COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
August 08, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2014
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _____________ to _____________

Commission file number 0-11129

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

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

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

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

Yes ü	No

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

Yes ü	No

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

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

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

Yes	No ü

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

Common stock – 17,426,370 shares outstanding at July 31, 2014

CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS

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

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2013 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) June 30 2014	December 31 2013
Assets:		
Cash and due from banks	$72,637	$64,828
Interest bearing deposits	58,338	33,200
Federal funds sold	6,998	8,613
Cash and cash equivalents	137,973	106,641
Certificates of deposit in other banks	9,473	9,568
Securities available-for-sale at fair value (amortized cost of $647,122 and $621,753, respectively)	647,536	609,405
Securities held-to-maturity at amortized cost (fair value of $1,632 and $1,601, respectively)	1,662	1,662
Loans held for sale	895	828
Loans	2,632,609	2,615,354
Allowance for loan and lease losses	(33,617)	(34,008)
Net loans	2,598,992	2,581,346
Premises and equipment, net	50,552	52,000
Federal Home Loan Bank stock	17,927	25,673
Federal Reserve Bank stock	4,887	4,886
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of $8,032 and $7,925, respectively)	584	690
Bank owned life insurance	54,398	53,687
Mortgage servicing rights	3,062	3,424
Other real estate owned	33,062	39,188
Other assets	26,109	27,228
Total assets	$3,652,602	$3,581,716
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	$651,588	$621,321
Interest bearing	2,235,601	2,233,753
Total deposits	2,887,189	2,855,074
Repurchase agreements	217,979	208,067
Federal funds purchased and other short-term borrowings	15,205	12,465
Advances from Federal Home Loan Bank	1,228	1,286
Long-term debt	61,341	61,341
Other liabilities	35,782	30,991
Total liabilities	3,218,724	3,169,224
Shareholders' equity:		

Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, $5 par value, shares authorized 25,000,000; shares outstanding 2014 – 17,421,389; 2013 – 17,403,441	87,107	79,107
Capital surplus	212,313	167,122
Retained earnings	134,189	174,289
Accumulated other comprehensive income (loss), net of tax	269	(8,026)
Total shareholders' equity	433,878	412,492
Total liabilities and shareholders' equity	$3,652,602	$3,581,716

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2014	2013	2014	2013
Interest income:				
Interest and fees on loans, including loans held for sale	$31,937	$32,672	$63,550	$65,520
Interest and dividends on securities				
Taxable	2,806	3,129	5,853	6,024
Tax exempt	664	557	1,248	1,115
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	298	342	630	690
Other, including interest on federal funds sold	106	83	223	210
Total interest income	35,811	36,783	71,504	73,559
Interest expense:				
Interest on deposits	2,472	2,902	4,934	5,921
Interest on repurchase agreements and other short-term borrowings	217	234	409	497
Interest on advances from Federal Home Loan Bank	5	6	11	13
Interest on long-term debt	284	299	567	589
Total interest expense	2,978	3,441	5,921	7,020
Net interest income	32,833	33,342	65,583	66,539
Provision for loan losses	735	3,661	2,080	5,220
Net interest income after provision for loan losses	32,098	29,681	63,503	61,319
Noninterest income:				
Service charges on deposit accounts	5,987	6,182	11,418	11,949
Gains on sales of loans, net	288	755	478	2,152
Trust and wealth management income	2,199	2,023	4,308	4,023
Loan related fees	766	1,496	1,445	2,444
Bank owned life insurance	476	1,327	950	1,748
Brokerage revenue	634	618	1,204	1,068
Securities losses	(51)	(8)	(111)	(8)
Other noninterest income	673	881	1,345	1,818
Total noninterest income	10,972	13,274	21,037	25,194
Noninterest expense:				
Officer salaries and employee benefits	2,784	2,635	5,622	5,186
Other salaries and employee benefits	10,490	10,579	21,069	21,010
Occupancy, net	1,937	1,972	4,101	3,899
Equipment	938	988	1,838	1,966
Data processing	1,933	1,775	3,858	3,588
Bank franchise tax	1,208	1,123	2,417	2,246
Legal fees	656	556	1,354	1,162
Professional fees	425	432	840	814

FDIC insurance	558	637	1,207	1,239
Other real estate owned provision and expense	736	1,170	2,241	3,009
Repossession expense	222	487	541	898
Other noninterest expense	3,369	3,633	7,029	7,269
Total noninterest expense	25,256	25,987	52,117	52,286
Income before income taxes	17,814	16,968	32,423	34,227
Income taxes	5,619	5,026	10,088	10,465
Net income	12,195	11,942	22,335	23,762
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period	6,571	(21,337)	12,651	(23,923)
Less: Reclassification adjustments for realized losses included in net income	(51)	(8)	(111)	(8)
Tax (benefit) expense	2,318	(7,465)	4,467	(8,370)
Other comprehensive income (loss), net of tax	4,304	(13,864)	8,295	(15,545)
Comprehensive income (loss)	$16,499	$(1,922)	$30,630	$8,217
Basic earnings per share	$0.70	$0.70	$1.29	$1.39
Diluted earnings per share	$0.70	$0.69	$1.28	$1.38
Weighted average shares outstanding-basic	17,318	17,121	17,313	17,107
Weighted average shares outstanding-diluted	17,393	17,205	17,393	17,188
Dividends declared per share	$0.290	$0.286	$0.581	$0.572

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30	
(in thousands)	2014	2013
Cash flows from operating activities:		
Net income	$22,335	$23,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,256	2,301
Deferred taxes	935	(8,370)
Stock-based compensation	344	335
Excess tax benefits of stock-based compensation	10	42
Provision for loan losses	2,080	5,220
Write-downs of other real estate owned and other repossessed assets	1,161	1,776
Gains on sale of mortgage loans held for sale	(478)	(2,152)
Losses on sales of securities	111	8
Losses on sale of assets, net	43	92
Proceeds from sale of mortgage loans held for sale	20,310	93,445
Funding of mortgage loans held for sale	(19,900)	(71,798)
Amortization of securities premiums and discounts, net	1,349	2,217
Change in cash surrender value of bank owned life insurance	(711)	(704)
Mortgage servicing rights:		
Fair value adjustments	507	(296)
New servicing assets created	(145)	(562)
Changes in:		
Other assets	1,123	3,472
Other liabilities	(684)	4,672
Net cash provided by operating activities	30,646	53,460
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	95	240
Purchase of certificates of deposit	0	(4,472)
Securities available-for-sale (AFS):		
Purchase of AFS securities	(175,553)	(176,783)
Proceeds from the sales of AFS securities	112,949	0
Proceeds from prepayments and maturities of AFS securities	35,776	66,622
Change in loans, net	(17,970)	(42,740)
Purchase of premises and equipment	(702)	(603)
Proceeds from sale of premises and equipment	18	38
Redemption of stock by Federal Home Loan Bank	7,746	0
Additional investment in Federal Reserve Bank stock	(1)	(1)
Proceeds from sale of other real estate and other repossessed assets	3,150	5,730
Additional investment in other real estate and other repossessed assets	0	(48)
Additional investment in bank owned life insurance	0	(7,306)
Net cash used in investing activities	(34,492)	(159,323)

Cash flows from financing activities:		
Change in deposits, net	32,115	18,325
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	12,652	(3,624)
Payments on advances from Federal Home Loan Bank	(58)	(82)
Issuance of common stock	594	1,272
Excess tax benefits of stock-based compensation	(10)	(42)
Dividends paid	(10,115)	(9,787)
Net cash provided by financing activities	35,178	6,062
Net increase (decrease) in cash and cash equivalents	31,332	(99,801)
Cash and cash equivalents at beginning of period	106,641	207,560
Cash and cash equivalents at end of period	$137,973	$107,759
Supplemental disclosures:		
Income taxes paid	$6,720	$10,340
Interest paid	5,431	6,474
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	5,225	1,007
Common stock dividends accrued, paid in subsequent quarter	201	4,904
Real estate acquired in settlement of loans	3,469	4,655

See notes to condensed consolidated financial statements.

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

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and 2013, and the cash flows for the six months ended June 30, 2014 and 2013. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and six months ended June 30, 2014 and 2013, and the cash flows for the six months ended June 30, 2014 and 2013, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2013, included in our annual report on Form 10-K.

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

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

All share data has been adjusted for the 10% stock dividend issued on June 2, 2014.

New Accounting Standards –

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.

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.

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. Foreclosure proceedings are normally initiated after 120 days. When the foreclosed property has been legally assigned to CTBI, the fair value less estimated costs to sell is transferred to other real estate owned and the remaining balance is taken as a charge-off.

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. We continue to use twelve rolling quarters for our historical loss rate analysis. 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.

Note 2 – Stock-Based Compensation

CTBI’s compensation expense related to stock option grants was $2 thousand for each of the three months ended June 30, 2014 and 2013 and $6 thousand and $5 thousand, respectively, for the six months ended June 30, 2014 and 2013. Restricted stock expense for the three months ended June 30, 2014 and 2013 was $151 thousand and $169 thousand, respectively, including $30 thousand and $31 thousand in dividends paid for each period. Restricted stock expense for the six months ended June 30, 2014 and 2013 was $338 thousand and $330 thousand, respectively, including $60 thousand and $62 thousand in dividends. As of June 30, 2014, there was a total of $10 thousand of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 2.3 years and a total of $1.2 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted

average period of 1.8 years.

There were no shares of restricted stock granted during the three months ended June 30, 2014 or 2013. There were 4,347 and 11,904 shares of restricted stock granted during the six months ended June 30, 2014 and 2013, respectively. The restrictions on the restricted stock lapse ratably over four years or in the event of a change in control of CTBI or the death of the participant. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis. The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were no options granted to purchase shares of CTBI common stock during the three or six months ended June 30, 2014. There also were no options granted during the three months ended June 30, 2013, but 1,650 options were granted during the six months ended June 30, 2013.

The fair value of options granted during the six months ended June 30, 2013, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Six Months Ended June 30 2013	
Expected dividend yield	3.74	%
Risk-free interest rate	1.33	%
Expected volatility	39.11	%
Expected term (in years)	7.5	
Weighted average fair value of options	$8.23	

Note 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 June 30, 2014 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	$139,938	$429	$(2,490)	$137,877
State and political subdivisions	134,394	3,607	(897)	137,104
U.S. government sponsored agency mortgage-backed securities	347,790	3,643	(3,629)	347,804
Total debt securities	622,122	7,679	(7,016)	622,785
Marketable equity securities	25,000	0	(249)	24,751
Total available-for-sale securities	$647,122	$7,679	$(7,265)	$647,536

Held-to-Maturity

(in thousands)	Fair Value

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury and government agencies	$480	$0	$(31)	$449
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	$1,662	$1	$(31)	$1,632

The amortized cost and fair value of securities as of 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 June 30, 2014 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.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$3,443	$3,482	$0	$0
Due after one through five years	106,802	107,691	0	0
Due after five through ten years	126,757	126,150	1,182	1,183
Due after ten years	37,330	37,658	480	449
U.S. government sponsored agency mortgage-backed securities	347,790	347,804	0	0
Total debt securities	622,122	622,785	1,662	1,632
Marketable equity securities	25,000	24,751	0	0
Total securities	$647,122	$647,536	$1,662	$1,632

During the six months ended June 30, 2014, there was a combined loss of $111 thousand. A pre-tax gain of $1.8 million and a pre-tax loss of $1.9 million were realized during the year. During the six months ended June 30, 2013, there was a combined loss of $8 thousand.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was $243.0 million at June 30, 2014 and $257.5 million at December 31, 2013.

The amortized cost of securities sold under agreements to repurchase amounted to $260.1 million at June 30, 2014 and $255.4 million at December 31, 2013.

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 June 30, 2014 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of June 30, 2014 was 46.3% compared to 67.8% as of December 31, 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 June 30, 2014 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	$3,031	$(19)	$3,012
State and political subdivisions	4,555	(19)	4,536
U.S. government sponsored agency mortgage-backed securities	88,171	(556)	87,615
Total debt securities	95,757	(594)	95,163
Marketable equity securities	0	0	0
Total <12 months temporarily impaired AFS securities	95,757	(594)	95,163
12 Months or More			
U.S. Treasury and government agencies	55,519	(2,471)	53,048
State and political subdivisions	31,336	(878)	30,458
U.S. government sponsored agency mortgage-backed securities	99,468	(3,073)	96,395
Total debt securities	186,323	(6,422)	179,901
Marketable equity securities	25,000	(249)	24,751
Total ≥12 months temporarily impaired AFS securities	211,323	(6,671)	204,652
Total			
U.S. Treasury and government agencies	58,550	(2,490)	56,060
State and political subdivisions	35,891	(897)	34,994
U.S. government sponsored agency mortgage-backed securities	187,639	(3,629)	184,010
Total debt securities	282,080	(7,016)	275,064
Marketable equity securities	25,000	(249)	24,751
Total temporarily impaired AFS securities	$307,080	$(7,265)	$299,815

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
12 Months or More			
U.S. Treasury and government agencies	$480	$(31)	$449

Total temporarily impaired HTM securities	$480	$(31)	$449

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. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2014, 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 at maturity.

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. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2014, because CTBI does not intend to sell the investments before recovery of their amortized cost, which may be at maturity.

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. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2014, 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 at maturity.

Marketable Equity Securities

CTBI's investments in marketable equity securities consist of investments in fixed income mutual funds ($24.8 million of the total fair value and $249 thousand of the total unrealized losses in common stock investments). The severity of the impairment (fair value is approximately 1.0% less than cost) and the duration of the impairment 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 June 30, 2014.

The analysis performed as of December 31, 2013 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, 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 ≥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

Note 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)	June 30 2014	December 31 2013
Commercial construction	$113,420	$110,779
Commercial secured by real estate	905,996	872,542
Equipment lease financing	7,928	8,840
Commercial other	354,944	374,881
Real estate construction	61,184	56,075
Real estate mortgage	698,403	697,601
Home equity	87,279	84,880
Consumer direct	119,610	122,215
Consumer indirect	283,845	287,541
Total loans	$2,632,609	$2,615,354

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 $0.9 million at June 30, 2014 and $0.8 million at December 31, 2013, 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:

(in thousands)	June 30 2014	December 31 2013
Commercial:		
Commercial construction	$4,668	$4,519
Commercial secured by real estate	12,568	6,576
Commercial other	2,563	2,801
Residential:		
Real estate construction	162	481

Real estate mortgage	5,338	5,152
Home equity	426	429
Total nonaccrual loans	$25,725	$19,958

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of June 30, 2014 and December 31, 2013:

	June 30, 2014						
(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	$30	$0	$6,088	$6,118	$107,302	$113,420	$1,420
Commercial secured by real estate	7,323	2,694	15,885	25,902	880,094	905,996	4,018
Equipment lease financing	0	0	0	0	7,928	7,928	0
Commercial other	1,236	742	7,700	9,678	345,266	354,944	5,404
Residential:							
Real estate construction	150	75	704	929	60,255	61,184	542
Real estate mortgage	1,074	4,211	11,184	16,469	681,934	698,403	6,428
Home equity	533	142	934	1,609	85,670	87,279	572
Consumer:							
Consumer direct	1,250	247	79	1,576	118,034	119,610	79
Consumer indirect	2,262	543	344	3,149	280,696	283,845	344
Total	$13,858	$8,654	$42,918	$65,430	$2,567,179	$2,632,609	$18,807

	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

*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 June 30, 2014 and December 31, 2013:

(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Leases	Commercial Other	Total
June 30, 2014					
Pass	$ 92,911	$783,366	$7,928	$305,702	$1,189,907
Watch	9,179	73,612	0	31,711	114,502
OAEM	1,106	11,007	0	1,088	13,201
Substandard	5,705	26,476	0	14,296	46,477
Doubtful	4,519	11,535	0	2,147	18,201
Total	$ 113,420	$905,996	$7,928	$354,944	$1,382,288
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

The following tables present the credit risk profile of the CTBI's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of June 30, 2014 and December 31, 2013:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
June 30, 2014						
Performing	$ 60,480	$686,637	$86,281	$119,531	$283,501	$1,236,430
Nonperforming (1)	704	11,766	998	79	344	13,891
Total	$ 61,184	$698,403	$87,279	$119,610	$283,845	$1,250,321
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

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

The following table presents impaired loans, the average investment in impaired loans, and interest income recognized on impaired loans for the periods ended June 30, 2014, December 31, 2013, and June 30, 2013:

	June 30, 2014		
(in thousands)	Recorded Balance	Unpaid Contractual Principal	Specific Allowance

		Balance	
Loans without a specific valuation allowance:			
Commercial construction	$5,270	$5,271	$0
Commercial secured by real estate	33,504	34,523	0
Commercial other	16,947	18,527	0
Real estate mortgage	1,865	1,865	0
Loans with a specific valuation allowance:			
Commercial construction	4,285	4,285	734
Commercial secured by real estate	3,968	4,272	1,077
Commercial other	339	463	84
Totals:			
Commercial construction	9,555	9,556	734
Commercial secured by real estate	37,472	38,795	1,077
Commercial other	17,286	18,990	84
Real estate mortgage	1,865	1,865	0
Total	$66,178	$69,206	$1,895

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
(in thousands)	Average Investment in Impaired Loans	*Interest Income Recognized	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$5,291	$78	$5,366	$128
Commercial secured by real estate	33,687	332	35,051	597
Commercial other	17,362	257	15,843	371
Real estate mortgage	1,866	22	1,445	32
Loans with a specific valuation allowance:				
Commercial construction	4,285	0	4,299	0
Commercial secured by real estate	3,973	0	4,330	4
Commercial other	353	0	396	0
Totals:				
Commercial construction	9,576	78	9,665	128
Commercial secured by real estate	37,660	332	39,381	601
Commercial other	17,715	257	16,239	371
Real estate mortgage	1,866	22	1,445	32
Total	$66,817	$689	$66,730	$1,132

	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

	June 30, 2013		
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Commercial construction	$5,921	$ 6,498	$0
Commercial secured by real estate	29,232	30,155	0
Commercial other	16,036	19,760	0
Real estate mortgage	1,027	1,027	0
Loans with a specific valuation allowance:			
Commercial construction	4,655	5,511	1,890
Commercial secured by real estate	6,194	6,448	1,866
Commercial other	353	477	83
Totals:			
Commercial construction	10,576	12,009	1,890
Commercial secured by real estate	35,426	36,603	1,866
Commercial other	16,389	20,237	83
Real estate mortgage	1,027	1,027	0
Total	$63,418	$ 69,876	$3,839

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
(in thousands)	Average Investment in Impaired Loans	*Interest Income Recognized	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$6,043	$ 53	$5,634	$ 127
Commercial secured by real estate	29,422	236	31,665	533
Commercial other	15,825	151	15,630	305
Real estate mortgage	1,025	17	842	24
Loans with a specific valuation allowance:				

Commercial construction	4,656	0	5,366	0
Commercial secured by real estate	6,298	0	5,232	0
Commercial other	379	0	624	0
Totals:				
Commercial construction	10,699	53	11,000	127
Commercial secured by real estate	35,720	236	36,897	533
Commercial other	16,204	151	16,254	305
Real estate mortgage	1,025	17	842	24
Total	$63,648	$457	$64,993	$989

*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 without 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 2014, 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 three and six months ended June 30, 2014 and 2013 and the year ended December 31, 2013:

	Three Months Ended June 30, 2014				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	1	$ 106	$ 0	$ 0	$ 106
Commercial other	1	20	0	0	20
Residential:					
Real estate mortgage	2	0	0	849	849
Total troubled debt restructurings	4	$ 126	$ 0	$ 849	$ 975

	Six Months Ended June 30, 2014				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	3	$ 231	$ 0	$ 0	$ 231
Commercial other	3	61	0	0	61
Residential:					
Real estate mortgage	2	0	0	849	849
Total troubled debt restructurings	8	$ 292	$ 0	$ 849	$ 1,141

	Three Months Ended June 30, 2013				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	3	$ 493	$ 0	$ 0	$ 493
Commercial secured by real estate	15	662	0	0	662
Commercial other	13	872	0	0	872
Residential:					
Real estate mortgage	1	373	0	0	373
Total troubled debt restructurings	32	$ 2,400	$ 0	$ 0	$ 2,400

	Six Months Ended June 30, 2013				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	6	$ 2,603	$ 0	$ 0	$ 2,603
Commercial secured by real estate	20	1,267	0	0	1,267
Commercial other	22	6,365	0	92	6,457
Residential:					
Real estate mortgage	1	373	0	0	373
Total troubled debt restructurings	49	$ 10,608	$ 0	$ 92	$ 10,700

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

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 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 generally considers a loan in default when it is 90 days or more past due or transferred to nonaccrual.

(in thousands)	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial:				
Commercial other	0	$0	2	$34
Residential:				
Real estate mortgage	1	581	1	581
Total defaulted restructured loans	1	$581	3	$615

(in thousands)	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial:				
Commercial construction	1	$831	3	$1,159
Commercial secured by real estate	1	1,229	3	1,891
Commercial other	5	2,061	6	2,073
Total defaulted restructured loans	7	$4,121	12	$5,123

Note 5 – Allowance for Loan and Lease Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the three and six months ended June 30, 2014 and 2013 and the twelve months ended December 31, 2013:

	Three Months Ended June 30, 2014									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$3,107	$14,183	$107	$4,754	$442	$5,143	$626	$1,573	$3,680	$33,615
Provision charged to	(194)	340	(5)	113	123	48	17	62	231	735

expense										
Losses charged off	0	296	0	272	116	57	1	229	658	1,629
Recoveries	3	175	0	82	1	8	1	191	435	896
Ending balance	$2,916	$14,402	$102	$4,677	$450	$5,142	$643	$1,597	$3,688	$33,617
Ending balance:										
Individually evaluated for impairment	$734	$1,077	$0	$84	$0	$0	$0	$0	$0	$1,895
Collectively evaluated for impairment	$2,182	$13,325	$102	$4,593	$450	$5,142	$643	$1,597	$3,688	$31,722
Loans										
Ending balance:										
Individually evaluated for impairment	$9,555	$37,472	$0	$17,286	$0	$1,865	$0	$0	$0	$66,178
Collectively evaluated for impairment	$103,865	$868,524	$7,928	$337,658	$61,184	$696,538	$87,279	$119,610	$283,845	$2,566,431

	Six Months Ended June 30, 2014									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$3,396	$14,535	$121	$5,238	$397	$4,939	$601	$1,127	$3,654	$34,008
Provision charged to expense	(490)	234	(19)	100	167	404	68	815	801	2,080
Losses charged off	0	618	0	905	116	221	28	682	1,604	4,174
Recoveries	10	251	0	244	2	20	2	337	837	1,703
Ending balance	$2,916	$14,402	$102	$4,677	$450	$5,142	$643	$1,597	$3,688	$33,617

Ending balance:										
Individually evaluated for impairment	$734	$1,077	$0	$84	$0	$0	$0	$0	$0	$1,895
Collectively evaluated for impairment	$2,182	$13,325	$102	$4,593	$450	$5,142	$643	$1,597	$3,688	$31,722
Loans										
Ending balance:										
Individually evaluated for impairment	$9,555	$37,472	$0	$17,286	$0	$1,865	$0	$0	$0	$66,178
Collectively evaluated for impairment	$103,865	$868,524	$7,928	$337,658	$61,184	$696,538	$87,279	$119,610	$283,845	$2,566,431

					Twelve Months Ended December 31, 2013					
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,033	$13,541	$126	$5,469	$376	$4,767	$563	$1,102	$3,268	$33,245
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
Ending balance	$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	$2,207	$13,530	$121	$5,136	$397	$4,939	$601	$1,127	$3,654	$31,712

for impairment										
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

	Three Months Ended June 30, 2013									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$3,827	$13,682	$128	$5,151	$372	$4,980	$571	$1,098	$3,584	$33,393
Provision charged to expense	1,119	1,132	(11)	541	34	112	127	174	433	3,661
Losses charged off	1,112	653	0	972	38	151	126	277	786	4,115
Recoveries	1	1	0	73	0	9	4	139	435	662
Ending balance	$3,835	$14,162	$117	$4,793	$368	$4,950	$576	$1,134	$3,666	$33,601
Ending balance:										
Individually evaluated for impairment	$1,890	$1,866	$0	$83	$0	$0	$0	$0	$0	$3,839
Collectively evaluated for impairment	$1,945	$12,296	$117	$4,710	$368	$4,950	$576	$1,134	$3,666	$29,762
Loans										
Ending balance:										
Individually evaluated	$10,576	$35,426	$0	$16,389	$0	$1,027	$0	$0	$0	$63,418

for impairment										
Collectively evaluated for impairment	$93,224	$823,596	$9,383	$360,517	$51,462	$691,907	$80,631	$123,565	$287,098	$2,521,383

	Six Months Ended June 30, 2013									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,033	$13,541	$126	$5,469	$376	$4,767	$563	$1,102	$3,268	$33,245
Provision charged to expense	907	1,616	(9)	386	30	446	177	339	1,328	5,220
Losses charged off	1,112	1,018	0	1,304	38	282	173	591	1,785	6,303
Recoveries	7	23	0	242	0	19	9	284	855	1,439
Ending balance	$3,835	$14,162	$117	$4,793	$368	$4,950	$576	$1,134	$3,666	$33,601
Ending balance:										
Individually evaluated for impairment	$1,890	$1,866	$0	$83	$0	$0	$0	$0	$0	$3,839
Collectively evaluated for impairment	$1,945	$12,296	$117	$4,710	$368	$4,950	$576	$1,134	$3,666	$29,762
Loans										
Ending balance:										
Individually evaluated for impairment	$10,576	$35,426	$0	$16,389	$0	$1,027	$0	$0	$0	$63,418
Collectively evaluated for impairment	$93,224	$823,596	$9,383	$360,517	$51,462	$691,907	$80,631	$123,565	$287,098	$2,521,383

Note 6 – Other Real Estate Owned

Activity for other real estate owned was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands)	2014	2013	2014	2013
Beginning balance of other real estate owned	$36,299	$45,720	$39,188	$47,537
New assets acquired	2,196	2,608	3,464	4,655
Capitalized costs	0	6	0	6
Fair value adjustments	(287)	(630)	(1,161)	(1,776)
Sale of assets	(5,146)	(4,072)	(8,429)	(6,790)
Ending balance of other real estate owned	$33,062	$43,632	$33,062	$43,632

Carrying costs and fair value adjustments associated with foreclosed properties for the three months ended June 30, 2014 and 2013 were $0.7 million and $1.2 million, respectively. Carrying costs and fair value adjustments associated with foreclosed properties for the six months ended June 30, 2014 and 2013 were $2.2 million and $3.0 million.

Note 7 – Earnings Per Share

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

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2014	2013	2014	2013
Numerator:				
Net income	$12,195	$11,942	$22,335	$23,762
Denominator:				
Basic earnings per share:				
Weighted average shares	17,318	17,121	17,313	17,107
Diluted earnings per share:				
Effect of dilutive stock options and restricted stock grants	75	84	80	81
Adjusted weighted average shares	17,393	17,205	17,393	17,188
Earnings per share:				
Basic earnings per share	$0.70	$0.70	$1.29	$1.39
Diluted earnings per share	0.70	0.69	1.28	1.38

Options to purchase 65,519 common shares at a weighted average price of $35.41 were excluded from the diluted calculations above for the three months ended June 30, 2014. There were no options to purchase common shares that were excluded from the diluted calculations above for the six months ended June 30, 2014. 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 97,071 common shares at a weighted average price of $35.41 were excluded from the diluted calculations above for the three and six months ended June 30, 2013, because the exercises prices on the options were greater than the average market price for the period.

Note 8 – 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 June 30, 2014 and December 31, 2013 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)		Fair Value Measurements at June 30, 2014 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	$137,877	$0	$137,877	$ 0
State and political subdivisions	137,104	0	137,104	0
U.S. government sponsored agency mortgage-backed securities	347,804	0	347,804	0
Marketable equity securities	24,751	24,751	0	0
Mortgage servicing rights	3,062	0	0	3,062

(in thousands)		Fair Value Measurements at December 31, 2013 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
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

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 June 30, 2014 and December 31, 2013. There have been no significant changes in the valuation techniques during the quarter ended June 30, 2014. 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 (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 June 30, 2014, 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 June 30, 2014.

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 for the three and six months ended June 30, 2014 and 2013:

(in thousands)	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
	Mortgage Servicing Rights	Mortgage Servicing Rights
Beginning balance	$3,258	$3,424
Total recognized gains (losses)		
Included in net income	(166)	(292)
Issues	82	145
Settlements	(112)	(215)
Ending balance	$3,062	$3,062
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	$(166)	$(292)

(in thousands)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	Mortgage Servicing Rights	Mortgage Servicing Rights
Beginning balance	$2,652	$2,364
Total recognized gains (losses)		
Included in net income	529	646
Issues	205	562
Settlements	(164)	(350)
Ending balance	$3,222	$3,222
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	$529	$646

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

(in thousands)	Three Months Ended	Six Months Ended

	June 30, 2014		June 30, 2014	
	Noninterest Income	Noninterest Expense	Noninterest Income	Noninterest Expense
Total gains (losses)	$(278)	$0	$(507)	$0

(in thousands)	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Noninterest Income	Noninterest Expense	Noninterest Income	Noninterest Expense
Total gains (losses)	$365	$0	$296	$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 June 30, 2014 and December 31, 2013 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)		Fair Value Measurements at June 30, 2014 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 – nonrecurring basis				
Impaired loans (collateral dependent)	$4,444	$0	$0	$ 4,444
Other real estate/assets owned	5,918	0	0	5,918

(in thousands)		Fair Value Measurements at December 31, 2013 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 – nonrecurring basis				
Impaired loans (collateral dependent)	$6,830	$0	$0	$ 6,830
Other real estate/assets owned	11,111	0	0	11,111

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. Quarter-to-date fair value adjustments on impaired loans were decreases of $38 thousand and $0.9 million and an increase of $1.5 million for the quarters ended June 30, 2014, December 31, 2013 and June 30, 2013, respectively. Year-to-date adjustments were increases of $0.2 million for the six months ended June 30, 2014, $0.6 million for the year ended December 31, 2013, and $2.0 million for the six months ended June 30, 2013.

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. Quarter-to-date fair value adjustments on other real estate/assets owned were $0.3 million, $0.5 million, and $0.6 million for the quarters ended June 30, 2014, December 31, 2013, and June 30, 2013, respectively. Year-to-date adjustments were $1.2 million for the six months ended June 30, 2014, $2.5 million for the year ended December 31, 2013, and $1.8 million for the six months ended June 30, 2013.

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. 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 June 30, 2014 and December 31, 2013.

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at June 30, 2014	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	$ 3,062	Discount cash flows, computer pricing	Constant prepayment rate	7.6% - 24.8%

		model		
				(10.7%)
			Probability of default	0.00% - 50.00% (3.09%)
			Discount rate	10.00% - 11.00% (10.13%)
Impaired loans (collateral-dependent)	$ 4,444	Market comparable properties	Marketability discount	5.0% - 10.0% (7.0%)
Other real estate/assets owned	$ 5,918	Market comparable properties	Comparability adjustments (%)	5.0% - 46.0% (15.4%)

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at December 31, 2013	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	$3,424	Discount cash flows, computer pricing model	Constant prepayment rate	4.3% - 23.6% (9.7%)
			Probability of default	0.00% - 33.33% (3.36%)
			Discount rate	Not applicable (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%)

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 June 30, 2014 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)		Fair Value Measurements at June 30, 2014 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	$137,973	$137,973	$0	$ 0
Certificates of deposit in other banks	9,473	0	9,505	0
Securities available-for-sale	647,536	24,751	622,785	0
Securities held-to-maturity	1,662	0	1,632	0
Loans held for sale	895	912	0	0
Loans, net	2,598,992	0	0	2,613,007
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	12,354	0	12,354	0
Mortgage servicing rights	3,062	0	0	3,062
Financial liabilities:				
Deposits	$2,887,189	$651,588	$2,232,133	$ 0
Repurchase agreements	217,979	0	0	218,121
Federal funds purchased	15,205	0	15,205	0
Advances from Federal Home Loan Bank	1,228	0	1,464	0
Long-term debt	61,341	0	0	35,501
Accrued interest payable	1,522	0	1,522	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, 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 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.

Note 9 – 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 three and six months ended June 30, 2014 and 2013 were:

	Amounts Reclassified from AOCI			
	Three Months Ended June 30		Six Months Ended June 30	
(in thousands)	2014	2013	2014	2013
Affected line item in the statements of income				
Securities losses	$(51)	$(8)	$(111)	$(8)
Tax benefit	(18)	(3)	(39)	(3)
Total reclassifications out of AOCI	$(33)	$(5)	$(72)	$(5)

Item 2. 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 condensed consolidated financial statements and the accompanying notes contained in this quarterly report. The MD&A includes the following sections:

- Our Business
- Results of Operations and Financial Condition
- Dividends
- Liquidity and Market Risk
- Interest Rate Risk
- Capital Resources
- Impact of Inflation, Changing Prices, and Economic Conditions
- Stock Repurchase Program
- 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 June 30, 2014, we had total consolidated assets of $3.7 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 June 30, 2014 was $433.9 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 our annual report on Form 10-K for the year ended December 31, 2013.

Results of Operations and Financial Condition

For the quarter ended June 30, 2014, we reported earnings of $12.2 million, or $0.70 per basic share, compared to $11.9 million, or $0.70 per basic share, earned during the second quarter 2013 and $10.1 million, or $0.59 per basic share, earned during the first quarter 2014. The increased net income for the quarter was primarily due to decreases in our loan loss provision and noninterest expense with lower net other real estate owned expense and fewer operating losses. Year-to-date earnings for the six months ended June 30, 2014 were $22.3 million, or $1.29 per basic share, compared to $23.8 million, or $1.39 per basic share earned during the first six months of 2013. The variance from prior year is due to decreased net interest income and noninterest income, partially offset by decreases in our provision for loan losses and noninterest expense.

On June 2, 2014, CTBI distributed a 10% stock dividend to shareholders of record on May 15, 2014. All share data has been restated accordingly.

2nd Quarter 2014 Highlights

- CTBI's basic earnings per share for the quarter was flat to prior year second quarter but increased $0.11 from first quarter 2014. Year-to-date basic earnings per share decreased $0.10 from prior year.

- Net interest income for the quarter decreased 1.5% from prior year second quarter but increased 0.2% from prior quarter as our net interest margin decreased 7 basis points and 5 basis points, respectively, for those time periods. Average earning assets increased 0.6% from second quarter 2013 and 0.7% from prior quarter while our yield on average earning assets decreased 14 basis points and 6 basis points, respectively. The yield on all earning asset portfolios declined quarter over quarter, while the cost of interest bearing funds remained stable. Net interest income for the six months ended June 30, 2014 decreased 1.4% from prior year.

- Nonperforming loans at $44.5 million increased $1.0 million from December 31, 2013 and $2.1 million from March 31, 2014, primarily due to one credit relationship which management has reviewed and considers to be well secured and in the process of collection. Nonperforming assets at $77.6 million decreased $5.1 million from December 31, 2013 and $1.1 million from March 31, 2014.

- Net loan charge-offs for the quarter ended June 30, 2014 were $0.7 million, or 0.11% of average loans annualized, compared to $3.5 million, or 0.54%, experienced for the second quarter 2013 and $1.7 million, or 0.27%, for the first quarter 2014. Year-to-date net charge-offs declined from 0.38% of average loans to 0.19%.

- Our loan loss provision for the quarter decreased $2.9 million from prior year second quarter and $0.6 million from prior quarter. Year-to-date provision decreased $3.1 million. The decline in our loan loss provision was primarily due to the trend of decreasing net losses to average loans resulting in a 2 basis point reduction in our allowance for loan and lease losses. The reduction in our allowance for loan and lease losses impacted our second quarter 2014 earnings per basic share by $0.02.

- Noninterest income decreased 17.3% for the quarter ended June 30, 2014 compared to the same period in 2013 but increased 9.0% from prior quarter. Noninterest income for the first six months of 2014 decreased 16.5% from prior year. The decrease from prior year was primarily attributable to decreases in gains on sales of loans, deposit service charges, loan related fees resulting from the fluctuation in the fair value of our mortgage servicing rights, and other noninterest income due to the prior year death benefits received in bank owned life insurance.

- Noninterest expense for the quarter ended June 30, 2014 decreased 2.8% from prior year second quarter and 6.0% from prior quarter. The quarterly improvement is due to decreases in net other real estate owned expense and

operating losses. Noninterest expense for the first six months of 2014 decreased 0.3% from prior year. Noninterest expense for the year was positively impacted by the decrease in net other real estate owned expense as well as adjustments totaling $0.8 million to reduce the accrual for the Federal Reserve determination which was previously disclosed in our annual report on Form 10-K for the year ended December 31, 2013.

- Our loan portfolio increased $17.3 million from December 31, 2013 and $47.1 million during the quarter.

- Our investment portfolio increased $38.1 million from December 31, 2013 but decreased $2.6 million during the quarter.

- Deposits, including repurchase agreements, increased $42.0 million from December 31, 2013 but declined $36.7 million during the quarter.

- Our tangible common equity/tangible assets ratio increased to 10.26%.

Income Statement Review

(dollars in thousands)			Change 2014 vs. 2013	
Six Months Ended June 30	2014	2013	Amount	Percent
Net interest income	$65,583	$66,539	$(956)	(1.4)%
Provision for loan losses	2,080	5,220	(3,140)	(60.1)
Noninterest income	21,037	25,194	(4,157)	(16.5)
Noninterest expense	52,117	52,286	(169)	(0.3)
Income taxes	10,088	10,465	(377)	(3.6)
Net income	$22,335	$23,762	$(1,427)	(6.0)%
Average earning assets	$3,401,626	$3,393,593	$8,033	0.2%
Yield on average earnings assets	4.29%	4.42%	(0.13)%	(2.9)%
Cost of interest bearing funds	0.47%	0.54%	(0.07)%	(14.1)%
Net interest margin	3.94%	4.01%	(0.07)%	(1.6)%

Net Interest Income

Net interest income for the quarter decreased $0.5 million, or 1.5%, from prior year second quarter but increased $0.1 million, or 0.2% from prior quarter as our net interest margin decreased 7 basis points and 5 basis points, respectively, for those time periods. The current low rate environment continues to have a negative impact on our net interest margin. Average earning assets increased 0.6% from second quarter 2013 and 0.7% from prior quarter while our yield on average earning assets decreased 14 basis points and 6 basis points, respectively. Loans represented 76.3% of our average earning assets for the quarter ended June 30, 2014 compared to 75.6% for the quarter ended June 30, 2013 and 76.6% for the quarter ended March 31, 2014. The cost of interest bearing funds decreased 6 basis points from prior year second quarter but remained flat to prior quarter. Net interest income for the six months ended June 30, 2014 decreased $1.0 million, or 1.4%, from prior year.

Provision for Loan Losses

The provision for loan losses that was added to the allowance for the second quarter 2014 was $0.7 million compared to $3.7 million in the second quarter 2013 and $1.3 million for the quarter ended March 31, 2014. Year-to-date allocations to the reserve were $2.1 million at June 30, 2014 compared to $5.2 million at June 30, 2013. The decline in our loan loss provision was primarily due to the trend of decreasing net losses to average loans and a 2 basis point

reduction in our allowance for loan and lease losses. 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.

Noninterest Income

Noninterest income decreased $2.3 million, or 17.3%, for the quarter ended June 30, 2014 compared to the same period in 2013 but increased $0.9 million, or 9.0%, from prior quarter. The decrease from prior year second quarter included decreases in gains on sales of loans, deposit service charges, loan related fees, and bank owned life insurance income. The decrease in gains on sales of loans from prior year was reflective of the decline in secondary market residential real estate mortgage activity, and the decrease in deposit service charges from prior year was a result of the change in our processing of overdrafts. However, gains on sales of loans increased $0.1 million from the first quarter 2014, and deposit service charges increased $0.6 million from prior quarter with increases in overdraft revenue and Visa debit fee income. Loan related fees were impacted by the fluctuation in the fair value of our mortgage servicing rights, and the decrease in other noninterest income was due to the prior year death benefits received in bank owned life insurance of $0.9 million.

Noninterest income for the first six months of 2014 decreased $4.2 million, or 16.5%, from prior year. Gains on sales of loans were $1.7 million below prior year, deposit service charges were $0.5 million below prior year, and loan related fees were $1.0 million below prior year due to a $0.8 million change in fair value adjustments in our mortgage servicing portfolio.

Noninterest Expense

Noninterest expense for the quarter ended June 30, 2014 decreased $0.7 million, or 2.8%, from prior year second quarter and $1.6 million, or 6.0%, from prior quarter. The quarterly improvement is due to decreases in net other real estate owned expense and operating losses. Noninterest expense for the first six months of 2014 decreased $0.2 million, or 0.3%, from prior year. Noninterest expense for the year was positively impacted by a $0.8 million decrease in net other real estate owned expense as well as adjustments totaling $0.8 million to the accrual for the Federal Reserve determination, partially offset by increased personnel expense of $0.5 million, an increase in operating losses of $0.4 million, and increased data processing expense of $0.3 million.

Balance Sheet Review

CTBI's total assets at $3.7 billion increased $70.9 million, or an annualized 4.0%, from December 31, 2013 but decreased $16.0 million, or an annualized 1.7%, during the quarter. Loans outstanding at June 30, 2014 were $2.6 billion, increasing $17.3 million, or an annualized 1.3%, from December 31, 2013 and $47.1 million, or an annualized 7.3%, during the quarter. We experienced growth during the quarter of $36.8 million in the commercial loan portfolio, $6.9 million in the residential loan portfolio, and $3.4 million in the consumer loan portfolio. CTBI's investment portfolio increased $38.1 million, or an annualized 12.6%, from December 31, 2013 but decreased $2.6 million, or an annualized 1.6%, during the quarter. Deposits in other banks decreased $62.9 million during the quarter to fund loan growth. Deposits, including repurchase agreements, at $3.1 billion increased $42.0 million, or an annualized 2.8%, from December 31, 2013 but decreased $36.7 million, or an annualized 4.7%, from prior quarter.

Shareholders' equity at June 30, 2014 was $433.9 million compared to $412.5 million at December 31, 2013 and $422.0 million at March 31, 2014. CTBI's annualized dividend yield to shareholders as of June 30, 2014 was 3.39%.

Loans

(in thousands)	June 30, 2014		
Loan Category	Balance	Nonperforming	ALLL

		Variance from Prior Year-End	Net Charge-Offs		
Commercial:					
Construction	$113,420	2.4 %	$ (10)	$ 6,088	$2,916
Secured by real estate	905,996	3.8	367	16,586	14,402
Equipment lease financing	7,928	(10.3)	0	0	102
Commercial other	354,944	(5.3)	661	7,967	4,677
Total commercial	1,382,288	1.1	1,018	30,641	22,097
Residential:					
Real estate construction	61,184	9.1	114	704	450
Real estate mortgage	698,403	0.1	201	11,766	5,142
Home equity	87,279	2.8	26	998	643
Total residential	846,866	1.0	341	13,468	6,235
Consumer:					
Consumer direct	119,610	(2.1)	345	79	1,597
Consumer indirect	283,845	(1.3)	767	344	3,688
Total consumer	403,455	(1.5)	1,112	423	5,285
Total loans	$2,632,609	0.7 %	$ 2,471	$ 44,532	$33,617

Asset Quality

CTBI's total nonperforming loans were $44.5 million at June 30, 2014, a 2.2% increase from the $43.6 million at December 31, 2013 and a 5.0% increase from the $42.4 million at March 31, 2014. Loans 90+ days past due increased $3.3 million for the quarter, partially offset by a $1.2 million decrease in nonaccrual loans. The increase in loans 90+ days past due was primarily the result of one credit relationship totaling $2.6 million. Loans in the 90+ days past due category are reviewed by management and are considered to be well secured and in the process of collection; therefore, these loans require no specific reserves to the allowance for loan and lease losses. Loans 30-89 days past due at $21.5 million was an increase of $5.5 million from December 31, 2013 but a decrease of $2.1 million from March 31, 2014. 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.

Impaired loans, loans not expected to meet contractual principal and interest payments other than insignificant delays, at June 30, 2014 totaled $66.2 million, compared to $65.3 million at December 31, 2013 and March 31, 2014. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At June 30, 2014, CTBI had $21.4 million in commercial loans secured by real estate, $7.7 million in commercial real estate construction loans, $9.5 million in commercial other loans, and $1.9 million in consumer 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 condensed 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.

Net loan charge-offs for the quarter ended June 30, 2014 were $0.7 million, or 0.11% of average loans annualized, compared to $3.5 million, or 0.54%, experienced for the second quarter 2013 and $1.7 million, or 0.27%, for the first quarter 2014. Of the total net charge-offs for the quarter, $0.1 million were in commercial loans, $0.2 million were in indirect auto loans, and $0.2 million were in residential real estate mortgage loans. Year-to-date net charge-offs declined from 0.38% of average loans to 0.19%. Allocations to loan loss reserves were $0.7 million for the quarter ended June 30, 2014 compared to $3.7 million for the quarter ended June 30, 2013 and $1.3 million for the quarter ended March 31, 2014. Loan loss provision for the six months ended June 30, 2014 decreased $3.1 million. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) at June 30, 2014 was 75.5% compared to 80.8% at June 30, 2013 and 79.2% at March 31, 2014. Our loan loss reserve as a percentage of total loans outstanding decreased to 1.28% from the 1.30% at June 30, 2013 and March 31, 2014. The reduction in our allowance for loan and lease losses impacted our earnings per basic share by $0.02.

We continue to experience improvement in other real estate owned. Our level of foreclosed properties at $33.1 million at June 30, 2014 was a decrease from $39.2 million at December 31, 2013 and $36.3 million at March 31, 2014. Sales of foreclosed properties for the quarter ended June 30, 2014 totaled $5.1 million while new foreclosed properties totaled $2.2 million. Sales for the six months ended June 30, 2014 totaled $8.4 million while new foreclosed properties totaled $3.5 million. At June 30, 2014, the book value of properties under contracts to sell was $2.6 million; however, the closings had not occurred at quarter-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 the second quarter 2014 to reflect the decrease in current market values of foreclosed properties totaled $0.3 million. There were 41 properties reappraised during the second quarter 2014. Of these, 7 were written down by a total of $0.2 million. Charges during the quarters ended June 30, 2013 and March 31, 2014 were $0.6 million and $0.9 million, respectively. 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. Approximately seventy-four percent of our OREO properties have been reappraised within the past 12 months. Management anticipates that our foreclosed properties will remain elevated as we work through current market conditions.

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

(in thousands)	June 30, 2014	December 31, 2013
1-4 family	$6,673	$8,640
Agricultural/farmland	769	792
Construction/land development/other	19,381	20,278
Multifamily	1,402	1,456
Non-farm/non-residential	4,837	8,022
Total foreclosed properties	$33,062	$39,188

The appraisal aging analysis of foreclosed properties, as well as the holding period, at June 30, 2014 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	$13,377	Less than one year	$5,236
3 to 6 months	7,607	1 to 2 years	2,588
6 to 9 months	2,054	2 to 3 years	11,195
9 to 12 months	1,420	3 to 4 years	4,029
12 to 24 months	8,450	4 to 5 years	6,829
Over 24 months	154	Over 5 years	3,185
Total	$33,062	Total	$33,062

Dividends

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

Pay Date	Record Date	Amount Per Share
July 1, 2014	June 15, 2014	$0.290
April 1, 2014	March 15, 2014	$0.291
January 1, 2014	December 15, 2013	$0.291
October 1, 2013	September 15, 2013	$0.291
July 1, 2013	June 15, 2013	$0.286
April 1, 2013	March 15, 2013	$0.286

The Board of Directors of CTBI declared the payment of a quarterly cash dividend of $0.30 per share to be paid on October 1, 2014 to shareholders of record on September 15, 2014.

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 June 30, 2014, we had approximately $138.0 million in cash and cash equivalents and approximately $647.5 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 $106.6 million and $609.4 million at December 31, 2013. 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 $1.2 million at June 30, 2014 compared to $1.3 million at December 31, 2013. As of June 30, 2014, we had a $377 million available borrowing position with the Federal Home Loan Bank compared to $342.6 million at December 31, 2013. 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 June 30, 2014 and December 31, 2013, 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 June 30, 2014, federal funds sold were $7.0 million compared to $8.6 million at December 31, 2013, and deposits with the Federal Reserve were $56.3 million compared to $28.5 million at December 31, 2013. 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 4.23 years. At the end of June 30, 2014, available-for-sale ("AFS") securities comprised approximately 99.7% of the total investment portfolio, and the AFS portfolio was approximately 149% of equity capital. Eighty-two 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.

Capital Resources

Shareholders' equity was $433.9 million at June 30, 2014 and $412.5 million at December 31, 2013. CTBI's annualized dividend yield to shareholders as of June 30, 2014 was 3.39%. Our primary source of capital growth is the retention of earnings. Cash dividends were $0.581 per share for the six months ended June 30, 2014 and $0.572 per share for the six months ended June 30, 2013. We retained 55.0% of our earnings for the first six months of 2014 compared to 58.8% for the first six months of 2013.

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 June 30, 2014 were 11.83%, 16.66%, and 17.91%, respectively, all exceeding the threshold for meeting the definition of "well-capitalized."

As of June 30, 2014, we are not aware of any other 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 in our annual report on Form 10-K for the year ended

December 31, 2013, and Basel III which is discussed below.

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.

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 currently has 288,519 shares remaining under CTBI's current repurchase authorization. We have not repurchased any shares of our common stock since February 2008. As of June 30, 2014, a total of 2,211,481 shares have been repurchased through this program.

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.

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. Foreclosure proceedings are normally initiated after 120 days. When the foreclosed property has been legally assigned to CTBI, the fair value less estimated costs to sell is transferred to other real estate owned and the remaining balance is taken as a charge-off.

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. We continue to use twelve rolling quarters for our historical loss rate analysis. 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 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. CTBI uses an earnings simulation model to analyze net interest income sensitivity to movements in interest rates. Given a 200 basis point increase to the yield curve used in the simulation model, it is estimated net interest income for CTBI would increase by 0.03 percent over one year and decrease by 2.39 percent over two years. A 25 basis point decrease in the yield curve would decrease net interest income by an estimated 0.10 percent over one year and increase by 0.23 percent over two years. For further discussion of CTBI's market risk, see the Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Market Risk included in the annual report on Form 10-K for the year ended December 31, 2013.

Item 4. 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) under the Securities Exchange Act of 1934. As of the end of the period covered by this report, an evaluation was carried out by CTBI's management, with the participation of our Chief Executive Officer and the Executive Vice President, Chief Financial Officer, and Treasurer, 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 June 30, 2014 were effective in ensuring material information required to be disclosed in this quarterly report on Form 10-Q 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 quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, CTBI's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 1A.	Risk Factors	None
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Mine Safety Disclosure	Not applicable
Item 5.	Other Information: CTBI's Principal Executive Officer and Principal Financial Officer have furnished to the SEC the certifications with respect to this Form 10-Q that are required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	
Item 6.	a. Exhibits:	
	(1) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31.1 Exhibit 31.2
	(2) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.1 Exhibit 32.2
	(3) XBRL Instance Document	Exhibit 101.INS
	(4) XBRL Taxonomy Extension Schema	Exhibit 101.SCH
	(5) XBRL Taxonomy Extension Calculation Linkbase	Exhibit 101.CAL
	(6) XBRL Taxonomy Extension Definition Linkbase	Exhibit 101.DEF
	(7) XBRL Taxonomy Extension Label Linkbase	Exhibit 101.LAB
	(8) XBRL Taxonomy Extension Presentation Linkbase	Exhibit 101.PRE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, CTBI has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COMMUNITY TRUST BANCORP, INC.	
Date: August 8, 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