company Financial Statements

Condensed Balance Sheets

(in thousands)		
December 31	2013	2012
Assets:		
Cash on deposit	\$1,272	\$5,442
Investment in and advances to subsidiaries	468,240	454,949
Goodwill	4,973	4,973
Premises and equipment, net	235	250
Other assets	617	1,277
Total assets	\$475,337	\$466,891
Liabilities and shareholders' equity:		
Long-term debt	\$61,341	\$61,341
Other liabilities	1,504	5,206
Total liabilities	62,845	66,547
Shareholders' equity	412,492	400,344
Total liabilities and shareholders' equity	\$475,337	\$466,891

Condensed Statements of Income and Comprehensive Income

(in thousands)			
Year Ended December 31	2013	2012	2011

Income:

Dividends from subsidiary banks	\$ 13,035	\$ 16,572	\$ 20,370
Other income	545	238	255
Total income	13,580	16,810	20,625

Expenses:

Interest expense	1,161	2,403	3,999
Depreciation expense	163	127	72
Other expenses	2,442	1,990	1,808
Total expenses	3,766	4,520	5,879

Income before income taxes and equity in undistributed income of subsidiaries	9,814	12,290	14,746
Income tax benefit	(1,416)	(1,750)	(2,277)
Income before equity in undistributed income of subsidiaries	11,230	14,040	17,023
Equity in undistributed income of subsidiaries	33,942	30,822	21,804
Net income	\$45,172	\$44,862	\$38,827

Other comprehensive income:

Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains arising during the period	(31,878)	4,973	9,868
Less: Reclassification adjustments for realized gains included in net income	45	(1,155)	(218)
Tax expense (benefit)	(11,142)	1,336	3,378
Other comprehensive income (loss), net of tax	(20,691)	2,482	6,272
Comprehensive income	\$24,481	\$47,344	\$45,099

Condensed Statements of Cash Flows

(in thousands)

Year Ended December 31	2013	2012	2011
Cash flows from operating activities:			
Net income	\$45,172	\$44,862	\$38,827
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	163	127	72
Equity in undistributed earnings of subsidiaries	(33,942)	(30,822)	(21,804)
Stock-based compensation	658	512	555
Excess tax benefit of stock-based compensation	572	496	23
Changes in:			
Other assets	660	(771)	395
Other liabilities	1,505	495	0
Net cash provided by operating activities	14,788	14,899	18,068

Cash flows from investing activities:

Purchase of premises and equipment	(148)	(166)	(198)
Repayment of investments in and advances to subsidiaries	(40)	(80)	(96)
Net cash used in investing activities	(188)	(246)	(294)

Cash flows from financing activities:

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

Issuance of common stock	6,348	4,395	1,291
Excess tax benefit of stock-based compensation	(572)	(496)	(23)
Dividends paid	(24,546)	(19,215)	(18,742)
Net cash used in financing activities	(18,770)	(15,316)	(17,474)
Net increase (decrease) in cash and cash equivalents	(4,170)	(663)	300
Cash and cash equivalents at beginning of year	5,442	6,105	5,805
Cash and cash equivalents at end of year	\$ 1,272	\$ 5,442	\$ 6,105

22. Earnings Per Share

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

Year Ended December 31 (in thousands except per share data)	2013	2012	2011
Numerator:			
Net income	\$45,172	\$44,862	\$38,827
Denominator:			
Basic earnings per share:			
Weighted average shares	15,598	15,466	15,313
Diluted earnings per share:			
Dilutive effect of equity grants	75	55	51
Adjusted weighted average shares	15,673	15,521	15,364
Earnings per share:			
Basic earnings per share	\$2.90	\$2.90	\$2.54
Diluted earnings per share	2.88	2.89	2.53

Options to purchase 59,563 common shares at a weighted average price of \$38.95 were excluded from the diluted calculations above for the year ended December 31, 2013, because the exercise prices on the options were greater than the average market price for the period. In addition to in-the-money stock options, unvested restricted stock grants were also used in the calculation of diluted earnings per share based on the treasury method. Options to purchase 89,746 common shares at a price of \$38.95 were excluded from the diluted calculations above for the year ended December 31, 2012. Options to purchase 323,255 common shares at a price of \$33.02 were excluded from the diluted calculations above for the year ended December 31, 2011.

23. Accumulated Other Comprehensive Income

Unrealized gains (losses) on AFS securities

Amounts reclassified from accumulated other comprehensive income (AOCI) and the affected line items in the statements of income during the years ended December 31, 2013, 2012, and 2011 were:

Year Ended December 31 (in thousands)	Amounts Reclassified from AOCI		
	2013	2012	2011
Affected line item in the statements of income			
Securities gains (losses)	\$(45)	\$1,155	\$218
Tax (benefit) expense	(15)	405	76
Total reclassifications out of AOCI	\$(30)	\$750	\$142

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors
and Stockholders
Community Trust Bancorp, Inc.
Pikeville, Kentucky

We have audited the accompanying consolidated balance sheets of Community Trust Bancorp, Inc. (Company) as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2014, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP
Louisville, Kentucky
March 14, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors
and Stockholders
Community Trust Bancorp, Inc.
Pikeville, Kentucky

We have audited Community Trust Bancorp, Inc.'s (Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company and our report dated March 14, 2014, expressed an unqualified opinion thereon.

/s/ BKD, LLP
Louisville, Kentucky
March 14, 2014

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

CTBI's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2013, an evaluation was carried out by CTBI's management, with the participation of our Chief Executive Officer and our Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, management concluded that disclosure controls and procedures as of December 31, 2013 were effective in ensuring material information required to be disclosed in this annual report on Form 10-K was recorded, processed, summarized, and reported on a timely basis.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in CTBI's internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, CTBI's internal control over financial reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL

We, as management of Community Trust Bancorp, Inc. and its subsidiaries (“CTBI”), are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Because of the inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, projections of the effectiveness to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures included in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2013 based on the control criteria established in a report entitled Internal Control—Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that CTBI’s internal control over financial reporting is effective as of December 31, 2013.

The effectiveness of CTBI’s internal control over financial reporting as of December 31, 2013 has been audited by BKD, LLP, an independent registered public accounting firm that audited the CTBI’s consolidated financial statements included in this annual report.

COMMUNITY TRUST BANCORP, INC.

Date: March 14, 2014

By:

/s/ Jean R. Hale

Jean R. Hale

Chairman, President and Chief

Executive Officer

/s/ Kevin J. Stumbo

Kevin J. Stumbo

Executive Vice President, Chief
Financial Officer, and Treasurer

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item other than the information set forth below is omitted because CTBI is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in CTBI's proxy statement is incorporated herein by reference.

Executive Officers of the Registrant

Set forth below are the executive officers of CTBI, their positions with CTBI, and the year in which they first became an executive officer or director.

Name and Age (1)	Positions and Offices Currently Held	Date First Became Director or Executive Officer	Principal Occupation
Jean R. Hale; 67	Chairman, President and CEO	1992	Chairman, President and CEO of Community Trust Bancorp, Inc.
Mark A. Gooch; 55	Executive Vice President and Secretary	1997	President and CEO of Community Trust Bank, Inc.
Larry W. Jones; 67	Executive Vice President	2000 (2)	Executive Vice President/Central Kentucky Region President of Community Trust Bank, Inc.
James B. Draughn; 54	Executive Vice President	2001	Executive Vice President/Operations of Community Trust Bank, Inc.
Kevin J. Stumbo; 53	Executive Vice President, Chief Financial Officer, and Treasurer	2002	Executive Vice President/Chief Financial Officer of Community Trust Bank, Inc.
Ricky D. Sparkman; 51	Executive Vice President	2002	Executive Vice President/South Central Region President of Community

Trust Bank, Inc.

Richard W. Newsom; Executive Vice President 59	2002			Executive Vice President/ Eastern Region President of Community Trust Bank, Inc.
James J. Gartner; 72	Executive Vice President	2002		Executive Vice President/ Chief Credit Officer of Community Trust Bank, Inc.
Steven E. Jameson; Executive Vice President 57		2004	(3)	Executive Vice President/ Chief Internal Audit & Risk Officer
D. Andrew Jones; 51	Executive Vice President	2010	(4)	Executive Vice President/ Northeastern Region President of Community Trust Bank, Inc.
Andy D. Waters; 48	Executive Vice President	2011	(5)	President and CEO of Community Trust and Investment Company

- (1) The ages listed for CTBI's executive officers are as of February 28, 2014.
- (2) Mr. Larry Jones was named Executive Vice President/Central Kentucky Region President of Community Trust Bank, Inc. in November 2010. Mr. Jones had served as Executive Vice President/Northeastern Region President since September 2002.
- (3) Mr. Jameson is a non-voting member of the Executive Committee.
- (4) Mr. Andrew Jones replaced Mr. Larry Jones as Executive Vice President/Northeastern Region President. Mr. Andrew Jones has been employed by Community Trust Bank, Inc. since 1987. His most recent position was Senior Vice President/Senior Lender of the Ashland Market which he had held since 2002.
- (5) Mr. Waters has been with Community Trust and Investment Company since 2004, serving as Senior Vice President/Manager of Trust and Estate Services prior to becoming President and CEO effective January 1, 2011.

Item 11. Executive Compensation

The information required by this item is omitted because CTBI is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in CTBI's proxy statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item other than the information provided below is omitted because CTBI is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in CTBI's proxy statement is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2013, with respect to compensation plans under which common shares of CTBI are authorized for issuance to officers or employees in exchange for consideration in the form of services provided to CTBI and/or its subsidiaries. We currently maintain one active and one inactive incentive stock option plans covering key employees. The 2006 Stock Ownership Incentive Plan ("2006 Plan") was approved by the Board of Directors and the Shareholders in 2006. The 1998 Stock Option Plan ("1998 Plan") was approved by the Board of Directors and the Shareholders in 1998. The 1998 Plan was rendered inactive as of April 26, 2006. The 2006 Plan had 1,500,000 shares authorized, 1,232,867 of which were available at December 31, 2013 for future grants. In addition, any shares reserved for issuance under the 1998 Stock Option Plan ("1998 Plan") in excess of the number of shares as to which options or other benefits are awarded thereunder, plus any shares as to which options or other benefits granted under the 1998 Plan may lapse, expire, terminate or be canceled, shall also be reserved and available for issuance or reissuance under the 2006 Plan. As of December 31, 2013, the 1998 Plan had 1,046,831 shares authorized, 198,024 of which were transferred to the 2006 Plan. The total shares available for issuance under the 2006 Plan as of December 31, 2013 was 1,430,891.

	A	B	C
			Number of Securities Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column A)
Plan Category (shares in thousands)	Number of Common Shares to be Issued Upon Exercise	Weighted Average Price	
Equity compensation plans approved by shareholders:			
Stock options	159	\$ 33.86	1,431
Equity compensation plans not approved by shareholders	0	--	0
Total			1,431

Additional information regarding CTBI's stock option plans can be found in notes 1 and 14 to the consolidated financial statements.

Item 13. Certain Relationships, Related Transactions, and Director Independence

The information required by this item is omitted because CTBI is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in CTBI's proxy statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is omitted because CTBI is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in CTBI's proxy statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The following financial statements of CTBI and the auditor's report thereon are filed as part of this Form 10-K under Item 8. Financial Statements and Supplementary Data:

Consolidated Balance Sheets
 Consolidated Statements of Income and Other Comprehensive Income
 Consolidated Statements of Shareholders' Equity
 Consolidated Statements of Cash Flows
 Notes to Consolidated Financial Statements
 Reports of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

All required financial statement schedules for CTBI have been included in this Form 10-K in the consolidated financial statements or the related footnotes.

3. Exhibits

Exhibit No.	Description of Exhibits
3.1	Articles of Incorporation and all amendments thereto {incorporated by reference to registration statement no. 33-35138}
3.2	By-laws of CTBI as amended July 25, 1995 {incorporated by reference to registration statement no. 33-61891}
3.3	By-laws of CTBI as amended January 29, 2008 {incorporated by reference to current report on Form 8-K filed January 30, 2008}
10.1	Community Trust Bancorp, Inc. Employee Stock Ownership Plan (effective January 1, 2007) {incorporated herein by reference to Form 10-K for the fiscal year ended December 31, 2006 under SEC file no. 000-111-29}
10.2	Community Trust Bancorp, Inc. Savings and Employee Stock Ownership Plan (Amendment Number One effective January 1, 2002, Amendment Number Two effective January 1, 2004, Amendment Number Three effective March 28, 2005, and Amendment Number Four effective January 1, 2006) {incorporated herein

by reference to Form 10-K for the fiscal year ended December 31, 2006 under SEC file no. 000-111-29}

- 10.3 Second restated Pikeville National Corporation 1989 Stock Option Plan (commonly known as Community Trust Bancorp, Inc. 1989 Stock Option Plan) {incorporated by reference to registration statement no. 33-36165}
- 10.4 Community Trust Bancorp, Inc. 1998 Stock Option Plan {incorporated by reference to registration statement no. 333-74217}
- 10.5 Community Trust Bancorp, Inc. 2006 Stock Ownership Incentive Plan {incorporated by reference to Proxy Statement dated March 24, 2006}
- 10.6 Form of Severance Agreement between Community Trust Bancorp, Inc. and executive officers (currently in effect with respect to eleven executive officers) {incorporated herein by reference to Form 10-K for the fiscal year ended December 31, 2001 under SEC file no. 000-111-29}
- 10.7 Senior Management Incentive Compensation Plan (2014) {incorporated herein by reference to current report on Form 8-K dated January 30, 2014}
- 10.8 Restricted Stock Agreement {incorporated herein by reference to Form 10-K for the fiscal year ended December 31, 2011 under SEC file no. 000-111-29}
- 10.9 Employee Incentive Compensation Plan (2014) {incorporated herein by reference to current report on Form 8-K dated January 30, 2014}
- 10.10 Amendment to the Community Trust Bancorp, Inc. 2006 Stock Ownership Incentive Plan {incorporated herein by reference to current report on Form 8-K dated January 26, 2012}
- 10.11 Community Trust Bancorp, Inc. 2012 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference to current report on Form 8-K dated January 26, 2012}
- 10.12 Community Trust Bancorp, Inc. 2013 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference to current report on Form 8-K dated January 29, 2013}
- 10.13 Community Trust Bancorp, Inc. 2014 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference to current report on Form 8-K dated January 30, 2014}
- 21 List of subsidiaries
- 23.1 Consent of BKD, LLP, Independent Registered Public Accounting Firm
- 31.1 Certification of Principal Executive Officer (Jean R. Hale, Chairman, President, and Chief Executive Officer)
- 31.2 Certification of Principal Financial Officer (Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer)
- 32.1 Certification of Jean R. Hale, Chairman, President and CEO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Community Trust Bancorp, Inc. Dividend Reinvestment Plan, as amended December 20, 2013 {incorporated by reference to registration statement no. 333-193011}

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

(b) Exhibits

The response to this portion of Item 15 is submitted in (a) 3. above.

(c) Financial Statement Schedules

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf the undersigned, thereunto duly authorized.

COMMUNITY TRUST BANCORP, INC.

Date: March 14, 2014

By: /s/ Jean R. Hale
 Jean R. Hale
 Chairman, President, and Chief
 Executive Officer

/s/ Kevin J. Stumbo
 Kevin J. Stumbo
 Executive Vice President, Chief
 Financial Officer, and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

March 14, 2014 /s/ Jean R. Hale Chairman, President, and
 Jean R. Hale Chief Executive Officer

		Executive Vice President, Chief Financial Officer, and Treasurer
March 14, 2014	/s/ Kevin J. Stumbo Kevin J. Stumbo	
March 14, 2014	/s/ Charles J. Baird Charles J. Baird	Director
March 14, 2014	/s/ Nick Carter Nick Carter	Director
March 14, 2014	/s/ James E. McGhee, II James E. McGhee II	Director
March 14, 2014	/s/ M. Lynn Parrish M. Lynn Parrish	Director
March 14, 2014	/s/ James R. Ramsey James R. Ramsey	Director
March 14, 2014	/s/ Anthony W. St. Charles Anthony W. St. Charles	Director

COMMUNITY TRUST BANCORP, INC. AND SUBSIDIARIES
INDEX TO EXHIBITS

Exhibit No.	Description of Exhibits
3.1	Articles of Incorporation for CTBI {incorporated herein by reference}
3.2	By-laws of CTBI as amended July 25, 1995 {incorporated herein by reference}
3.3	By-laws of CTBI as amended January 29, 2008 {incorporated herein by reference}
10.1	Community Trust Bancorp, Inc. Employee Stock Ownership Plan (effective January 1, 2007) {incorporated herein by reference}
10.2	Community Trust Bancorp, Inc. Savings and Employee Stock Ownership Plan (Amendment Number One effective January 1, 2002, Amendment Number Two effective January 1, 2004, Amendment Number Three effective March 28, 2005, and Amendment Number Four effective January 1, 2006) {incorporated herein by reference}
10.3	Second restated Pikeville National Corporation 1989 Stock Option Plan (commonly known as Community Trust Bancorp, Inc. 1989 Stock Option Plan) {incorporated herein by reference}
10.4	Community Trust Bancorp, Inc. 1998 Stock Option Plan {incorporated herein by reference}
10.5	Community Trust Bancorp, Inc. 2006 Stock Ownership Incentive Plan {incorporated herein by reference}
10.6	Form of Severance Agreement between Community Trust Bancorp, Inc. and executive officers (currently in effect with respect to eleven executive officers) {incorporated herein by reference}
10.7	Senior Management Incentive Compensation Plan (2014) {incorporated herein by reference}
10.8	Restricted Stock Agreement {incorporated herein by reference}
10.9	Employee Incentive Compensation Plan (2014) {incorporated herein by reference}
10.10	Amendment to the Community Trust Bancorp, Inc. 2006 Stock Ownership Incentive Plan {incorporated herein by reference}
10.11	Community Trust Bancorp, Inc. 2012 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference}
10.12	Community Trust Bancorp, Inc. 2013 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference}
10.13	Community Trust Bancorp, Inc. 2014 Executive Committee Long-Term Incentive Compensation Plan {incorporated herein by reference}
<u>21</u>	List of subsidiaries

- [23.1](#) Consent of BKD, LLP, Independent Registered Public Accounting Firm
- [31.1](#) Certification of Principal Executive Officer (Jean R. Hale, Chairman, President and CEO)
- [31.2](#) Certification of Principal Financial Officer (Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer)
- [32.1](#) Certification of Jean R. Hale, Chairman, President and CEO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [32.2](#) Certification of Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- [99.1](#) Community Trust Bancorp, Inc. Dividend Reinvestment Plan, as amended December 20, 2013
- [101.INS](#) XBRL Instance Document
- [101.SCH](#) XBRL Taxonomy Extension Schema
- [101.CAL](#) XBRL Taxonomy Extension Calculation Linkbase
- [101.DEF](#) XBRL Taxonomy Extension Definition Linkbase
- [101.LAB](#) XBRL Taxonomy Extension Label Linkbase
- [101.PRE](#) XBRL Taxonomy Extension Presentation Linkbase